

TRANSFORMING

a Future of Finance

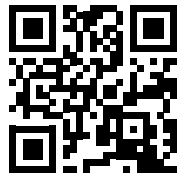



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Hana Financial Group set an ambitious goal to be ‘The Trusted Premier Global Financial Group’, and guided by the convincing vision and clear strategy, we have been working in unison to reinforce our fundamentals and sustain growth momentum.

2018 was a year marked by significant achievements that demonstrate our strengths and show how we have been **translating** PAGE 14, KEY TASKS strategy into results, which will in turn enable us to take best advantage of the latest waves of change – digital transformation. Hana Financial Group is well positioned to chart a new path towards **transforming** PAGE 15, DIGITAL TRANSFORMATION itself from a leading financial company to a data-driven IT enterprise.



This report is available in PDF format which can be downloaded at www.hanafn.com



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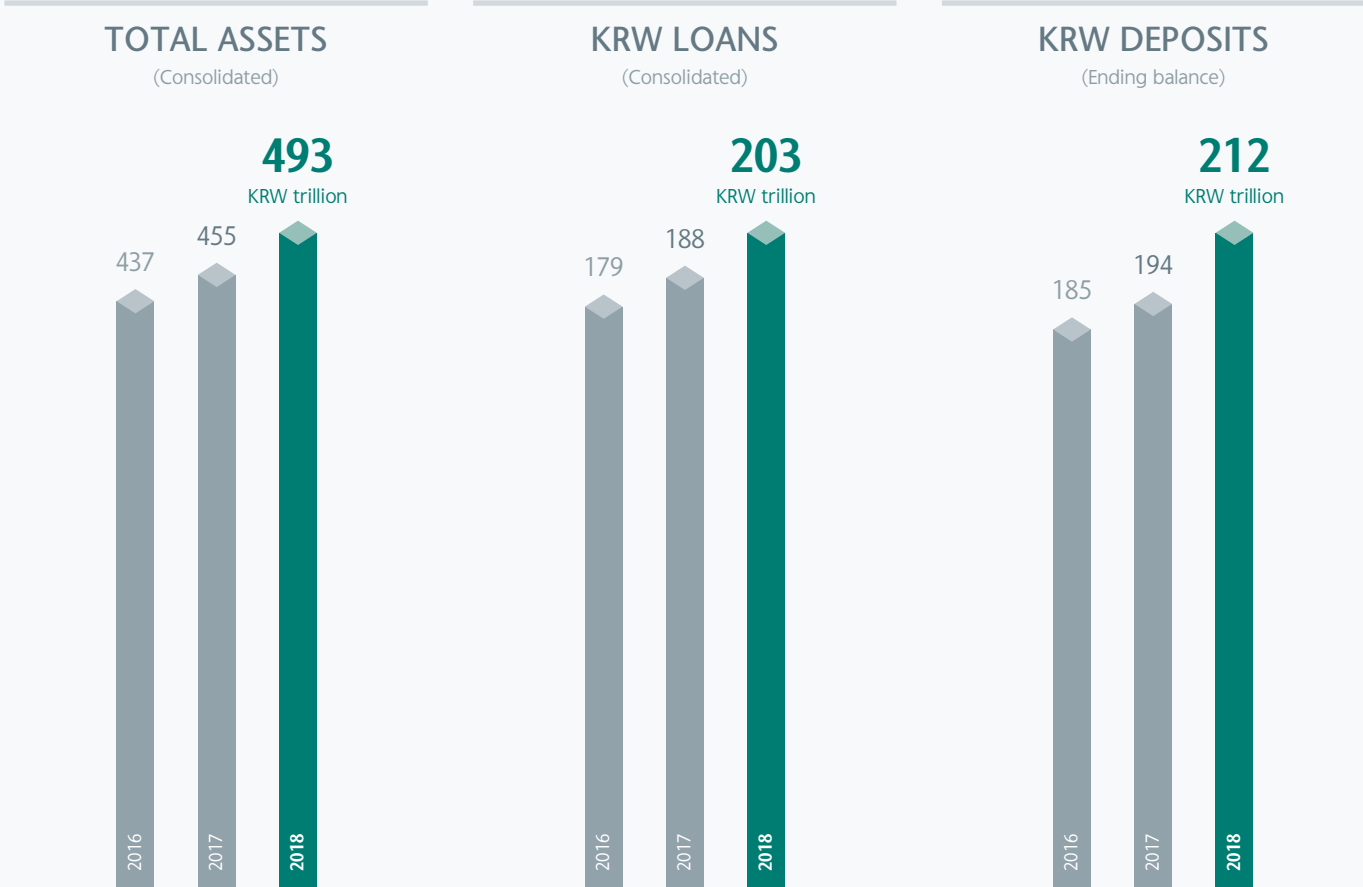
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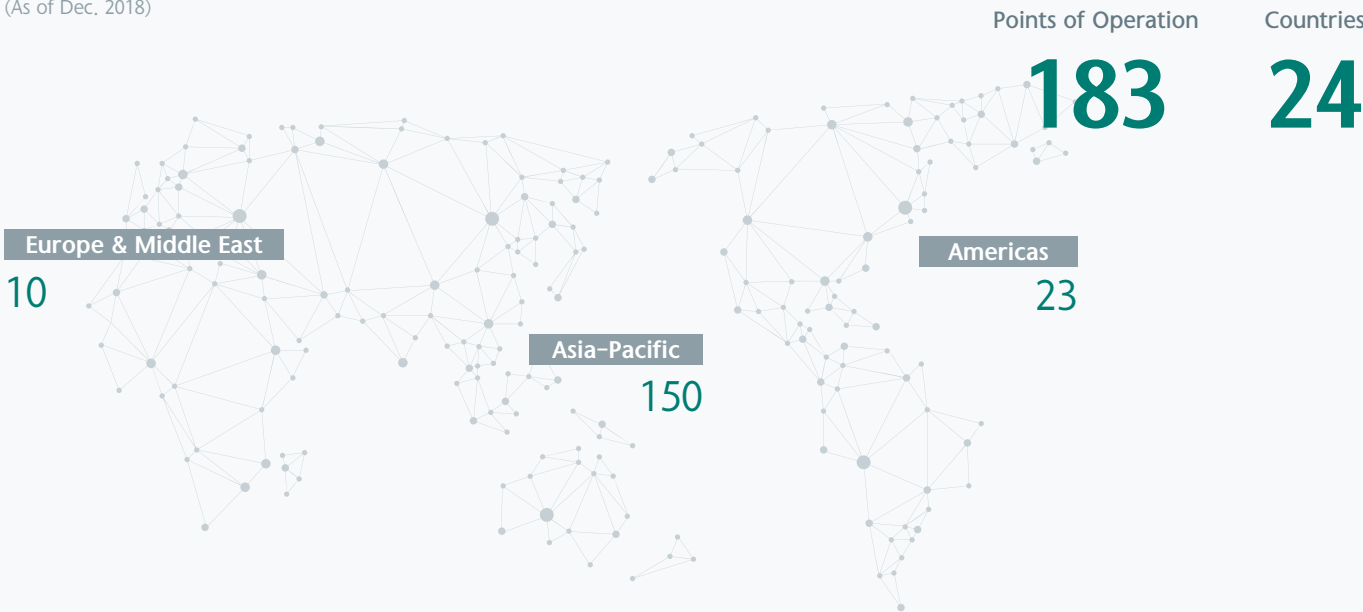
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Key Highlights



GLOBAL NETWORK (As of Dec. 2018)



GLOBAL AWARDS IN 2018
(As of Dec. 2018)

EUROMONEY
AWARDS FOR EXCELLENCE
2018

11 times

Best Private Bank in Korea
(Euromoney)

7 times

Outstanding Wealth Management
Service for the Affluent
(Private Banker International)

3 times

World's Best Private Bank in
Digital Client Solutions
(Global Finance)

KEY FIGURES

10,104,698

Mobile Banking Users
(As of Dec. 2018)

20,859

Employees
(As of Dec. 2018)

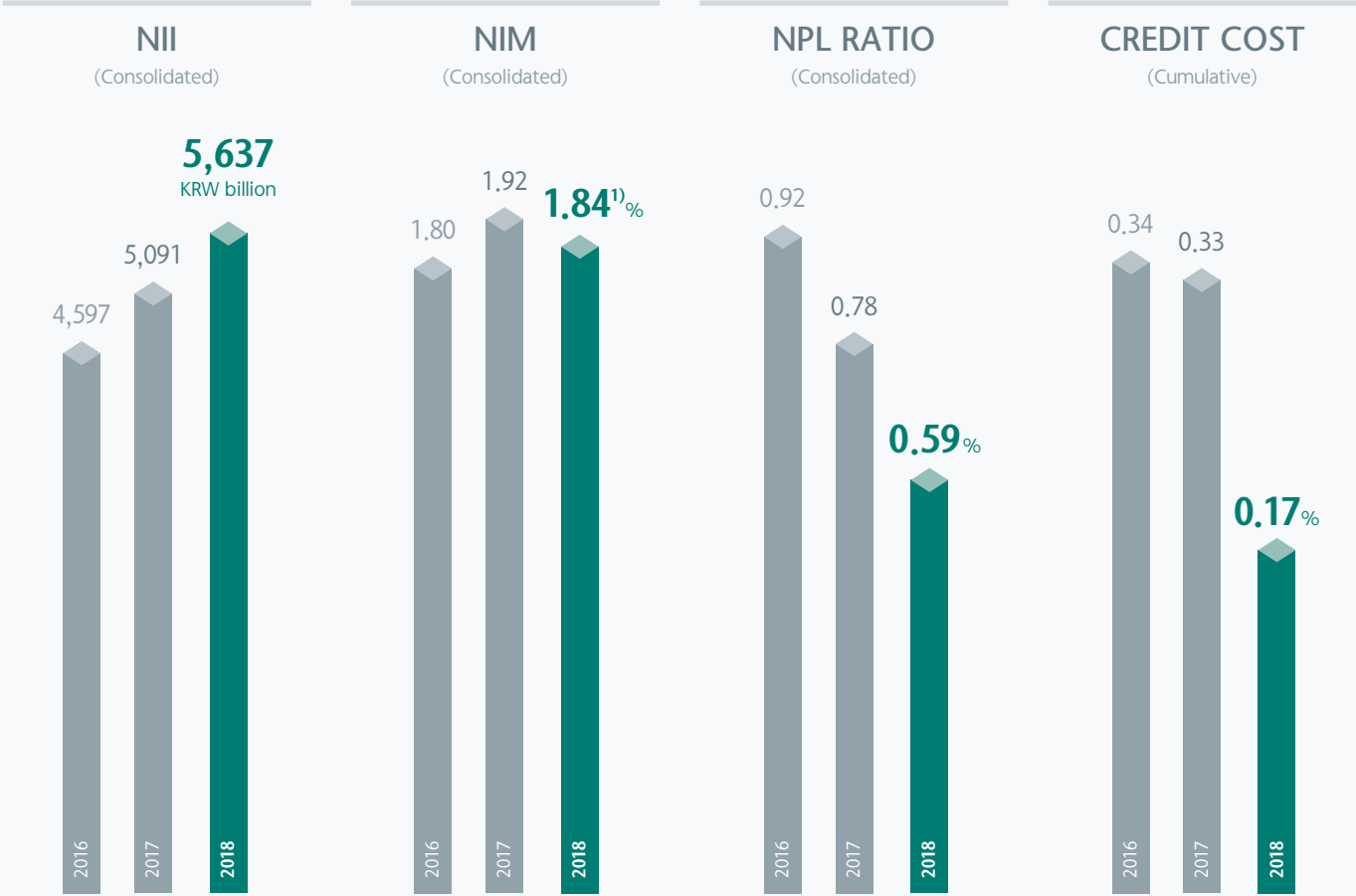
79th

The Banker
'Top 1000 World Banks 2018'
(As of Jul. 2018)

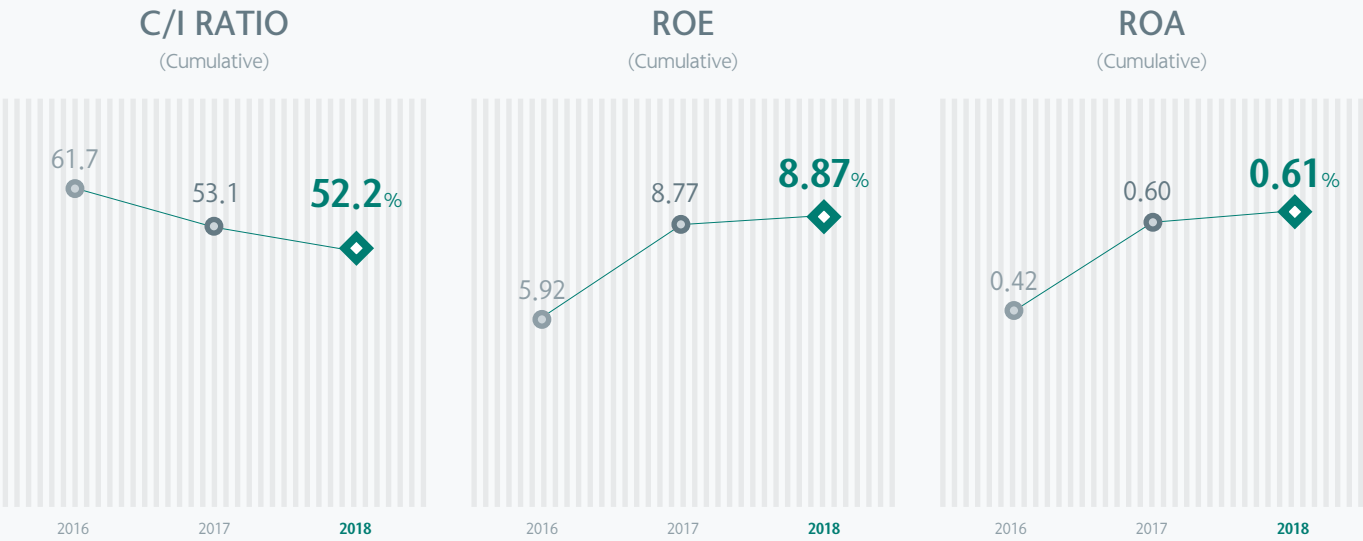
Financial Highlights

FINANCIAL SUMMARY

	2018	2017
(Unit: KRW billion)		
Profitability (Unit: KRW billion)		
General operating income	7,558.4	7,599.8
Operating income	3,152.2	2,718.1
Consolidated net income	2,233.3	2,036.8
ROA (%)	0.61	0.60
ROE (%)	8.87	8.77
EPS (KRW)	7,360	6,817
Cost to income ratio (%)	52.2	53.1
Business Volume (Unit: KRW billion)		
Total assets	385,008.6	360,089.3
Total sales	291,163.5	272,091.6
(Total deposits)	249,060.2	232,591.8
(Sales of beneficiary certificates)	42,103.3	39,499.8
Asset Soundness (Unit: %)		
Substandard & below (NPL) ratio	0.59	0.78
Substandard & below (NPL) coverage ratio	107.00	87.36
Delinquency ratio	0.37	0.39
Capital Adequacy (Unit: %)		
BIS capital adequacy ratio	14.93	14.97
Tier 1 ratio	13.52	13.29
Common equity tier 1 ratio	12.86	12.74
BPS (KRW)	84,761	79,154



¹⁾ 1.99% based on the pre-change accounting standards

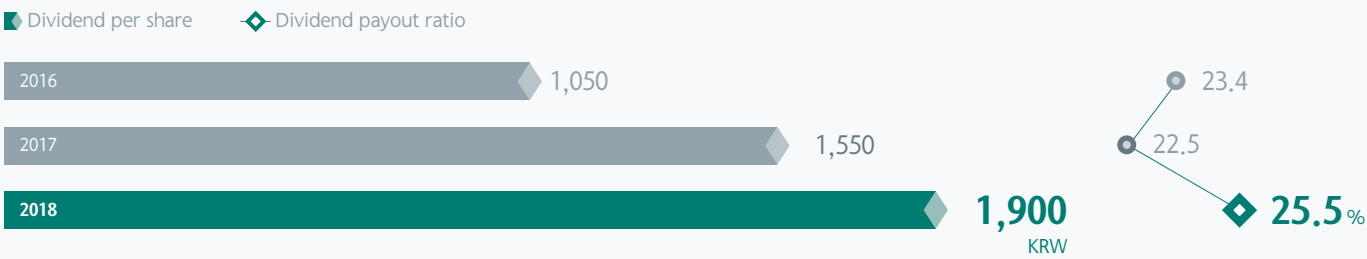


Stock Information

MARKET CAPITALIZATION

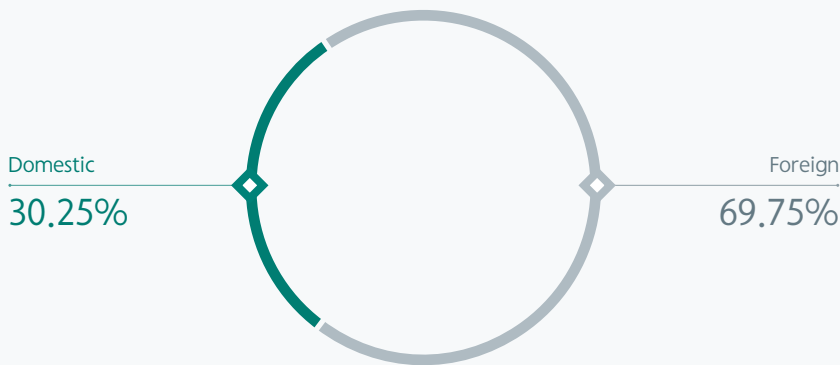


CONSISTENT DIVIDEND HISTORY



SHARE OWNERSHIP

(As of Dec. 2018)



OUTSTANDING CREDIT RATINGS

(KEB Hana Bank)

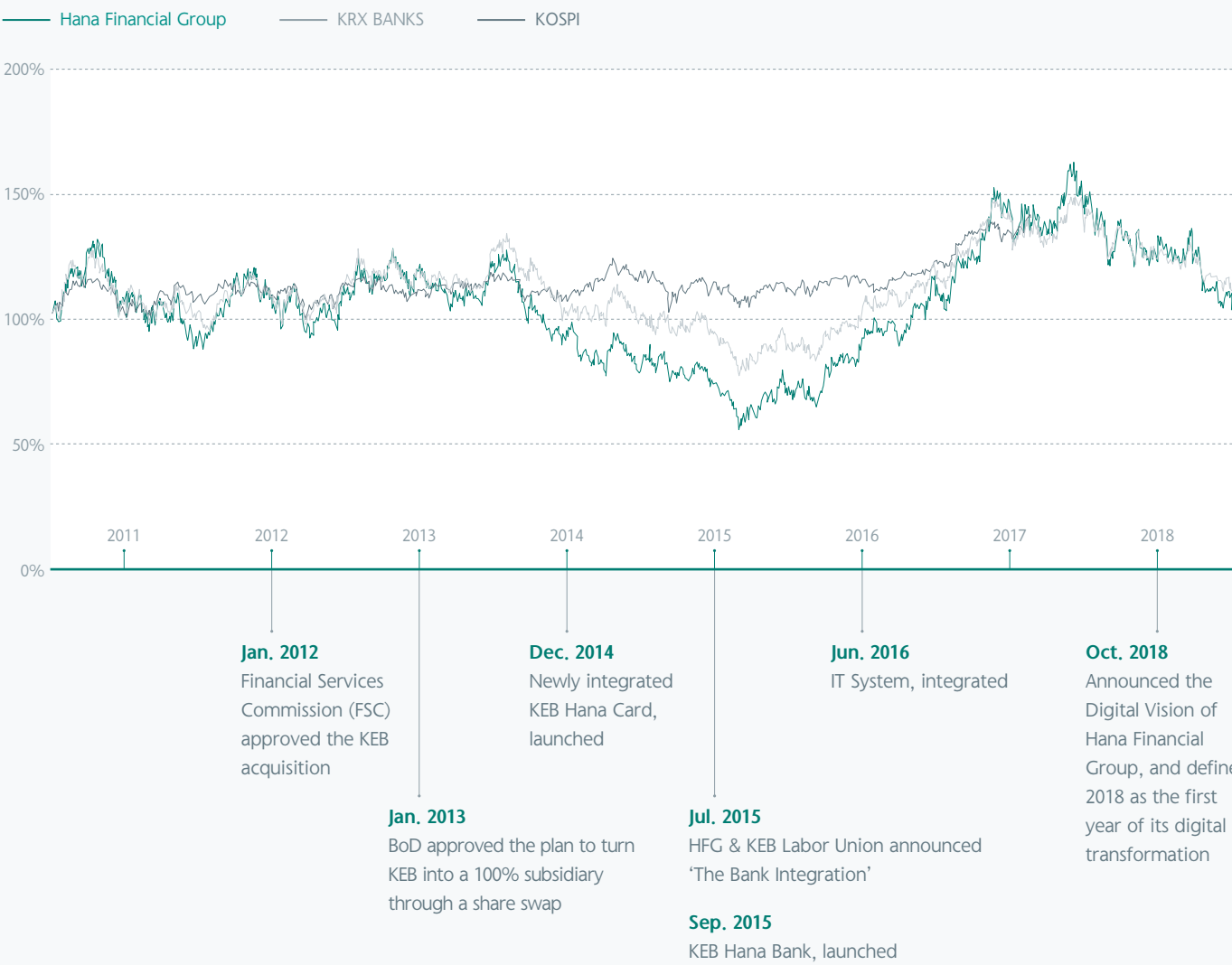


SHARE PRICE CHANGES

(Unit: KRW, Point)

	2018	2017	2016	2015	2014
High	55,500	52,000	34,500	33,850	43,850
Low	35,700	30,900	19,650	23,600	31,450
Year-end	36,250	49,800	31,250	23,600	32,000
KOSPI index (year-end)	2,041.04	2,467.49	2,026.46	1,961.31	1,915.59

STOCK PERFORMANCE



Letter from the CEO

Hana Financial Group will transcend the current limitations of financial companies, and transform into a 'customer-centric, data-driven information company', focused on the happiness of our customers and dedicated to humanity as a whole.

Kim Jung-tai
Chairman & CEO, Hana Financial Group



We will continue to pursue digital transformation in order to make Hana Financial Group stronger and more agile, and thus reach our full potential. Most importantly, it will bring us closer to our customers, and enable us to achieve sustainable growth in partnership with all of our stakeholders.

Dear shareholders and customers,

I would like to express my appreciation to all of our shareholders, customers and other stakeholders for your unwavering encouragement and support as Hana Financial Group continues to transform and grow.

In 2018, Hana Financial Group continued to make utmost efforts to increase shareholder value even in the face of difficult economic conditions at home and abroad. As a result, all Group affiliates, including KEB Hana Bank, were able to achieve stable growth, with consolidated net income reaching KRW 2,233.3 billion for the year, a new record. In addition, the Group reduced its cost to income ratio (C/I ratio) for the third year in a row on the back of Group-wide cost-cutting measures as well as synergies created by the consolidation of banks, despite such cost increasing factors as inflation and a large-scale HR integration. We also reduced annualized credit cost ratio to the lowest level ever and managed loan loss provision in a stable manner.

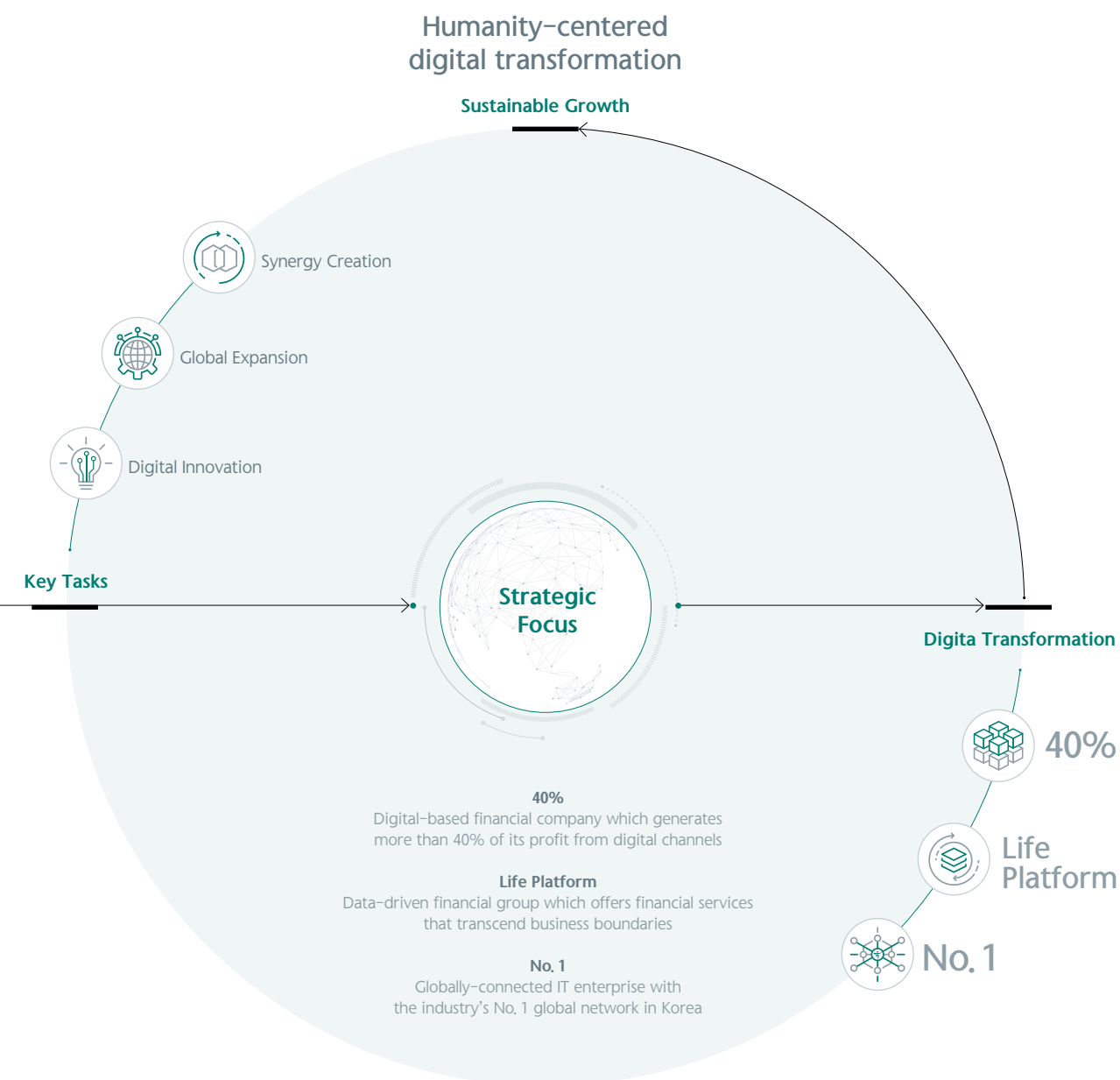
During the year, we focused on fortifying the foundation for future growth of our non-banking affiliates by strengthening their fundamentals. In particular, we raised KRW 1.2 trillion through a paid-in capital increase of Hana Financial Investment to facilitate its transformation into a mega-size investment bank, increased our equity stake in Hana Capital to 100%, and enhanced the financial soundness of Hana Life through a KRW 50.0 billion paid-in capital increase. Furthermore, we established Hana Ventures, the first new technology business-dedicated finance company among domestic financial groups. In 2019, we will continue to increase synergy through the collaboration among the Group affiliates, and thus improve the fundamentals of our non-banking arms.



In global business, Hana Financial Group has been staying ahead of the curve. After more than four years of meticulous preparation, we are finally ready to launch our own Global Loyalty Network (GLN) in 2019, a blockchain-based platform that links financial companies and their merchants worldwide. It will serve as an all-in-one gateway to all services available on customer demand beyond regional and industrial boundaries. In addition, we will soon launch a global digital bank in Indonesia in a strategic alliance with LINE Corporation, a global ICT company. The bank will start with offering everyday banking services in Indonesia, and then will steadily expand its market, which will enable us to establish our presence in the global competition for fintech leadership.

Even in the era of digital technology, customer happiness is still the essence of financial services. For, ultimately, humanity is at the center of digital business as it is an extension of the human spirit although technology and knowledge are important in the Fourth Industrial Revolution era. Our employees are happier as a work-life balance has been established by encouraging them to leave work on time, and customer satisfaction is increasing following the launch of the Customer Complaint Handling Committee. In addition, we support public and private daycare centers across the nation through the Social Contribution Committee, as part of the Group's mission, 'Growing Together, Sharing Happiness'. All of this is the outcome of our commitment towards one goal – customer happiness.

As concerns continue to grow in 2019 over a global economic downturn triggered by on-going trade conflicts among major advanced economies, many countries are expected to sharply change their policy direction, which will in turn increase uncertainties and potential financial risks. In anticipation of such difficult environment, all of us at Hana Financial Group will channel our combined energies into becoming more competitive in asset management, trust, IB, overseas business, future finance and other areas of high growth potential, while maximizing synergies. We will work in unison as a One Company to create a balanced portfolio in the global market.



In October 2018, we announced our digital vision to transform Hana Financial Group into a 'customer-centric, data-driven information company'. In order to create a truly digital culture, we also set out a digital culture code comprising customer-centricity, challenge, collaboration, execution and initiative, through which we will change anew where and how we work, and foster digital talent. As such, we have decided to embark on a new challenge with the goal of transcending current limitations of financial companies. I ask you to look forward to a digital Hana Financial Group growing into a 'data-driven information company' that, focused on customer happiness and dedicated to humanity, delivers the best possible customer experience through the use of data.

Thank you.

김정태
Kim Jung-tai

Chairman & CEO, Hana Financial Group

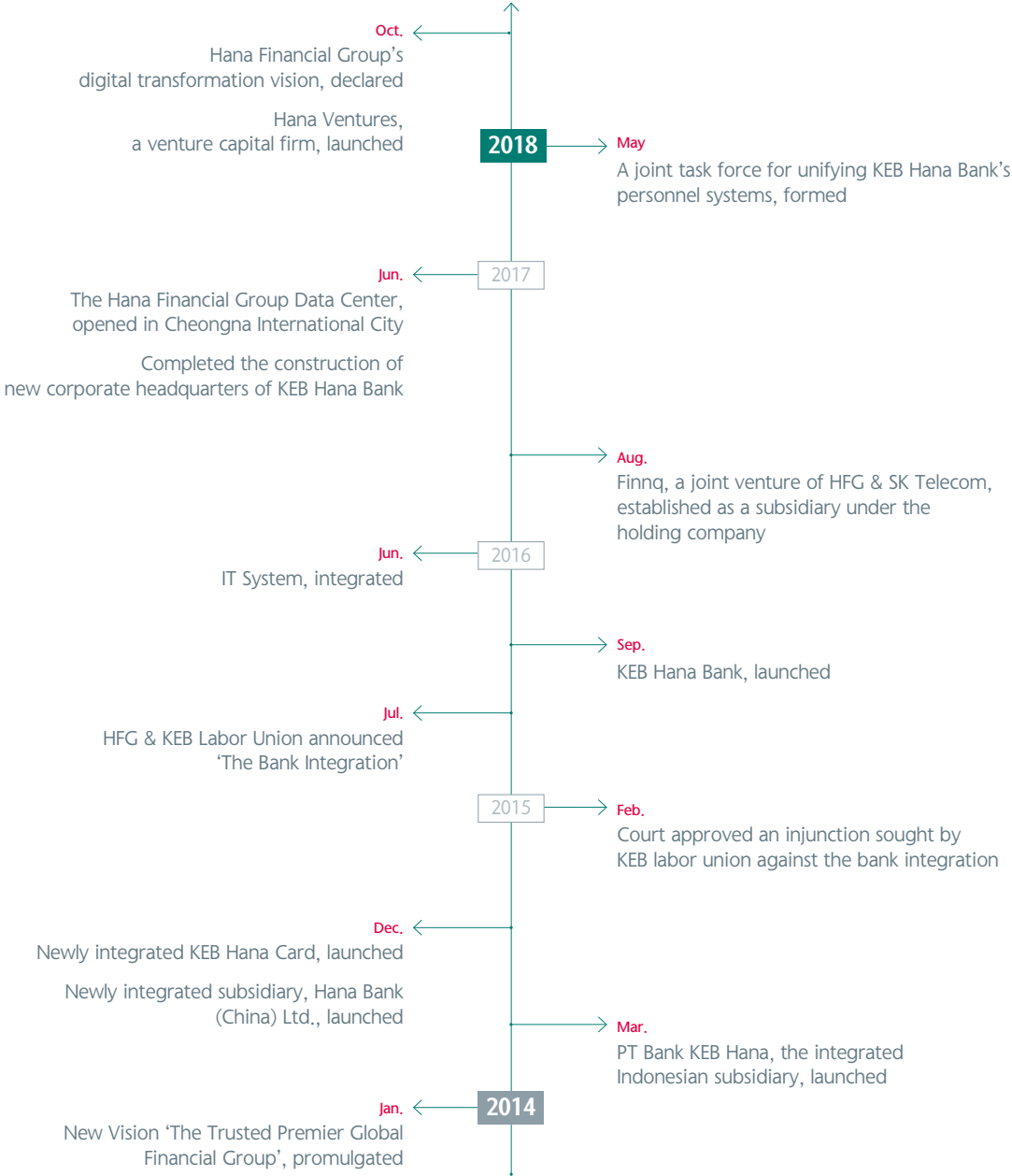
TRANSLATING goals into results

KEY TASKS

Hana Financial Group constantly seeks to innovate what we do and how we do it. Central to our pursuit is the strategy of channeling all of our strengths into areas where we best perform. In 2018, we stayed focused on synergy creation, global expansion and digital innovation, and, as a result, achieved the best earnings performance in our history.

KEY MILESTONES

Hana Financial Group launched KEB Hana Bank in 2015 and integrated its IT systems in 2016, which was followed by the completion of an optimal structure for synergy creation through the establishment of the Hana Financial Group Data Center in 2017, and thus our vision of ‘The Trusted Premier Global Financial Group’ became more visible. Moreover, having completed the integration of the Bank’s personnel, wage and benefit systems in early 2019, we are well positioned to take another growth leap forward as ‘One Company’.



Synergy Creation

Global Expansion

Digital Innovation

Strategic Focus

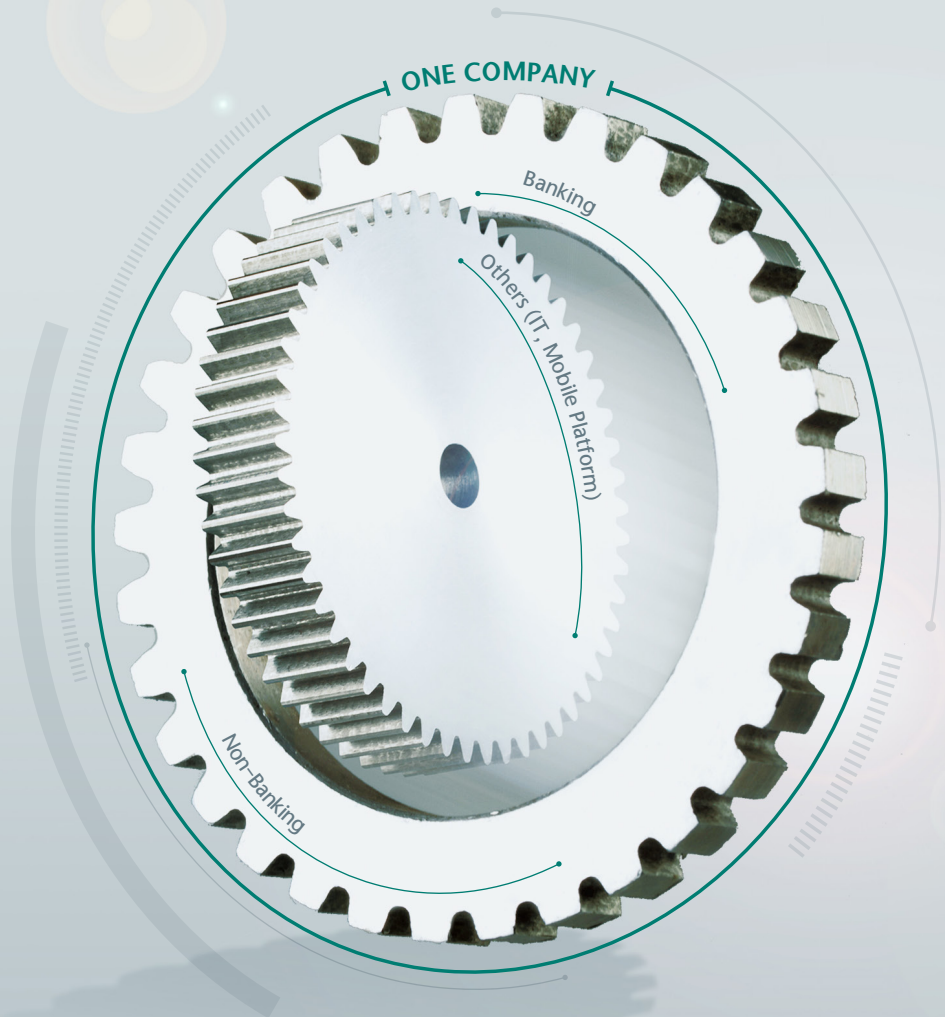
TRANSFORMING
goals in

KEY TASKS

Hana Financial Group
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the best earnings per

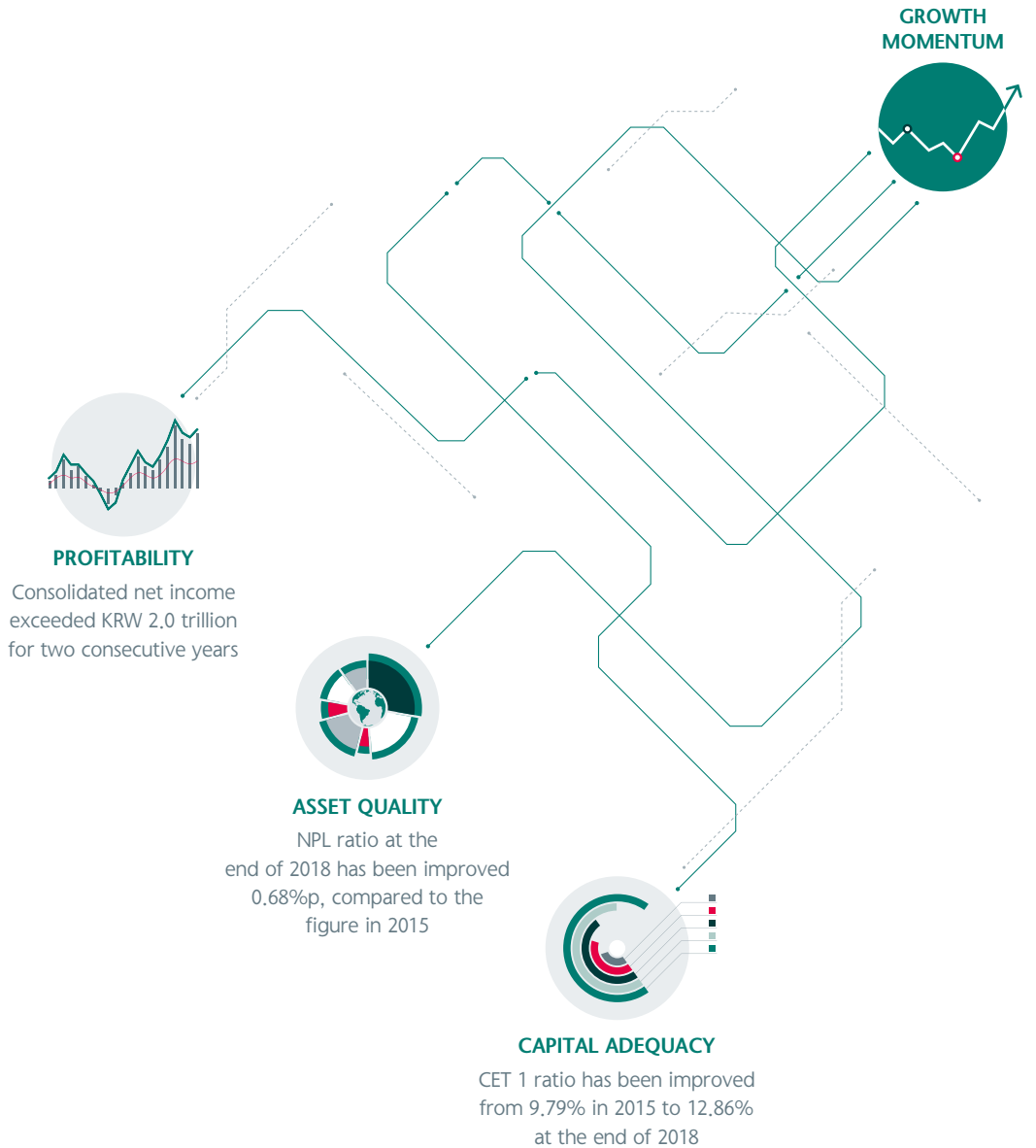
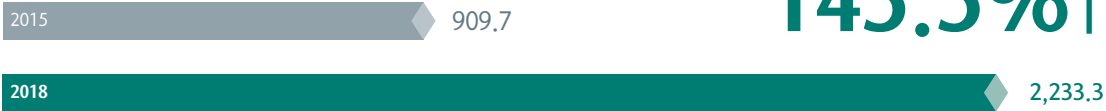
HANA NETWORK

In 2018, Hana Financial Group posted the best performance since its establishment in 2015, as a result of a close cooperation among the Group affiliates complimenting one another with their respective strengths. The record performance, comprising substantial improvements in earnings and asset quality as well as in volume growth, is proof that the synergies we have accumulated over the years have begun to yield tangible results. We have also established Hana Ventures, the first new technology business-dedicated finance company among domestic financial groups, thereby further solidifying the foundation for synergy creation in step with the adoption of our vision for digital transformation.



Synergy Creation

NET INCOME (CONSOLIDATED)
(Unit: KRW billion)



Synergy Creation

Global Expansion

Digital Innovation

Strategic Focus

TRA
goals

KEY TASKS

Hana Financial
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GLOBAL NETWORK

Hana Financial Group actively pursues new business opportunities in the global market as a way to nurture new growth drivers. In 2018, we earned total profit of KRW 313.7 billion including equity investment through our global network of 183 entities operating in 24 countries. Two contributing factors are synergy generation among the Group affiliates and a localization fine-tuned to local market trends. PT Bank KEB Hana Indonesia, in particular, whose customer base is 95% local, was ranked top at the 2018 Best Bank Awards, a recognition of its market competitiveness.



Americas

23

Europe & Middle East

10

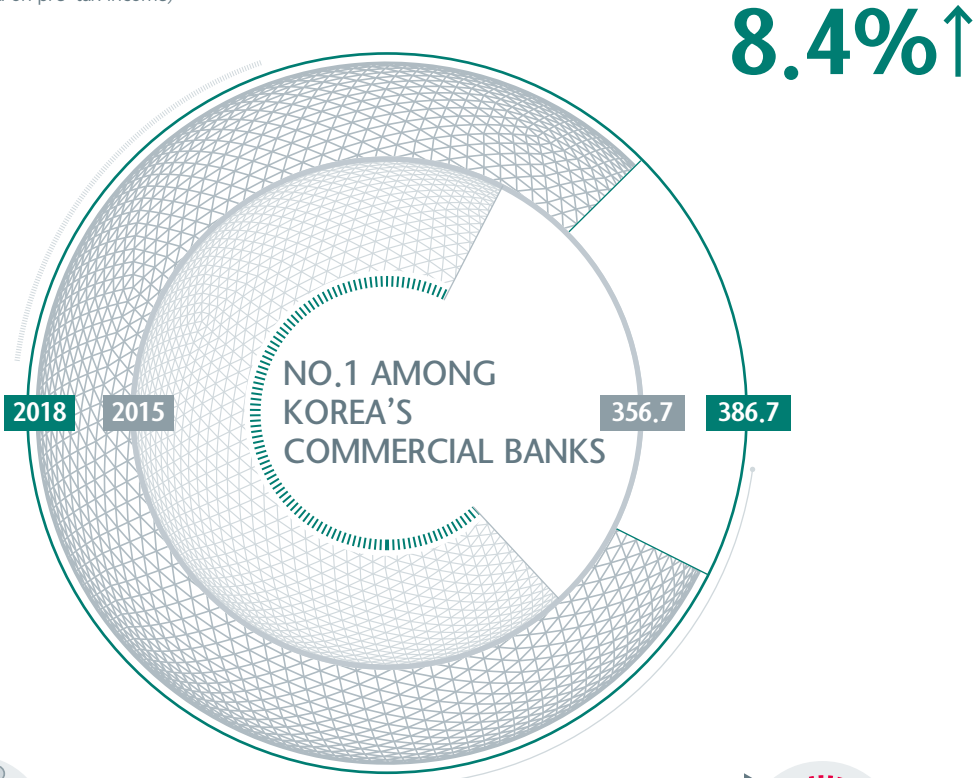
Asia & Pacific

150

(As of Dec, 2018)

Global Expansion

NET PROFIT OF OVERSEAS BUSINESS
(Unit: KRW billion, based on pre-tax income)



NO. 1

PT Bank KEB Hana Indonesia ranked top at the 2018 Best Bank Awards



80

Number of countries where the 1Q Transfer service is available as of 2018 year-end



FIRST

Korea's first overseas payment settlement service, Global Loyalty Network, launched through the opening of a coupon mall linked to global networks

Global Expansion

Digital Innovation

Strategic Focus

DIGITAL BANKING

Hana Financial Group sees digital finance as a means to create new customer value as well as a field of potential growth engines. Hana Members, Korea's first integrated membership program introduced in 2015, continued its robust growth in 2018, while HAI Banking, an advanced chatbot service launched in 2017, has evolved into a smarter and easier-to-use AI-based banking service. Moreover, we are shifting into high gear in our innovation drive by signing up partners for our Global Loyalty Network initiative, signing a joint venture agreement on launching a digital bank in Indonesia, and pursuing global partnership for digital finance expansion.

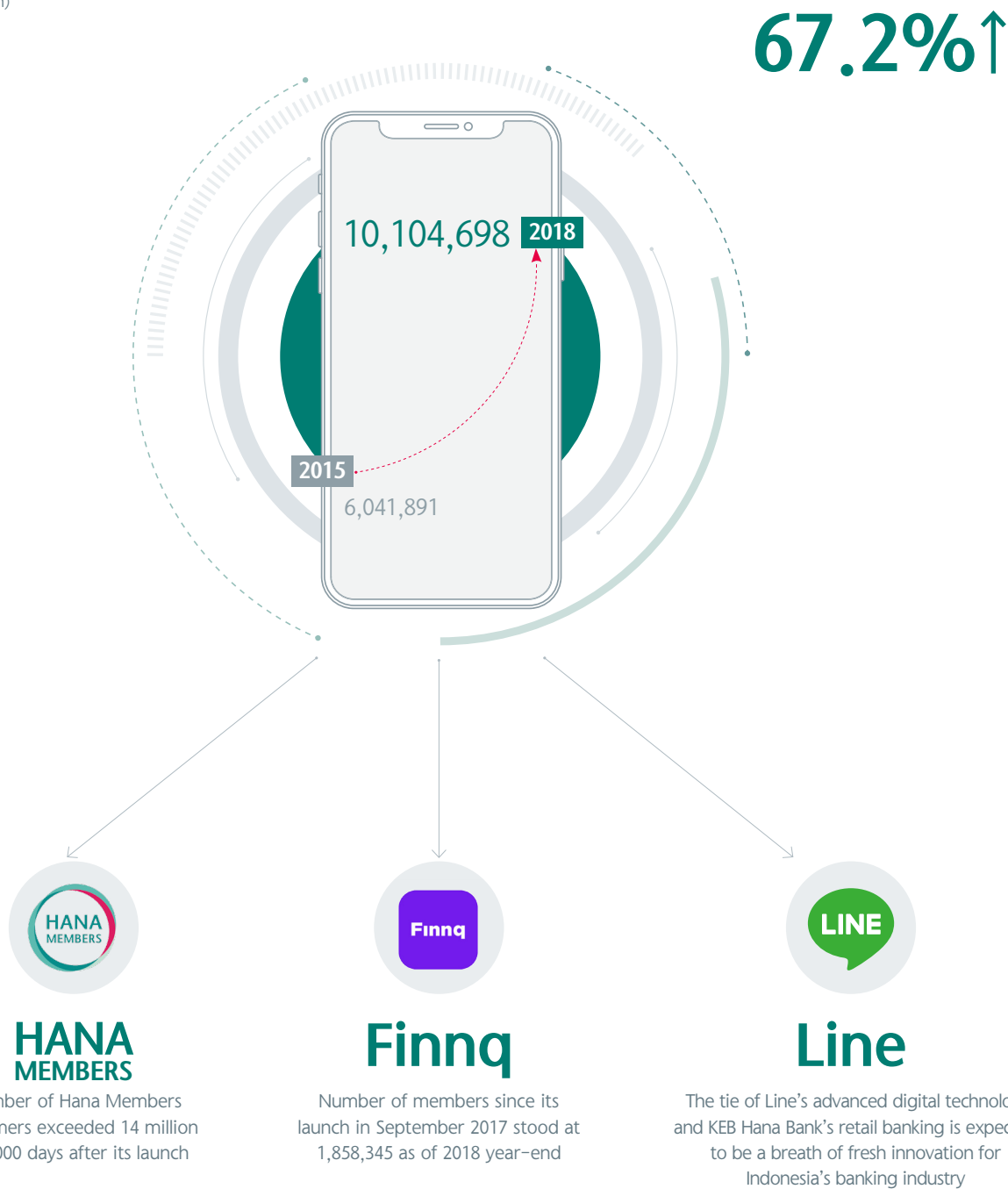
KEY

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Digital Innovation

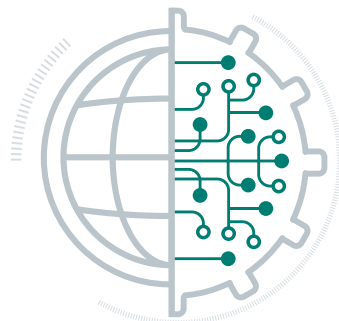
MOBILE BANKING USERS (Unit: Person)



Digital Transformation Strategy

1

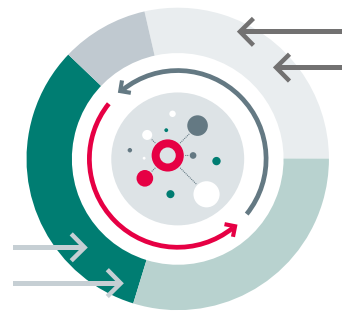
DIGITAL-BASED PREMIER FINANCIAL GROUP



Strengthen a life platform role that goes beyond existing finance to solve daily life inconveniences

2

CUSTOMER-CENTRIC DATA-DRIVEN COMPANY



Expand the ratio of digital channel income to 40% of the total through new income source creation and channel conversion

3

GLOBALLY-CONNECTED IT ENTERPRISE



Strengthen the digital competitiveness of global networks

Digital Culture Code

- Customer-centricity: Focus on customers to create an exceptional customer experience
- Challenge: Take on new challenges to gain experience that rolls into success
- Collaboration: Create new values through collaboration
- Execution: Act on customer opinions promptly
- Initiative: Get the best results possible through bold delegation of authority



TRANSFORMING vision into reality

DIGITAL TRANSFORMATION

Business boundary becomes irrelevant in the era of the Fourth Industrial-Revolution. In the fast-evolving digital environment, fundamental change is required to stay ahead of competition and thus achieve sustainable growth. Accordingly; Hana Financial Group declared its vision of digital transformation in 2018 and is taking steps to transform itself into a digital-based premier financial group and a customer-centric, data-driven information company.

Digital-based Premier Financial Group

Offering financial services that transcend business boundaries

The digital transformation which Hana Financial Group pursues goes beyond simple organization overhaul to fundamentally change work space, processes and people. A cornerstone of the vision is laid in the Hana Dream Town where the Hana Financial Group Data Center is located. The 6.57 million square meter, state-of-the-art data center, where all the Group affiliates' IT resources, abilities and data are consolidated, houses some 1,800 IT specialists who refine and analyze two petabytes of big data into meaningful and useful information. By further strengthening the digital manpower and infrastructure and increasing related investment, we will grow into a premier financial group that transcends the current limitations of financial companies today, and offer outstanding financial services of tomorrow.

→ 1,800

Number of IT specialists at the Hana Financial Group Data Center

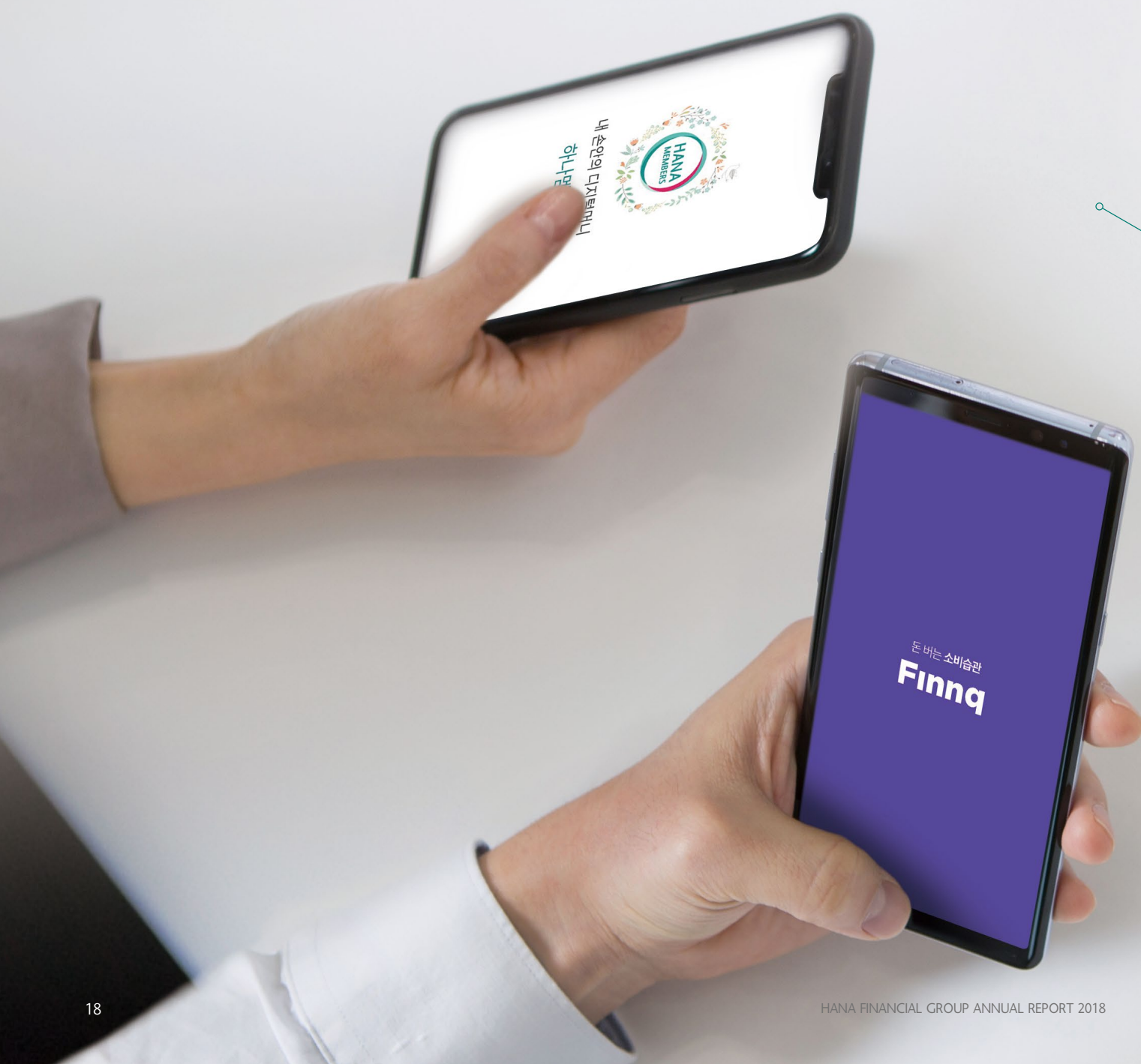
→ 2 Petabyte

Amount of big data managed at the Hana Financial Group Data Center

Customer-centric Data-driven Company

Generating more than 40% of profits from digital channels

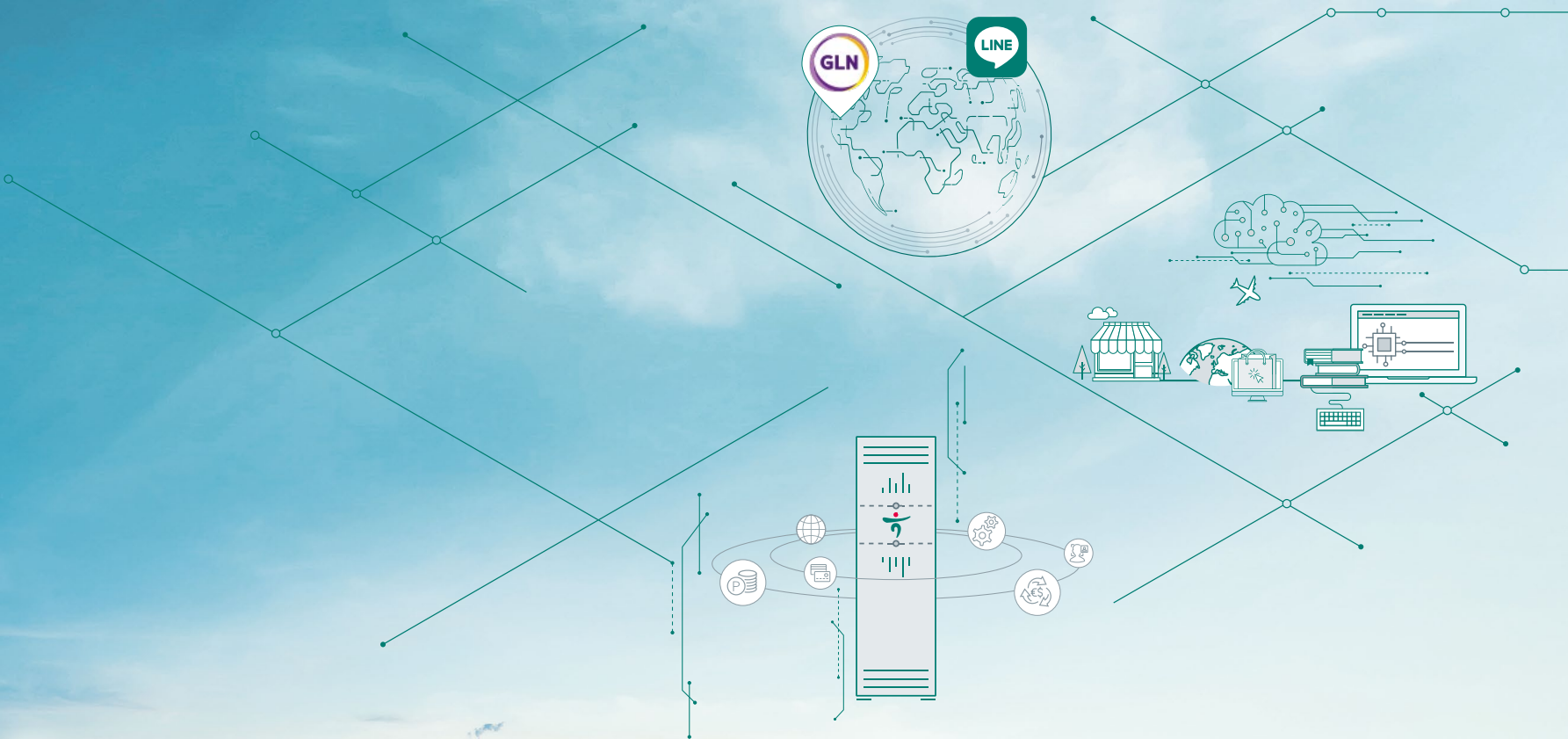
In the era of the Fourth Industrial Revolution, where change and innovation have become a business ritual, companies that fail to move closer to customers cannot adapt to both current and future trends. More importantly, even in the era of digital, customer happiness, the essence of financial service business remains unchanged. This is why humanity lies at the center of Hana Financial Group's digital transformation. The data we have accumulated through the operation of the 15 million-strong Hana Members are precious asset. By combining and analyzing market information and all data that arise from interactions between the Group affiliates and their customers, we will improve our responses to customer needs and market changes. Moreover, we will reemerge as a data-driven company that makes decisions based on data and earns over 40% of its income from digital channels.



Globally-connected IT Enterprise

Leveraging the industry’s best of overseas networks

Hana Financial Group is the most active financial groups in Korea when it comes to overseas business. This strength is important for us to expand the sphere of our financial operations beyond a saturated domestic market to include more overseas markets, and it also serves as a unique advantage in our digital transformation for a global network armed with a digital competitive edge will be formidable. In 2018, we formed a partnership with LINE Corporation and thus laid the foundation for launching a digital bank in Indonesia; also signed up some 50 companies at home and abroad as a preparation for a global open wallet; and began a global coupon mall service in seven countries. As such, we are transforming ourselves into a globally-connected IT enterprise by establishing digital banks overseas, launching a Global Loyalty Network, and taking other steps as a digital-driven financial group with the overseas networks.



Vision & Mission

The evolving financial environments at home and abroad in the era of the new normal and the 2012 acquisition of Korea Exchange Bank have prompted Hana Financial Group to develop a new role to play and to chart a new course. Accordingly, we have defined a new mission, a vision and strategic goals as follows.

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 of our 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

Our 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. Moreover, we aim to be a financial group offering financial services that transcend business boundaries and meet diverse customer needs.

Strategic Goals – BEST 2025



Major Tasks in 2019

Happy finance together with customers



Hana Financial Group has chosen ‘Happy finance together with customers’ as the foremost management goal of 2019 by further expanding last year’s management goal, ‘Finance to grow together’. Accordingly, we seek to contribute to ‘inclusive growth’ which enables financially marginalized people to access financial services and supports their economic activities. We will also supply more funds to start-ups, small and medium-sized enterprises (SMEs) and venture companies, and thus enhance our role as a driver of innovative growth, while doing our best to support the financially underprivileged and to protect financial consumers from incomplete sales and other irregular practices.

Establishing a balanced business portfolio



We will build a more balanced business portfolio to strengthen the foundation for sustainable growth. To this end, we will improve the current business portfolio which is centered on banking and interest income by expanding our global financial networks through diversification of overseas business strategies and fostering of talent. We will also strengthen our market position by enhancing the competitiveness of non-banking subsidiaries, including securities, card and insurance. At the same time, we will strengthen fee-based and other non-interest income operations and thus diversify income sources.

Expanding collaboration-based synergies



We plan to strengthen the Group’s ability to create synergy as ‘One Company’ by widening the culture of internal and external collaboration. Within the Group, we will further bolster the system of cooperation among subsidiaries to strengthen our value chain of product development, sales and management, while collaborating with both financial and non-financial companies outside the Group, in order to develop various business models. In response to the changing population structure and the fast-evolving market trends, we will re-establish the channel, product and service lines at the Group level.

Creating future value through digital



We will further enhance the future value of Hana Financial Group by employing digital technologies to generate new customer value and expand our customer base. For successful digital transition, we will establish a governance system in organization and HR management, and reform the work process. We will launch a platform business model and increase alliances with third-party distribution channels with the goal of laying the foundation for future growth. In addition, we will establish a data-based management system by standardizing data and building an infrastructure at the Group level.

Preemptive and dynamic risk management



We will strengthen proactive risk management practices to better cope with uncertainty in the financial and economic environment, and concentrate on managing high-risk portfolios and thus improve asset quality to help stabilize the financial system. Furthermore, we will continue to bolster internal controls, and thus maintain our reputation as a trusted financial group.

Hana Financial Group will continue its diverse efforts at growing into ‘The Trusted Premier Global Financial Group’. We will also continue to fulfill our social responsibilities and roles as a Korea’s leading financial group to earn customer trust and loyalty and to help all enjoy happiness through finance, based on the humanity-centered management that generates happiness for our customers and employees.

Board of Directors



Kim, Jung Tai
Chairman & CEO,
Hana Financial Group

- President & CEO, Hana Bank
- President & CEO, Hana Daetoo Securities Co., Ltd.



Yoon, Sung Bock
(Chairman of BoD)
Outside Director,
Hana Financial Group

- CEO, KPMG Samjong Accounting Corp.
- Deputy CEO, KPMG Samjong Accounting Corp.



Heo, Yoon
Professor, Graduate School of
International Studies, Sogang University

- President, Korean Association of Trade and Industry Studies
- Dean, Graduate School of International Studies, Sogang University



Yang, Donghoon
Professor, Accounting Faculty,
Dongguk Business School

- President, Korean Accounting Association
- Dean, Dongguk Business School



Lee, Jung Won
Outside Director,
Hana Financial Group

- CEO, Shinhan DS
- Vice President, Shinhan Bank Credit Analysis & Assessment Group



Park, Won Koo
Outside Director,
Hana Financial Group

- Special Affair Professor, Seoul National University
- Professor, Graduate School of MOT, Korea University



Paik, Tae Seung
Outside Director,
Hana Financial Group

- President, Korea Internet Law Association
- Professor, Yonsei Law School



Chah, Eun Young
Professor,
Department of Economics,
Ewha Womans University

- Member of Financial Development Committee, Financial Services Commission
- Chairman, Korean Women Economists Association



Kim, Hongjin
Outside Director,
Hana Financial Group

- Executive Vice President, Management Support Division, Korea Securities Depository
- Head of Administration and Planning, FIU, Ministry of Finance and Economy

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 12 subsidiaries, 22 second-tier subsidiaries and 1 third-tier subsidiary.

 <http://www.hanafn.com>

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.

 <https://www.kebhana.com>

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 to the current name in September 2015. 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 an Asia's top investment bank, taking full advantage of Hana Financial Group's extensive global network.

 <https://www.hanaw.com>

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.

 <https://www.hanacard.co.kr>

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.

 <https://www.hanacapital.co.kr>

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.

 <https://www.hanalife.co.kr>

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 a wide range of financial services to the financially underprivileged.

 <https://www.hanasavings.com>

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.

 <http://www.hanatrust.com>

HANA ALTERNATIVE ASSET MANAGEMENT

Launched in 2006, Hana Alternative Asset Management is Korea's first real estate-specializing asset management company. It became a new member of Hana Financial Group in March 2010, and then a subsidiary in 2016 following the Group's purchase of its equity held by Hana Asset Trust. Its name was changed from Hana Daol Asset Management to Hana Asset Management in 2013, and in 2017, to Hana Alternative Asset Management. The company is expanding its global operations based on its industry-best expertise in alternative investment.

 <https://www.hana-aamc.com>

HANA VENTURES

Hana Ventures was established in October 2018 as Korea's first financial group-affiliated, new technology business-focused, finance company. As the corporate venture capital (CVC) arm of Hana Financial Group, Hana Ventures aims to create jobs by further establishing the start-up ecosystem and to enhance synergy generation among the Group affiliates through digital transformation. It serves as a financial partner of start-ups as they grow into unicorn companies.

 <http://www.hanaventures.co.kr>

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.

 <http://www.kebis.co.kr>

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.

 www.hanati.co.kr

FINNQ

Fininq 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.

 <https://www.finnq.com>

Corporate Governance

Through sound corporate governance, Hana Financial Group pursues ethical business management and stays committed to maintaining transparency and creating sustainable values for all of our stakeholders.

Composition of the BoD

As Hana Financial Group’s highest decision-making body, the Board of Directors (BoD) approves the holding company’s mid to long-term management goals, strategies and business plans, and oversees their executions. In supervising management, the BoD appoints or dismisses the Group’s CEO & chairman, determines the remuneration of directors within a range set at the annual general meeting (AGM), and approves transactions between directors and subsidiaries. The BoD consists of nine members, of which eight, or 88.9%, are outside directors.

Hana Financial Group endeavors to render its business management more transparent, corporate governance more stable, operation of the BoD more efficient. We therefore operate eight committees within the Board of Directors: Steering Committee of BoD, Audit Committee, Risk Management Committee, Management Development and

Compensation Committee, Group Executive Nomination Committee, Outside Director Nomination Committee, Auditor Nomination Committee and Group CEO Nomination Committee. We operate the Group Executive Nomination Committee pursuant to the Act on Corporate Governance of Financial Companies. Outside Director Nomination Committee, Auditor Nomination Committee, and Group CEO Nomination Committee are formed with a focus on expertise, for each holds different responsibilities within the governance structure and maintains a pool of director candidates with different qualifications and expertise.

BOARD COMMITTEES

Committee	Composition	Purpose and Responsibilities
Steering Committee of BoD	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	4 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 operations
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	8 outside directors	Select candidates for the Audit Committee and nominate them at AGM
Group CEO Nomination Committee	8 outside directors	Set criteria for candidates for Group chairmanship, and screen and nominate qualified candidates according to relevant regulations and bylaws

The BoD delegates some of its authorities to board committees within limits set by relevant laws and regulations and the Articles of Incorporation. The committees engage in in-depth review and discussion of major agenda items, such as improving efficiencies in governance, BoD operations, accounting and business audit, and in the management of various risks associated with business operations, Group-wide adoption and execution of compensation policies, as well as nomination of the Group CEO, outside directors and auditors. Hana Financial Group’s BoD and committees maintain organic relations, and receive sufficient assistance from support organizations.

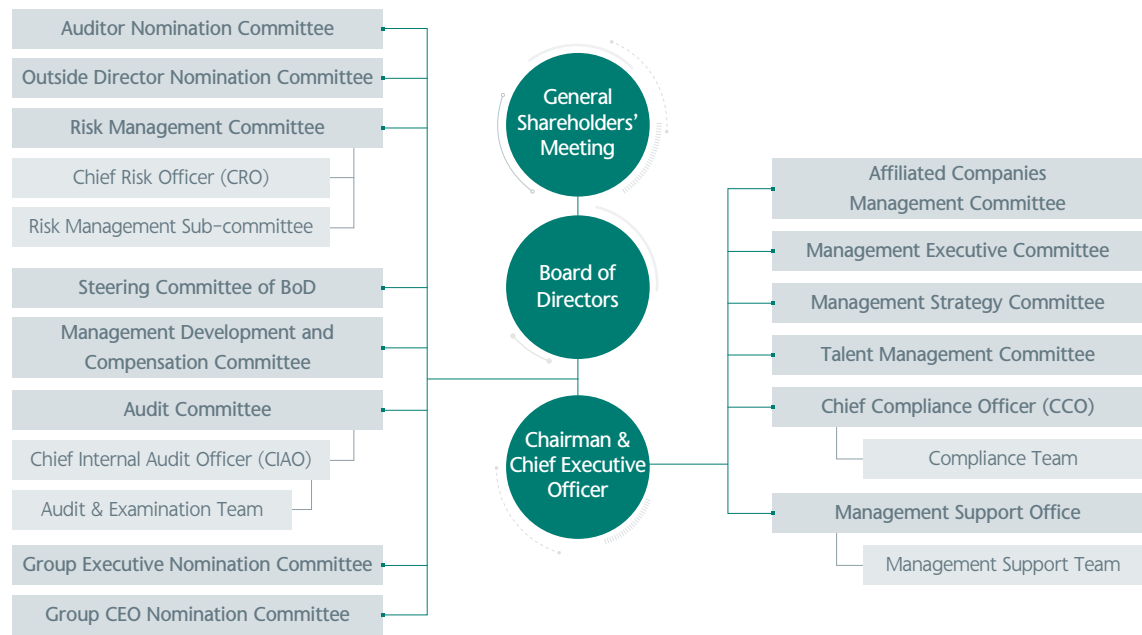
Independence and Transparency of the BoD

As an important decision-making body of Hana Financial Group, the BoD comprises eight outside directors and one inside director – 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.

The BoD publishes a report of its activities on a regular basis, in order to maintain close communication with shareholders, investors, financial consumers and other stakeholders. Also maintained is the transparency of the activities through detailed disclosure of remuneration schemes and the corporate governance in the run-up to every AGM.

BOARD ORGANIZATION



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 Board’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.

The assessment process consists of three evaluation types – by directors themselves, peers and employees – to maintain the objectivity of the assessment of outside directors’ performance. Assessment is based on such evaluation criteria as abilities and qualifications of individual directors, their responsibilities as outside directors of the BoD, contributions to the Board, mutual collaboration and levels of trust they receive from their peers.

Risk Management

Hana Financial Group is fully aware of the paramount importance of proactive and systematic risk management, and accordingly focuses on maximizing the risk management capacity to effectively cope with a crisis of all magnitudes.

Hana Financial Group is managing diverse risks inherent in its business activities by employing proactive and preemptive risk management strategies. 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 2018

In 2018, Hana Financial Group improved both non-performing loans (NPLs) and delinquency ratios through a continued balancing of high-risk portfolios, while maintaining both asset quality and capital adequacy ratio high through portfolio optimization and risk management system upgrade. We also established a Group-level risk management system that allows timely recognition and control of various risk factors that arise in our operations.

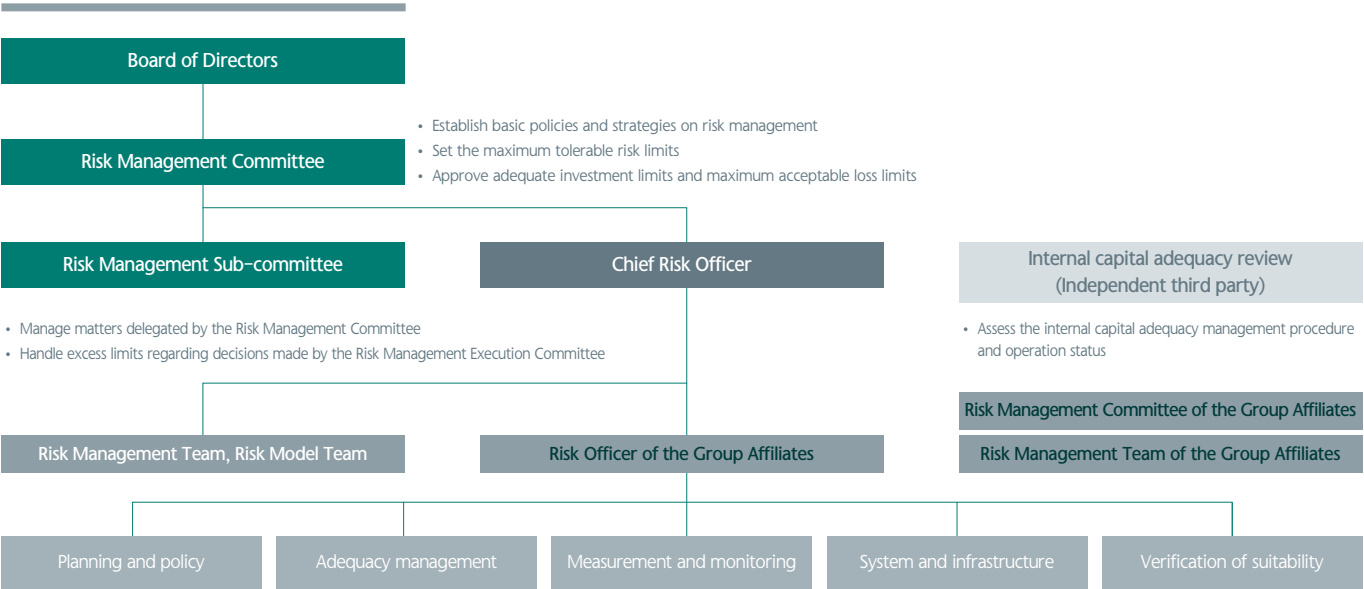
RISK GOVERNANCE Hana Financial Group has established and operates an advanced risk governance system that comprehensively and systemically manages all possible risks. Our Board of Directors (BoD) has set in place the environment and systems to manage risks in accordance with guidelines set for our business 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 Hana Financial Group with regard to risk management. Its main functions are to establish, approve and operate policies and master plans at the Group level for managing risks inherent in business operations. It supervises and manages Group-wide risk management through a command and report system between the holding company and the Group affiliates.

CREDIT RISK MANAGEMENT Hana Financial Group has established 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 set different credit limits by type of borrowers, in order to deal with such risk factors 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 region, we have diversified our portfolio, thereby minimizing potential risks resulting from counterparty defaults.

RISK MANAGEMENT ORGANIZATION



MARKET RISK MANAGEMENT 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, in our efforts to preemptively manage market risks. 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 originating from financial market volatility. 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 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 Hana Financial Group regularly measures the level of operational risks following changes in the business environment or in the level of internal control, with the goal of maintaining and controlling operational risks at a manageable level at all times.

Each of the Group affiliates calculates the level of operational risks facing its business operations by 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 Committee and Risk Management Sub-committee on a monthly and quarterly basis. The Group affiliates 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.

CYBER RISK MANAGEMENT We have in place a cyber security department at each of the Group affiliates, and also operate managerial, physical and technological prevention systems against cyberattacks, thereby safely managing relevant risks.

Speaking of the managerial system, we review and monitor all cyber risks at all times, and take counter-actions in accordance with regulations based on relevant laws. As for the physical aspect, we operate an integrated data center, the largest of its kind in the domestic financial industry. Access to the Hana Financial Group Data Center is controlled by latest technologies, including biometric authentication and near field communication (NFC). Also, we have received the Information Security Management System (ISMS) certification, a state-approved security certification system. Regarding the technological aspect, we minimize cyber risks through network separation, server virtualization for subcontractor projects, and operation of information protection systems at a dedicated area, such as network security, PC security, DB security and server security.

To prevent leakage of personal information, we have established the system to block arbitrary storage or transmission of data. Whenever personal information is stored or transmitted for work purposes, encryption of the data is required at all times. In addition, the Group Integrated Security Control Center is run 24/7 for real-time detection and frustration of cyberattacks. Simulation training is held at least once a year, and vulnerabilities are examined at least twice a year for the purposes of identifying risks and upgrading contingency plans.

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.

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, and thus preemptively manage our exposures to business groups on the watchlist.

PREEMPTIVE RISK MANAGEMENT Hana Financial Group regularly updates our industry watch list in preparation for a global economic slowdown and possible industry risks. Early-warning systems are employed to detect first signs of growing risks in all industries. Hana Institute of Finance regularly evaluates the ratings in consideration of relevant industry-specific risks and industry outlooks, in order to verify the independency and objectiveness of industrial ratings by agencies. The verified industrial ratings are reflected in the Group's compilation of industry watchlists, management of exposure limits set by industry, as well as evaluation of the creditworthiness of corporate borrowers.

Most of the industries currently experiencing a protracted business slowdown are on the Group's watchlist, and with regard to those expected to be in a similar predicament in the near future, preemptive risk management measures are in place.

Core Risk Management Tasks in 2019

Hana Financial Group pursues the industry's highest level of asset soundness. To this end, we will focus on strengthening our crisis management abilities in preparation for an undue rise of uncertainty in global financial markets and economic downside risks. We also plan to intensively manage key risk factors in certain business sectors, while preemptively responding to toughening of global financial regulations and other changes in the business environments at home and abroad.

KEY TASKS IN 2019

- Strengthen preemptive risk management in preparation for uncertainty in the financial economic environment
- Enhance asset quality by strengthening the management of portfolios with high potential risks
- Establish the Group's internal control system to enhance financial reliability

REVIEW OF OPERATIONS



RETAIL BANKING

As a leader of Korea's retail banking industry, Hana Financial Group is developing future growth drivers by expanding both globally and digitally based on the synergies of the Group affiliates.



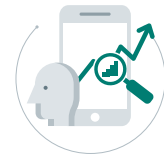
19.88 million

Number of retail customers with highest growth rate among commercial banks in Korea



Best Private Bank in Korea 2018

(by Euromoney, 11 times)



5,004

Number of new contracts made in 2 months after the launch of mobile bancassurance

* As of 2018 year-end



Customer Base

The number of retail customers of KEB Hana Bank in 2018 totaled 19.88 million, a YoY increase of 700,000 or 3.7%, the highest growth rate among major commercial banks for the fourth consecutive year. It is an outcome of the Bank's proactive response to the rapidly evolving and diversifying financial needs of customers by shifting its sales strategy from conventional active customer-focused marketing to multi-lateral marketing that segments customers into core retail, mobile and other customer groups.

The mortgage loan market has been shrinking since the second half of 2018 due to new real estate regulations, while Internet-only banks and other platform-based businesses are attracting customers. In addition, open banking and 'my data' industries are growing strong, which could lead to fiercer competition. In response, the Bank will bolster its retail banking operations in 2019 by employing a two-pronged strategy of expanding the customer base and further strengthening its stable profit base.

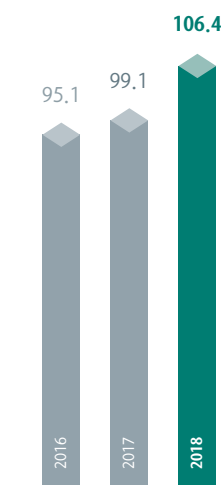
In household loan, we will further focus on developing products for people in need of *Jeonse* loans or funds to close their new apartment purchase, for which the market demand remains steady. In credit-based loan, we will pursue stable growth by expanding loans for wage earners. In low cost funding (LCF), we will focus on the stability of the profit base by integrating the marketing of inflow accounts involving wage and pension, as well as outflow accounts, such as account transfer service. The Bank plans to expand its mobile banking products, including mobile *Jeonse* loans, credit-based mobile loans, and mobile time and installment deposits, while also establishing a product line-up by phase of the customer's life journey, with the goals of increasing customer convenience and satisfying diverse financial needs. In addition, we will steer the Z generation toward KEB Hana Bank by offering positive non-financial experience to the core banking customer segment of the future.

Household Loans

In 2018, the household loan market saw housing transactions decrease as the government's real estate measures lowered market expectations of a price rise. However, *Jeonse* loan transactions amounted to the previous year's level, and loans for final payment of new apartment purchases rose as new apartments sold in 2015 and 2016 were complete and ready for move-in. Credit-based loans also went up as a result of the balloon effect of the government's real estate policy. Against this backdrop, KEB Hana Bank focused on its *Jeonse* loan, loans for final payment of new apartment purchase, and credit-based loan products to meet market demands, recording a YoY increase of KRW 3.5 trillion and KRW 3.7 trillion in *Jeonse* loans and final payment for apartment purchase, respectively. Consequently, household loans outstanding as of 2018 year-end amounted to KRW 106.4 trillion, an annual rise of KRW 7.4 trillion.

The Bank also focused on building a solid loan product line-up by rolling out innovative products. In 2018, the first year of the digital transformation of Hana Financial Group, KEB Hana Bank established the foundation for expansion of non-face-to-face channels by overhauling its mobile product line-up. It also overhauled its product line-up of *Jeonse* loans following the shift in market demand triggered by the government's toughening of regulations on household loans.

KRW Household Loans
(Unit: KRW trillion)



Low Cost Funding (LCF)
(Unit: KRW trillion)



Specifically, in collaboration with the Korea Housing Finance Corporation, the Bank marketed *Jeonse* loans to newly-wed couples or households with children, securing around 32% of the newly-wed housing lease loan market, the largest share. In addition, the Bank collaborated with Finng, a fin-tech affiliate of the Group, to release a product exclusive to the Finng-developed app, setting a new standard in the small loan market.

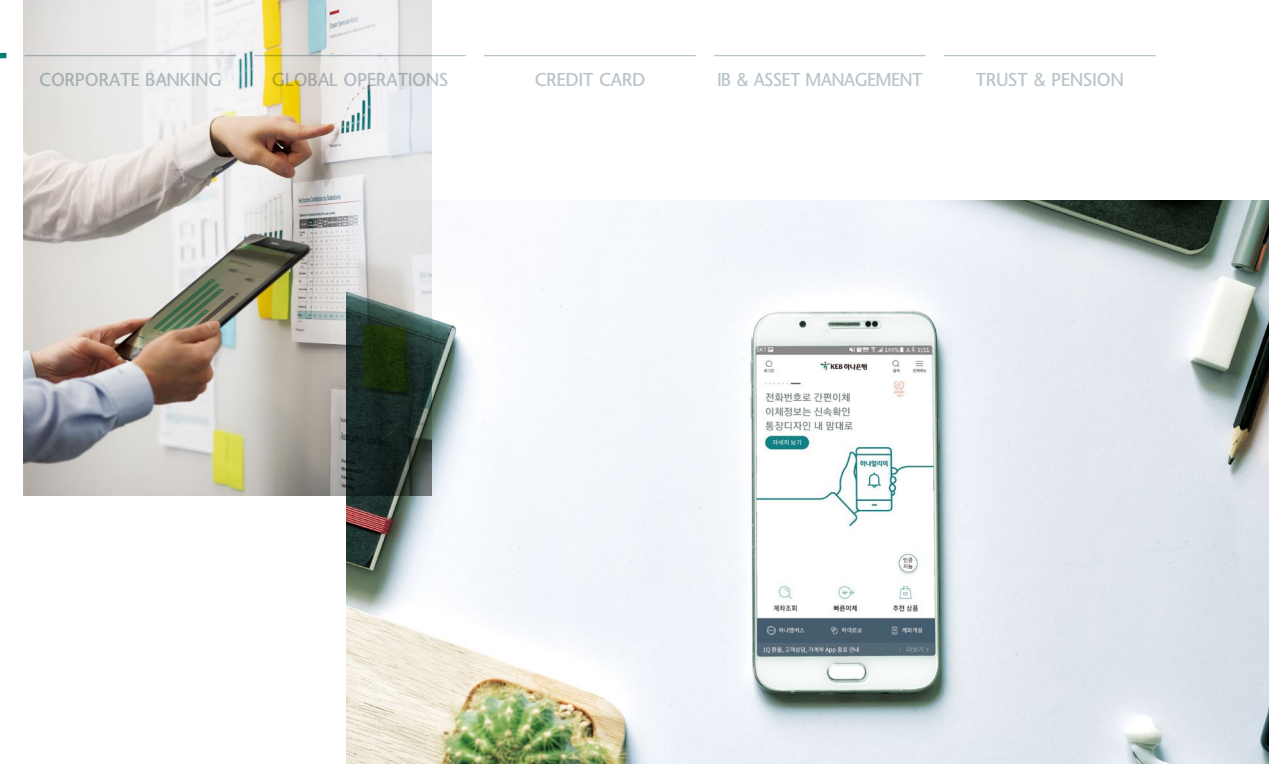
Both the mortgage and *Jeonse* loan markets are expected to grow slower in 2019 due to the effects of the government's real estate policy as well as steps to reduce household debts. In consideration of these market conditions, KEB Hana Bank aims to make all types of mobile loans under the keynote, 'Mobile First' by leveraging its strong mobile channel. Accordingly, we will develop products that enable customers to apply for and activate credit-based, *Jeonse* and mortgage loans by using their mobile devices. We also plan to roll out 'Young Adult Monthly Rent Loan' to support the government policy of inclusive finance and offer young adults funds for leasing or renting housing at more affordable rates.

Household Deposits

In 2018, KEB Hana Bank focused on expanding the base of core customers with wage deposit, card payment and other settlement-type accounts. As a result, core LCF grew to KRW 30.0 trillion, a YoY increase of KRW 1.1 trillion. Time deposits went up by KRW 2.1 trillion to KRW 34.0 trillion.

The launch of diverse products, developed to market trends, also contributed to the growth of household deposits. In response to the growing popularity of savings products for subscribing apartments, the Bank launched 'Double-Up Installment Savings for My Own House' in line with the government's housing subscription merit system, signing up around 200 thousand accounts by the end of 2018. The new product also won a 'Korea Financial Industry Award' hosted by Edaily. Also, in response to an increasing consumer interest in health, KEB Hana Bank unveiled products that integrate health and finance, including 'Challenge 365 Installment' in which the account holder can monitor the number of steps they take every day using an app and receive preferential interest rates depending on the number of steps taken.

The deposit-taking market in 2019 is expected to see the demand for short-term deposit products grow in response to growing instabilities at home and abroad. Accordingly, KEB Hana Bank plans to offer customers products appropriate to each stage they go through during the journey of their life by developing a product-recommending screen. It will also bolster its product line-up for youths (Z and Y generations) and foreign customers to expand its customer base and generate new revenues.



Digital Banking

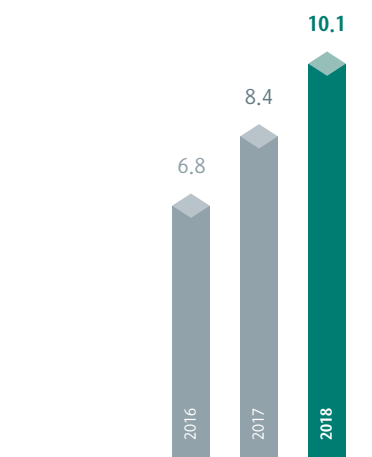
At the end of 2018, the number of our mobile banking customers stood at 10.11 million, a YoY increase of 17% or 1.74 million, the industry's highest rate. The ratio of new non-face-to-face customers has been on the rise as well, ending the year at 17%, a sharp increase of 12%p from the previous year. The growth is attributable to the advancement of mobile banking, release of marketing apps, launch of new mobile products, and expansion of external alliances. The growth also indicates that digital is establishing itself as a viable sales channel.

Hana Financial Group continually upgrades the existing products and services as well as explores ways of improving the delivery channels and methods, in order to better respond to the rapidly evolving needs of financial consumers due to the advance of technology. Our focus in 2018 was on launching innovative digital financial services for Hana Members, improving the HAI Banking financial chatbot service, establishing an open application programming interface (API) external service, building a win-win ecosystem with fin-tech companies, and expanding global digital banking.

In 2018, Hana Members, which has triggered a membership boom in the domestic financial industry, continued to grow, reaching almost 15 million¹⁾ in membership. After launching Hana Members Loan, a non-face-to-face credit-based loan, in 2017, we released such non-face-to-face-only financial products/services as Challenge 365 Installment, Easy Installment and Exchange Wallet in 2018, which directly contributed to increasing the Group's incomes. HAI Banking, launched in 2016, has grown into a chat-based banking service that pinpoints what customers need through dialogues with customers and conducts various financial work procedures, the result of continued improvements made in the area of artificial intelligence. Furthermore, in collaboration with domestic ICT companies, we began providing basic HAI Banking services to IoT-based home appliances.

The Group adopted an open API in February 2018 to establish a new financial ecosystem and create innovative business. As a result, customers can now search for information on branches, check account balances, request for account transfers and apply for loans, all through third-party channels. Moreover, the Group worked on building an internal API platform for organic connection of the Group's internal services, thereby more effectively responding to diverse customer requests and creating new business opportunities. Our focus also was on building a win-win ecosystem with fin-tech companies through open innovation. We continually ran the 1Q Agile Lab - the industry's first start-up mentoring center, opened in June 2015. In 2018, we further expanded the foundation for building innovative digital business models by launching 6th and 7th 1Q Agile Labs with 23 start-ups.

Number of Digital Banking Customers (1Q Bank Users)
(Unit: Million persons)



¹⁾ Exceeded 15 million in January 2019

In 2018, the Group established alliances with some 50 companies in Korea and abroad to build the foundation for a Global Loyalty Network (GLN)-based open wallet service, one of the Group's major overseas projects, and started a global coupon mall service in seven countries with the goal of expanding our presence in the global digital banking market. Meanwhile, PT Bank KEB Hana, the Indonesian subsidiary of KEB Hana Bank, signed a joint venture agreement with LINE Financial Asia, a financial subsidiary of LINE Corporation of NAVER, in October 2018, in order to launch a digital bank in Indonesia – the Group's another major overseas project.

The Group revealed its goal of changing into a customer-centric, data-driven information technology (IT) company by 2020 at a ceremony declaring its vision toward digital transformation in October 2018. To realize this vision, we have established such distinctive digital strategies as offering customer services as their lifetime partner, developing product and sales channels outside of the traditional framework, strengthening our global digital banking platform, building a win-win ecosystem with fin-tech companies, and making preparations for launching an Internet-only bank.

To offer customers services as their lifetime financial partner, we will create an 'ultra-customized' personalization service available real time and based on artificial intelligence (AI) and data. We plan to add big data-based product recommendation and counseling functions to HAI Banking so that it can perform as a personal banking assistant. We will also upgrade HAI Robo, an AI-based asset management service, to provide more detailed services through process simplification. In addition, we will go beyond products and channels based on our existing data, and introduce more customized products that reflect a better understanding of customer needs. Furthermore, we will move forward establishing an open API-based non-face-to-face process as well as an alliance platform so that customers can subscribe to financial products using third-party apps.

Hana Financial Group will expand its customer base by commencing a global digital banking service through cloud computing and blockchain-based networks as well as external partnerships. We will provide comprehensive travel benefits tailored to each country through the GLN, in order to expand our global digital banking in the global market. Open Wallet will be applied to Hana Members, which has a membership of 15 million, so that customers can use domestic and overseas settlement services and manage their membership with other companies. In addition, small loans and other financial services, which millennials and Z generations can enjoy without reservations, will be introduced to take a step closer to the young customer segment. In addition, according to the joint venture agreement with LINE Financial Asia, we will commence a digital banking business in Indonesia using the brand and content of the LINE messenger platform. This business is expected to serve as a cornerstone for global digital banking platform innovation in 2019.

To establish a win-win ecosystem with fintech companies, KEB Hana Bank is directly investing in fintech start-ups up to KRW 20.0 billion, and runs the Start-up Steering Committee, an independent decision-making body, to ensure efficient investment approval process. As regulations on banks' equity investment in fintech companies are expected to ease, we plan to increase investment with the aim of obtaining such key technologies of the Fourth Industrial Revolution as AI, big data and IoT. We will also actively invest in data-based companies to engage in digital marketing and other new business activities.

Moreover, seeing the need to establish a new ICT-based Internet bank as a way to not only thrive in the rapidly evolving digital era but also to lead innovation, we have formed a consortium with SKT and Daou Kiwoom Group and are in the process of applying for preliminary approval. The consortium of the premier financial group transforming into a customer-centric, data-driven IT company, Korea's largest telecom company leading the 5G technology, and the nation's No. 1 online securities firm is expected to go beyond meeting the capabilities required of Internet banks and to maximize customer benefits and lead the nation's drive toward innovative and inclusive finance.



Private Banking

KEB Hana Bank is the undisputed leader of asset management, carrying on its reputation as the first to introduce private banking (PB) to Korea in 1995. The Bank garnered all four of the most coveted global PB awards in 2018 as in the year before, thus solidifying its reputation as Korea's leader in PB.

This outstanding achievement can be attributed to continued efforts to grow assets and profits, strengthen research capability, develop investment products, enhance customer value, and better satisfy high net-worth individuals (HNWIs). In particular, the Bank enhanced rates of return on customer investments through the development of Hana Early Analysis and Diagnosis (HEAD), a portfolio diagnosis system, and by using subsequent results in the evaluation of individual private bankers' performance. It also better satisfied HNWIs by operating an Inheritance and Bestowal Center and Real Estate Advisory Center as well as Life Care Marketing Team. Other contributing factors include the offering of distinctive asset management services to customers in regional areas by expanding Gold PB to the regional channels, and the use of HAI Robo in securing over 70% of the domestic robo-advisor market, and the leadership in digital asset management services, including mobile bancassurance.

The Bank offers services for all customer segments, including Gold PB, VIP PB, VA Advisor and HAI Robo. Our plans for 2019 are to promote the distinctiveness of Gold PB products and services, and to increase channels to cover Seoul metropolitan and regional areas. We will also expand specialized services to include VIP PB, and make our asset management services more competitive by strengthening VIP advisor support and PB asset management systems.

The Bank has been increasing regional channels of Gold Club and International PB Center (IPC) and running a special channel based on the concept of culture banking in the Seoul metropolitan area with the goal of enhancing channel competitiveness. Accordingly, in 2018, it opened Gold Clubs in Daejeon and Daegu, and an IPC in Jeju Island, specializing in overseas customer service and foreign direct investment (FDI). By opening a Busan IPC in 2019, the Bank plans to strengthen foreign exchange-linked asset management operations targeting regional VIP customers. Plans for the Seoul metropolitan area include continued expansion of specialized channels and rearrangement of Gold Clubs for higher efficiencies. In order to raise the share of the VIP customer market, the Bank also plans to increase the supply of products for HNWIs and enhance service quality. Moreover, the quality of PB services at all branches will be further improved through upgrade of the job competence of VIP Advisors and support systems at each branch.

The Bank is also taking the lead in global asset management. It not only became the first bank in Korea to set up an overseas PB center, in 2005, but also is currently the only commercial bank with PB operations overseas, including Hong Kong and Indonesia. In 2019, the Bank plans to create a Global PB Cell, another first step in Korea, to systematically manage overseas and domestic non-resident VIP customers. The Bank will commence an overseas real estate investment advisory service by forming alliances with companies specializing in global real estate services, while also expanding its overseas PB network. Through these steps, KEB Hana Bank will implement the Group's '25-40 Global Strategy' of generating 40% of income from overseas by 2025.

KEB Hana Bank's Private Banking Sector Awards in 2018

- Best Private Bank in Korea 2018 (Euromoney, 11 times)
- World's Best Private Bank in Digital Client Solutions (Global Finance, 3 times)
- Best Private Bank in Korea 2018 (The Banker/PWM, 6 times)
- Most Innovation Business Model Private Bank 2018 (Private Banker International, 7 times)





In seeking to become ‘No. 1 bank in asset management with sustainable growth based on collaboration and digital’ in 2019, the Bank plans to increase synergy creation with the Group affiliates. The Bank will therefore establish a virtuous cycle of its sales channels collaborating with the business operations of the affiliates; and generate such success cases of collaboration as the distinctive product sourcing of the operation sector and the expansion of the Hana Life product line-up within mobile bancassurance. It opened a VIP advisor-exclusive support system in early 2019 as part of its effort to increase work efficiencies, and in the second half, to upgrade the PB system as a way to integrate the management of investment products of the Bank and Hana Financial Investment (HFI), and to adopt a remote consulting service. Moreover, the Bank will expand the scope of its asset management operations from the current focus on personal VIP customers to include institutional customers by employing measures such as strengthening collaboration between relationship managers (RMs) and PBs, establishing institutional PB and opening an annual premium payment system for bancassurance customers.

Investment Funds

In contrast to 2017 during which the global stock market roared, the domestic and overseas financial markets of 2018 remained weak throughout the year, due to the US-China trade conflict, a spreading tight monetary policy, and the rising credit risk of emerging countries. Investment capital mostly flowed into real estate and derivative products in general and private equity funds in particular, rather than into equity type, fixed-income type or other traditional investment products.

Faced with such difficult business conditions, most commercial banks in Korea experienced a reduction in commission income. KEB Hana Bank, however, achieved a YoY increase in commission income. In fund commission income, the Bank recorded a market share of 25.7%, a YoY rise of 3.4%p, and improved its market standing by one notch to the second place. The year-end balance of its funds¹⁾, which is the basis of commission income, also rose 24.5% or KRW 2.3 trillion YoY, reflecting both qualitative and quantitative growth.

These achievements are mainly attributable to the sales focus on low-volatility and structured products in response to an increasing market volatility in the second half of the year following a downswing of equity-type sales in the first half. Other contributing factors include the Bank’s efforts to lead the investment product market by developing such competitive products as KRW currency-adjusted index derivatives-linked fund (DLF), foreign currency investment products, and overseas real estate funds, developed in collaboration among affiliates. Moreover, KEB Hana Bank upgraded HAI Robo, which led to the highest market share among its peers, as well as the quality of its asset management services. The Bank has also published ‘Report on Robo-Advisors in Korea’, an industry first.

¹⁾ Excluding money market funds

Market volatility is expected to continue in 2019, sustaining anticipations that capital will be concentrated in risk-hedging products and fixed-income type products, rather than equity-type or other high-risk products. Accordingly, KEB Hana Bank will concentrate its investment funds in a low-volatility product group, including asset allocation funds, on which the Bank has been placing its sales focus since the fourth quarter of 2018, while diversifying structured products, such as DLF and ELF, in response to a rising volatility. The Bank increased its personnel in 2018 to strengthen the supply and management of structured products and private equity funds, and built relevant infrastructure, which includes a follow-up management system. Based on the new infrastructure, the Bank will develop more competitive products in collaboration with HFI and other affiliates. As for institutional fund sales, an area where it lags behind other commercial banks, the Bank will increase sales using a close onsite support strategy in which branches sell institutional funds with the active support of headquarters.

Going forward, the Bank will continue its utmost efforts at ensuring complete sale and thorough management of all investment product through strict training and specialized follow-up management. It will also promote a sound investment culture by steering customers toward investment diversification with installment type funds, and build a smart investment culture with a particular focus on target rates of return by offering a service that automatically redeems funds sold when investment goals are met as well as keeps customers informed of rates of return their investments generate.

Bancassurance

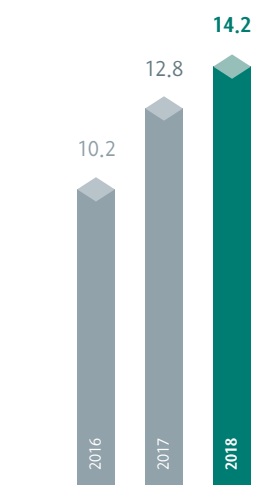
The savings-type insurance market reduced in size with the decrease in the maximum amount that can be exempted from gains on the insurance settlement of savings-type policies following the April 2017 tax reform. Moreover, the change made in January 2018 regarding the standardized disclosed interest rate system reduced the standardized disclosed interest rate from 3.0% to 2.5%. As a result, savings commissions linked to interest rates also went down. Also, more stringent regulations on insurance companies’ risk-based capital (RBC) ratio pressured savings-type insurance to grow at a rate lower than the year before.

In response, KEB Hana Bank implemented a strategy of expanding variable insurance sales while maintaining its sales focus on protection-type insurance. As a result, the number of new variable insurance policies sold as well as the amount of initial premium incomes thus generated grew substantially from 1,324 cases and KRW 21.5 billion in 2017, respectively, to 7,939 cases and KRW 151.9 billion in 2018. In addition, the Bank launched mobile bancassurance in November 2018, recording 5,004 cases of sales and posting KRW 460 million in initial premium income in mere two months from the launch. Encouraged by such early signs of success, the Bank channeled more resources and efforts into the new business, achieving a total of 123,758 cases of sale, KRW 473.5 billion in initial premium income, and KRW 47.7 billion in commission income by the end of 2018.

In 2019, KEB Hana Bank plans to further bolster the institutional customer base by strengthening institutional operations with a focus on corporate fire insurance and CEO package plans. For individual customers, the Bank will focus on savings-type and pension insurance in the first quarter, and, once the 9th life table becomes effective on April 1, will shift its sales focus to protection-type insurance. The Bank also plans to expand the product line-up to include foreign currency insurance and ELS variable insurance. Based on the successful launch of the mobile bancassurance service, the Bank will increase the number of partner insurance companies from 10 to 15, and products from 15 to over 25.

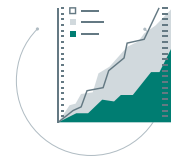


Ratio of Protection-type Insurance Sales
(Unit: %)



CORPORATE BANKING

Hana Financial Group continued to grow at a steady pace in corporate banking, while proactively responding to market changes and actively supporting government policies.



77.6 KRW trillion

Year-end balance of SME loans, up KRW 6.7 trillion from 2017



8.1%p ↑

Increase of collateral coverage ratio for SME loans over the past three years



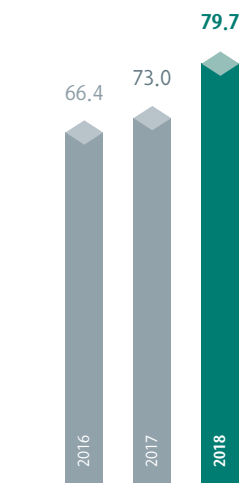
50% +

Market share in the remittance market for foreign workers in Korea

* As of 2018 year-end



KRW SME Loans
(Unit: KRW trillion)



SME Loans

In 2018, SOHO loans grew at a rate a bit lower than that of 2017, a year marked by the sector's substantial growth, mainly attributable to the government's tightening policy on household debt and the housing market. However, as a result of its focus on productive finance, KEB Hana Bank achieved balanced growth across all SME loan categories. The Bank recorded KRW 79.7 trillion in SME loan, a KRW 6.7 trillion or 9.5% increase over its 2017 figure. The number of SME borrowers also grew, to 299,386, a sharp YoY increase of 7.0% or 19,676.

The Bank's SME lending caters mainly to clients whose primary bank is KEB Hana Bank, and for this reason, the collateral coverage ratio of SME loans significantly increased 12.7%p in the last four years – from 67.2% in 2015 to 71.8% in 2016, 76.0% 2017, and 79.9% 2018, a clear indication of the Bank's steady improvement on asset quality.

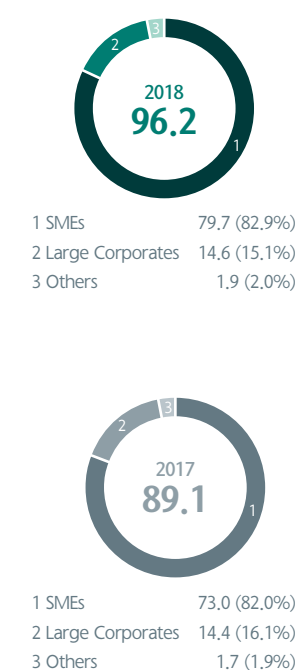
Despite forecasts of continued growth for exports in 2019, uncertainties are expected to rise due to concerns about interest rate hikes of the U.S. and the spread of global protectionism. Moreover, the government's emphasis on productive finance is expected to lead to fierce competition among financial players in the SME loan market.

As part of its support for productive finance, the Bank will contribute to job creation and income-led growth by supplying financial support totaling KRW 15.0 trillion from 2018 through 2020. In particular, the Bank plans to supply a total of KRW 600.0 billion, KRW 200.0 billion a year for three years, through indirect investment in growth funds as well as direct investment with an aim to support start-ups and small and mid-sized ventures. To this end, the Bank has formed the New Growth Venture Support Team by bringing onboard venture investment experts, operates the Start-up Venture Investment Council in which all Group companies participate, and identifies and actively invests in promising venture firms by working with Hana Ventures, a venture investment company launched in 2018.

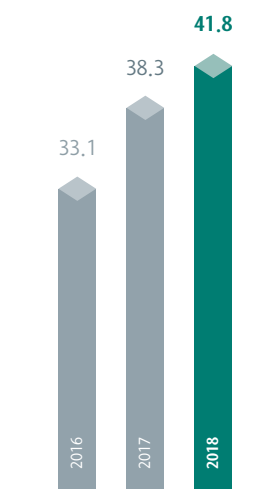
The Bank also plans to supply KRW 5.0 trillion per annum starting 2018, a total of KRW 14.5 trillion for three years, to promising, new-growth SMEs and start-ups. In addition to supporting technology start-ups through finance, increasing contributions to guarantee institutions, launching exclusive products, and other means of supplying funding, the Bank will offer start-ups a consulting service customized to each growth stage. By doing so, it will help SMEs and start-ups grow into blue chip companies, which in turn will contribute to creating jobs.

The Bank aims to increase SME loan by KRW 5.0 trillion in 2019. Rather than increasing the number of borrowers, the Bank will focus on systematic customer management to minimize customer attrition and build up the base of clients whose primary bank is KEB Hana Bank. By doing so, it will further solidify its sales base, strengthen preemptive risk management practices and maximize profits. To better compete against Internet-only banks and fin-tech companies, the Bank will develop and introduce cutting-edge products and services based on its employment of big data analysis and fin-technology, and by taking full advantage of non-face-to-face channels, thereby embracing market changes and innovation.

Loans to Corporate
(Unit: KRW trillion)



KRW SOHO Loans
(Unit: KRW trillion)



SOHO Loans

SOHO loans rose KRW 3.5 trillion or 9.2% YoY to KRW 41.8 trillion in 2018. This represents slower growth compared with a sharp increase of 15.7% in 2017, due to a government policy regulating the operation of individual lease business owners and other unfavorable market conditions. However, as a result of the Bank's active support of productive finance, loans to small and medium-sized corporations, excluding SOHO, amounted to KRW 36.0 trillion at the 2018 year-end, a YoY increase of KRW 3.2 trillion, far exceeding the KRW 1.3 trillion increase in 2017. The robust growth has enabled the Bank to wean itself off its reliance on SOHO loans, which accounted for 80% of the SME loans increased in 2017, and to bring the ratio of small and medium-sized corporations to SOHO loans to a balanced 4:6 in growth. Also increased is the Bank's share of the market.

The Bank's quantitative growth of SOHO loans in 2017 was largely attributable to a rise in loans to individual lease business operators. However, the relatively weak growth in 2018 reflects a revision of tax benefits and the management of loans for individual lease business operators. Notwithstanding, the Bank expanded the customer base and improved loan quality and thus achieved both quantitative and qualitative growth, an outcome of its focus on strengthening support for job-creating companies and other small businesses, developing diverse products in line with demand, and offering guarantee-secured loans, such as credit guarantee and technology guarantee.

As the low-growth environment continues to weaken private consumption and the economy as a whole in 2019, volatility risks are expected to grow. SOHO loans, in particular, are likely to remain vulnerable to interest rate rises and the toughening of government regulations on household debt and real estate because. All these forecasts will lead to commercial banks intensifying the competition for SOHO loan customers with a high credit score.

Against this backdrop, the Bank plans to become a primary bank of preferred corporate customers, thereby selectively increasing assets and improving profitability. It will also do its best to prevent insolvency through front office-centered preemptive risk management. Moreover, the Bank will further solidify the foundation for creating sustainable income sources by relying less on branch-based sales and more on digital channels to develop services with the goal of better preparing for the Fourth Industrial Revolution.

Moreover, the Bank will increase its support for productive finance by funding more job-creating companies, and drive financial inclusion for small businesses in line with the government policy aimed at establishing a virtuous cycle of income-led growth, thereby staying focused on fulfilling its social responsibilities. It will also expand cooperative agreements with regional loan guarantee institutions, partnerships with different trade associations, franchise-based marketing, and thus seek opportunities to attract large transactions from small businesses affiliated with those entities, with the aim of increasing assets. Also planned is to identify and respond to diverse financial needs in a timely manner to increase its customer base.



Foreign Exchange

Difficult conditions continued in the global economy in 2018, stemming mainly from a prolonging US-China trade conflict and other uncertainties. The foreign exchange (FX) market saw competition intensifying with the emergence of such new market participants as small-amount remittance service providers and Internet-only banks, both enticed by relaxed industry regulations.

Despite a challenging market environment, the Bank maintained its growth momentum and solidified its market position. It further bolstered its brand image as the leader of FX and increased customer satisfaction by offering standardized FX services through its branches well stocked with foreign currencies of 12 major countries at all times. In addition, the Bank garnered over 50% of the remittance market for foreign workers in Korea and solidified its leadership position by operating 19 branches on Sundays (16 branches, 3 remittance centers) – Korea's largest of its kind – and a Culture Bank, and through other strategies of differentiation. Moreover, the Bank attracted new customers while reducing time and cost of doing a business by providing exchange services via non-face-to-face channels.

Established in 1967 as an FX-specializing bank, the Bank is a FX leader in Korea, with 169 overseas branches in 24 countries, as of 2018 year-end. In 2019, the Bank plans to support exporters by leveraging its extensive experience and expertise in FX in line with the government's New Southern Policy. It will also develop products to the needs of foreign workers in Korea and increase number of branches open on Sundays for foreign workers. Also upgraded will be such mobile banking services as overseas remittance and FX to increase customer convenience and improve work efficiencies. Moreover, in-depth FX training will be provided to employees to develop FX specialists who can provide a one-stop service, from professional counseling to work-handling, and further enhance the Bank's reputation as the FX leader.



GLOBAL OPERATIONS

Driven by its IT advantages and based on the industry's largest overseas network, Hana Financial Group is accelerating its transformation into a global digital finance group.



313.7 KRW billion

Total profits generated overseas, including equity investment



24

Number of overseas networks of KEB Hana Bank newly established in 2018



GLN

Korea's first overseas payment settlement service

* As of 2018 year-end



Overseas Business Performance

At the end of 2018, Hana Financial Group's global network comprises 183 subsidiaries and offices across 24 countries. KEB Hana Bank, in particular, added 23 overseas channels in 2018 alone, including a sub-branch of Hana Micro Finance in Myanmar, extending its overseas network to 169 subsidiaries and offices across 24 countries. At the end of 2018, total assets of its overseas branches and subsidiaries stood at USD 26.9 billion. Inclusive of income 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 in 2018 amounted to KRW 313.7 billion.

We actively pursue new business overseas in search of growth engines. In 2018, PT Bank KEB Hana, an Indonesian subsidiary of KEB Hana Bank, formed a strategic partnership with LINE Corporation, a subsidiary of NAVER, through equity investment, and thus laid the foundation for exploring diverse digital finance opportunities. KEB Hana Card is pushing forward card payment processing business together with the state-run National Payment Corporation of Vietnam (NAPAS). Hana TI launched an IT talent development support program in Vietnam, a first step towards securing IT personnel and advancing into IT solution business in Southeast Asia.

The Bank's headquarters office in charge of global operations were also expanded in scale and manpower for more efficient support. KEB Hana Bank segmented its Overseas Business Division into Asia, Europe, Middle East and Americas Departments, with a plan to gradually relocate the units to their respective regions as a way to strengthen onsite management. KEB Hana Card created Global Growth Division through which it seeks to overcome the limitations of domestic operations and make a breakthrough in search for new growth opportunities in the global market.

Furthermore, a collaborative system was built among the Group affiliates to increase treasury management and IB incomes in the global market. KEB Hana Bank strengthened its sales capability based on synergies created between treasury management and trading by adding a Global Treasury and Trading Network (GTTN) to its Hanoi Branch. The Bank also set up IB Desks at its London and Singapore branches to strengthen the global network generating incomes through IB. In addition to expanding Global Frontier Masters (GFM) to foster global experts, a competency development program (CDP) was established to expand the personnel pool, based on which systematic support will be provided.

Core Overseas Businesses

Hana Financial Group is focusing on digital banking and its Global Loyalty Network (GLN)-based digital wallet as its core overseas projects with the goal of becoming a global digital financial group. PT Bank KEB Hana entered a share subscription agreement with LINE Corporation in 2018, to advance into digital banking in Indonesia. The plan is to expand the new business by leveraging the two companies' strengths, such as user base, brand capability and content. Business models are taking shape, including various deposit products, small loans and remittance settlement services developed to local market characteristics. The Bank's local know-how and credit evaluation model and LINE's digital technology and platform-based credit evaluation model will be integrated in the new products and services to be introduced to the local market.

Overseas Network
(Unit: Branch)





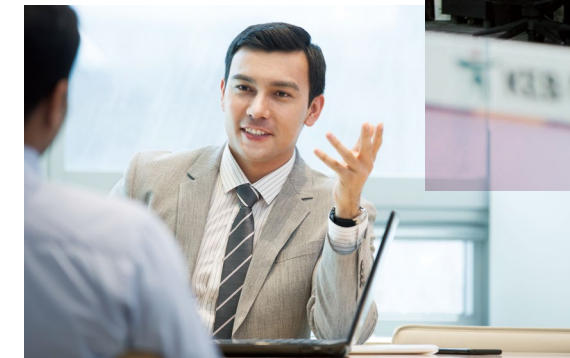
GLN business, a global digital asset platform, is also a core overseas project that the Group continues to push forward. GLN is an integrated platform that globally links Hana Members, a mobile membership app, with partner organizations in major overseas countries through blockchain technology. Once GLN is established, customers of Hana Members can exchange and use mileage points, digital assets and electronic cash with ease. We plan to launch a GLN-based payment settlement service in Taiwan and Thailand in 2019, and in many other countries in the following years.

Overseas Business Strategy

Hana Finance Group pursues expansion of channels, network links and localization as core strategies with the goal of further strengthening our overseas operations. As one of efforts to expand channels and bolster network links, KEB Hana Bank is opening up subsidiary branches in Myanmar and Indonesia — regions of high growth potential. The Bank opened its Mexico subsidiary in February 2019, with a plan to use it as a bridge to the Central and South American markets. The Bank is also preparing to open up a branch in Gurgaon of India to increase its coverage of the Indian market. Moreover, the Bank upgraded its Fukuoka office in Japan, and Ostrava office in the Czech Republic into a branch and opened offices in Vladivostok of Russia and in Morocco, to strengthen its presence and respond to a widely-expected rise in financial demand in those regions.

By regularly assessing the operation status of overseas networks and examining strategic directions for developing the networks, the Bank will expand synergies with the Group affiliates and set up collaborative systems, thereby securing market competitiveness and advantage in the long run. It also plans to compensate its limited market presence compared to local banks and expand the local customer base by leveraging non-face-to-face channels, such as the mobile channel 1Q Bank, mobile remittance platform IQ Transfer, and Corporate Customer Global Fund Management System (GCMS).

In localization, we will reach our goal of customer localization by localizing workforce, products and services. Other goals include penetration into the heart of local markets and business expansion through shareholder localization. For workforce localization, we will select and foster top local talents, develop experts in loan evaluation, risk management and other key areas, and localize the sales force, while fully establishing a performance-based compensation and promotion culture. In addition, we will establish a responsible management system at local subsidiaries. To this end, we will assign more local employees to key positions and give subsidiary heads more discretionary powers, while implementing an achievement and performance-based evaluation system.



Initially, retail and SME-focused sales operations in China, Indonesia and Canada will be expanded, with a focus on development of specialized products that are differentiated by region. Moreover, a next-generation global core banking system will be adopted in 2019, with an eye toward improving customer convenience and proactively respond to the fast-evolving digital environment.

Our global strategy will be pursued in two tracks — organic and inorganic growth. For stable organic growth based on use and expansion of our global bases, we aim to facilitate cooperation between the Group affiliates and their global networks and actively push forward globalization of the organizations at headquarters. To achieve these, we will assign various global functions to organizations at headquarters, and thus facilitate changes in them that will contribute to providing support to global sales forces in many ways. Also, we will facilitate cooperation among the Group affiliates in their global operations through the newly created cooperation council.

In pursuing inorganic growth for new global advancement, we are pushing forward M&A, equity investment, and establishment of joint ventures, with a focus on banking, consumer finance, microfinance and digital banking sectors, primarily in the Asian market. By implementing these strategies, the Group will develop new global growth engines and generate synergies between different industries in the global financial market.

Furthermore, in step with the Fourth Industrial Revolution and other financial environment changes, we will continue our efforts aimed at securing sources of future income, including the establishment of an Internet-only bank, investment in fin-tech businesses, and digital transformation of our global network. We will also 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.

CREDIT CARD

We are leveraging our leadership in digital innovation to transform obstacles into opportunities, thereby solidifying the foundation for sustainable growth.



9.5% ↑

YoY increase of KEB Hana Card customers



2 years in a row

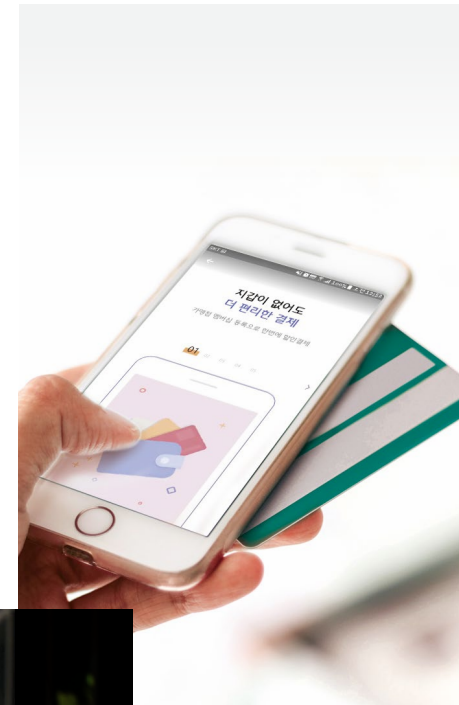
Generated more than KRW 100 billion of net income



106.7 KRW billion

Achieved the record high net income

* As of 2018 year-end



2018 Performance

In 2018, the card industry saw its profit margin continue to shrink under the weight of reduced merchant fees and other unfriendly regulatory changes. Also, many payment gateway (PG) companies forayed into the payment settlement market by using their mobile-based fintech strengths. And mobile-savvy millennials took over the center stage of consumption, sending waves of change throughout the card market.

Amid such an increasingly challenging business environment, KEB Hana Card has been innovating its expense structure and preemptively responding to merchant fee regulations. In particular, as a follow-up to its 2017 sign-up portfolio innovation, the company implemented innovative measures ahead of its peers in 2018, such as measures to make conventional marketing practices efficient. As a result, KEB Hana Card generated over KRW 100 billion in net income for the second consecutive year. Active card membership also grew sharply to stand at 4.38 million — a YoY increase of 9.5%.

The company further strengthened its organizational capabilities in the digital and mobile sectors, in addition to innovating such main card operations as sales and marketing. Digital Transformation Committee was created with the mission to facilitate the company's digital transformation, and the Digital University was opened and produced 80 digital experts, contributing to expanding the foundation and capabilities for digital innovation.

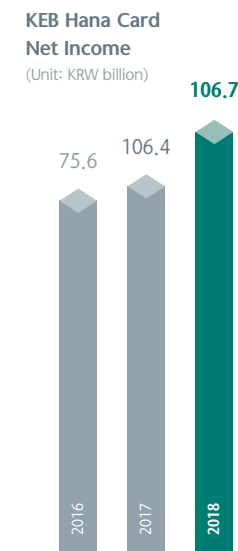
2019 Plans

Regulation on merchant fees is expected to be further strengthened in 2019. Policy changes, such as re-calculation of appropriate merchant fees, adjustment of preferential fee rates for sub-malls under PG providers, and revision of the policy on fee refund for new merchant, will take place, and those changes are expected to hinder the industry's earnings performance. In addition, a reduction in income tax deduction for credit card purchases and the scheduled introduction of Zero Pay are likely to add difficulties to the card industry in 2019.

However, KEB Hana Card sees such business challenges as an opportunity to join the ranks of top industry players. Accordingly, it set strategic objectives — to become more competitive in the main activities of card business and to develop new growth engines through digitalization and globalization – based on which it has established five major innovation tasks to become more competitive in the main areas and five major growth strategies to develop new growth engines.

In accomplishing the five major innovation tasks, KEB Hana Card is focused on redesigning all value chain processes that generate expenses from a zero base, with the goals of enhancing efficiencies in the main business activities and increasing customer satisfaction. In addition to upgrading the tasks chosen as a way to improve its income-generating operations, which it took on ahead of its peers, the company will enhance the competitiveness of its main businesses activities by maximizing superior overseas sales capabilities it has retained.

As for the five major growth strategies, KEB Hana Card has chosen tasks out of which it can produce tangible results in a short period of time by leveraging its strengths – competitive overseas operations, the Hana Members app, and a digital leadership that introduced the world's first NFC-based mobile card. Moreover, it will leverage its global and digital capabilities to develop new growth engines, and thus break away from a profit structure vulnerable to changes in industry regulation and business cycle fluctuations, and instead move toward stable, sustainable growth.



IB & ASSET MANAGEMENT

Amid a business environment beholden to global economic uncertainties, Hana Financial Group maintained its growth momentum and received global accolades for its excellence in IB.



37%

YoY increase of 14%p in the proportion of HFI's overseas incomes

* As of 2018 year-end



11.4 KRW trillion

YoY increase of 18% in the issuance of ELS/ELB and DLS/DLB in 2018



No. 1

Recognized as Korea's top derivatives house at the Asia Risk Awards 2018



Investment Banking

In investment banking (IB) sector, Hana Financial Group focused on strengthening 'One IB', an IB collaboration model between KEB Hana Bank and Hana Financial Investment, and increasing synergy among the Group affiliates. The Bank and HFI jointly managed a special underwriting limit and used KRW 320.0 billion of total KRW 1.2 trillion, while coordinating collective marketing among the Group affiliates in such large deals as the arrangement of financing for Kolmar Korea's acquisition of CJ HealthCare, together strengthened our ability to secure contracts. The Bank and HFI also cooperated in various real estate project financing (PF) deals.

HFI focused on expanding its IB operations overseas, and as a result, it improved the proportion of overseas incomes from 23% in 2017 to 37% in 2018. Overseas income also considerably grew by KRW 41.3 billion to KRW 62.9 billion.

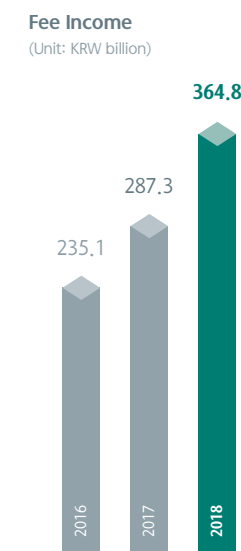
In addition to raising incomes, HFI diversified income sources by strengthening its ability to take on diverse SOC deals and expanding overseas alternative investment which involves diverse assets of various countries. HFI also led collaboration among the Group affiliates in large blue-chip deals, took part in the deals from the very beginning, and thus strengthened its ability to arrange big deals involving infrastructure projects of local governments and non-profit organizations.

For these and other achievements, HFI won the 'Korea Financial Investment Association Chairman Award' in the Alternative Investment Category at the '2018 Market Leader Awards' and chosen as 'Best Structured Finance Leader' at the 'Korea IB Awards'. It also received the Grand Prize in the IB category at the 'Asia Today Finance Awards' and 'Alternative Investment Award' for the second year in a row at the 'Korea IB Awards'.

Supersizing and globalization are two key words in IB business. Large caps are focusing their resources and efforts in order to be a comprehensive financial service provider, while small and mid-sized caps concentrate on strengthening their capital base through capital increase.

HFI secured capital of more than KRW 3 trillion through two paid-in capital increases in 2018, and thus satisfied the capital requirement for being a comprehensive financial service provider. It is also making a steady investment in overseas operations in the U.S., the UK, Spain and the Czech Republic. Aiming to become a mega-size investment bank, the company plans to achieve the goal of increasing its capital to KRW 4.0 trillion through organic growth by 2020, while expanding its organization by attracting new IB talent.

To this end, HFI will focus on strengthening its global IB capabilities and pushing forward private corporate investment banking (PCIB), while fulfilling its role as the investment arm of the Group. With regards to performing its roles as a professional financial investment company, HFI will systematize collaboration among the Group affiliates to solidify the One Company system comprising banking, life insurance, trust, capital and alternative investment management, and other segments of the Group's network. In improving its global IB capabilities, HFI will increase the proportion of overseas incomes to over 40%, strengthen its presence in the overseas alternative investment market, and secure an inventory of diverse overseas deals.



HFI will more efficiently manage its equity capital by investing in real estate, infrastructure, aircraft and other quality assets. In contributing to the expansion of the Group's income and customer base, HFI will facilitate PCIB by commercializing infrastructure, real asset and other quality IB deals, thereby increasing the public and private equity product line-up in the wealth management (WM) channel. It also aims to join the top players in the ECM/DCM league table by strengthening IB capabilities through joint marketing with KEB Hana Bank.

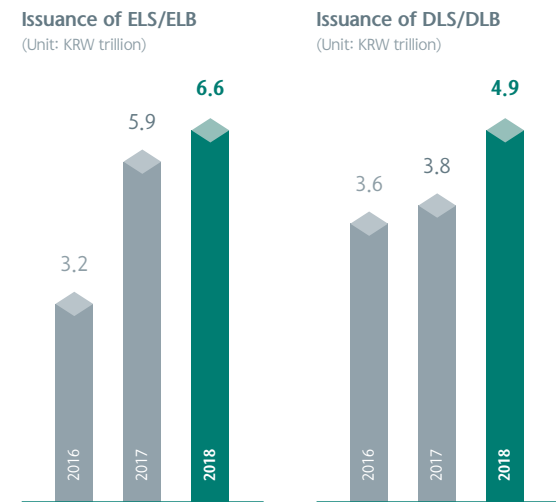
Brokerage

The securities market posted a strong performance in the first half of 2018, thanks to inter-Korean and North Korea-US summits, government policies to foster SMEs, and a booming semiconductor industry. However, in the second half of the year, the market became increasingly unstable as concerns grew over a possible slowdown in the global economy following the US interest rate hikes and an increasing trade protectionism around the globe. Due to sluggish external conditions and increasing uncertainties in the global economy, the Korea Composite Stock Price Index (KOSPI) and the Korean Securities Dealers Automated Quotations (KOSDAQ) dropped 17.3% and 15.4% YoY, respectively.

Despite the decline in leading indexes of the Korean securities market, trade volume substantially grew with an increasing participation of retail investors in the securities market due to the improving inter-Korean relations and anticipations for an increase in corporate earnings. Accordingly, equity sales rose 29.9% YoY to KRW 6,371.0 trillion, pulling up brokerage commission income by 25.6% to KRW 4.6 trillion.

Against this backdrop, HFI channeled its resources into improving ROI on customer assets and increasing profits. In particular, it strengthened the management of stocks recommended by its research center, increased secured and credit-based loans, and adopted the strategy of commission upselling through provision of specialized content, thereby contributing to the increase in brokerage income.

In 2019, the securities market is forecasted to grow at a limited rate as the global economy slows down and earnings of Korean companies decline. Amid these difficult market conditions, HFI plans to strengthen sales of overseas securities and derivatives by creating a global research organization and expanding its support system to strengthen profitability. In domestic securities sales, HFI will form an alliance with advisory firms with an excellent track record to improve its performance of growing customer assets. Moreover, HFI will expand marketing of secured and credit-based loans under thorough risk management in order to increase interest income and thus solidify the foundation for stable income generation.



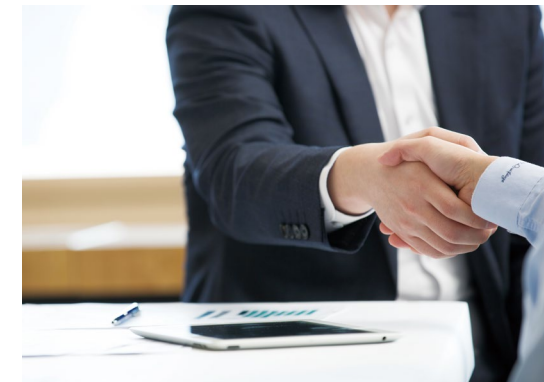
Sales & Trading

In sales sector, HFI increased its market share and profitability in 2018 by supplying various equity-linked securities (ELS) and equity-linked bonds (ELB) as well as derivatives-linked securities (DLS) and derivatives-linked bonds (DLB). The company issued ELS/ELB and DLS/DLB totaling KRW 11.4 trillion, recording a YoY rise of 18% or KRW 1.8 trillion. The ratio of ELS/ELB and DLS/DLB issued in 2018 to equity capital is 570%, the industry's highest. HFI steadily implemented market expansion strategies by launching hit products developed exclusively for the Bank channel, such as GBP constant maturity swap (CMS) interest rate-linked DLS, USD CMS spread-linked DLS, and new Quick Lizard Index-linked ELS, which resulted in a tangible outcome in earnings performance. In addition, HFI was honored with the '2018 Korea House Award of the Year' at the 'Asia Risk Awards 2018' and recognized as Korea's top derivatives house.

HFI generated a stable income in trading through active position and risk management in the face of steep fluctuations in securities markets across the globe, with growing volatility in the bond market, and increasing instability in the FX market. The company also improved trading gains, despite a reversal of Korea-US interest rates and interest rate hikes in the U.S. by expanding quality FX assets and diversifying investment destinations to increase the proportion of global investments.

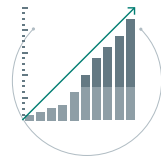
In 2018, early redemption substantially declined in volume compared with 2017, mostly in ELS, due to increasing volatility in the global securities market and bearish global indexes. Accordingly, the company plans to limit new issuance and instead focus on the management of unredeemed assets and values in the first half of 2019. New issuance is expected to increase in the second half of the year if unredeemed assets under management are steadily redeemed. The easing of regulations on qualifications for licensed investors is expected to lead to an increase in demand by licensed investors for private equity and non-principal-guaranteed products. In particular, demand for DLS/DLB is expected to increase as they can use diverse assets and income schemes as base assets unlike ELS/ELB which are vulnerable to stock market volatility.

HFI will therefore improve income by expanding its customer base to include a growing number of licensed investors as well as institutional and overseas investors by offering diverse investment solutions. Also planned for overseas business expansion is increase of derivatives sales to overseas institutional investors, such as those in Hong Kong and Taiwan. Moreover, the company will expand its business realm by collaborating with the overseas networks of the Group affiliates and increase overseas PI investments in the U.S., Europe and other advanced countries.



TRUST & PENSION

Hana Financial Group continues to grow in trust & pension and contribute to resolving social issues by developing products that meet market changes and customer needs.



20.0%↑

YoY increase of 20.0% to record KRW 221.5 billion in total trust income



10.3 KRW trillion

Successful attraction of government employee pension assets of KRW 6.3 trillion and fund of funds assets of KRW 4.0 trillion



0.5%p

YoY increase of 17.9% in cumulative retirement pension contributions, 0.5%p higher than industry average



Trust

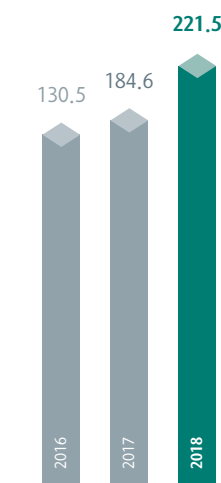
In 2018, KEB Hana Bank continued to grow in the trust sector through a timely launch of competitive products that satisfy customer needs and stable operation of assets under management (AUM).

The overall investor sentiment turned bearish, developing a strong preference for safe assets, due to a global index drop caused by interest rate hikes in the U.S., the US-China trade conflict, and a slowing Chinese economy. In line with these trends, the Bank launched Quick Plus-type ELT, and took part in the government project, National Responsibility for Dementia Care, by unveiling Care Trust which pays utility and other bills on behalf of customers with dementia and helps them with their asset management. In addition, the Bank launched products customized to individual and social needs, such as a trust exclusively developed to protect the property of the socially underprivileged and a funeral trust developed in response to the aging of the society, increasing one-person household and other demographic changes. As a result, the Bank recorded KRW 67.2 trillion (KRW 33.3 trillion in money trust and KRW 33.9 trillion in property trust) in trust sales and KRW 221.5 billion in total trust income in 2018.

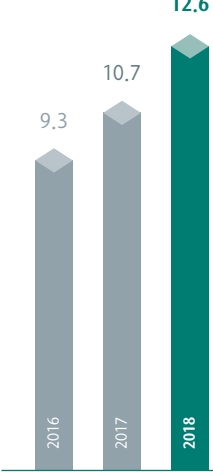
In managing funds on consignment, the Bank became the consignee bank for funds under the management of the Government Employees Pension Service, the fund of funds of the Korea Venture Investment Corp., and the consignee bank for its baby fund. The competition for being the consignee bank of the Government Employee Pension Service was particularly intense as it was the first consignment case to include funds under the direct management of the public pension in addition to entrusted assets as the subject of consignment. In the case of the Korea Venture Investment Corp., the Bank was the first bank in Korea to be chosen as the consignee bank for both the fund of funds and its baby fund. As a result of all these achievements, the Bank further solidified its stature as Korea's leading bank supporting productive finance.

In addition to becoming the consignee bank managing government employee pension assets of KRW 6.3 trillion and fund of funds assets of KRW 4.0 trillion, the Bank successfully attracted increasingly popular overseas investment funds and alternative investment funds. As a result, the Bank recorded KRW 137.0 trillion in AUM and KRW 53.8 billion in income.

Total Trust Income
(Unit: KRW billion)



Balance of Retirement Pension Contributions
(Unit: KRW trillion)



A high level of volatility is expected in the securities market in 2019 due to growing political uncertainties and slowing growth of the global economy. Accordingly, the Bank plans to focus on selling products strengthened in stability in the trust market. The Bank will also diversify income sources to include exchange-traded notes (ETN) of diverse structure and overseas assets in the investment portfolio. To better respond to the aging society and protect the socially underprivileged, the Bank will launch new trust products related to inheritance and securities succession, thereby expanding the customer base and, at the same time, contributing to society.

In managing assets on consignment, the Bank will work on expanding its global custody networks in 2019, while developing next-generation global custodian services with an eye toward major investment target countries of domestic institutional investors, such as Hong Kong and Brazil. In addition, it will develop new overseas networks to create non-interest income sources. The Bank is also working on improving IT systems and work processes to better respond to regulation changes and new products of its competitors. Moreover, it plans to focus on attracting alternative investment and overseas investment funds as investors' interest in those two funds is expected to grow with changes in the market and regulatory environments.

Retirement Pension

The retirement pension market grew 13.1% YoY in 2018 to KRW 190.0 trillion. The cumulative retirement pension contributions of KEB Hana Bank amounted to KRW 12.6 trillion, an increase of KRW 1.9 trillion or 17.9% from the previous year, 0.5%p higher than the industry average. In growth rate, the Bank topped other domestic commercial banks.

In 2019, the retirement pension market is expected to grow at a rate lower than in 2018, and is projected to be about KRW 209.0 trillion, a 10% increase over the previous year, for most large corporations have already adopted retirement pension plans. As the prolongation of the low interest rate environment and increasing market volatility highlight the importance of ROI management, defined contribution (DC) and individual retirement pension (IRP) are likely to maintain their appeal.

In line with these market changes, the Bank plans to run asset management centers for operating retirement pensions and managing pension customers' assets to improve convenience and rates of return on their assets. The Bank also adopted a 24/7 mobile service enabling customers to manage their DC, IRP assets using mobile devices anywhere and anytime. By engaging in such efforts, the Bank will stably increase the assets of pension customers and support their financially-secured retirement lives.

Breakdown of Retirement Pension Contribution

(Unit: KRW billion)

KEB Hana Bank	2016			2017			2018		
		Change (Amount)	Change (%)		Change (Amount)	Change (%)		Change (Amount)	Change (%)
Total Contributions ¹⁾	93,008	9,796	11.8	107,130	14,122	15.2	126,296	19,166	17.9
DB	60,402	4,455	7.9	67,468	7,066	11.7	73,688	6,220	9.2
DC	21,760	3,926	22.0	26,343	4,583	21.1	32,685	6,342	24.1
Personal IRP	10,412	1,377	15.2	12,870	2,458	23.6	19,471	6,601	51.3

¹⁾ Including corporate IRP



Digital-driven,
humanity-based innovation
for greater happiness
of customers



62
Sustainable
Management

66
Ethical
Management

CORPORATE SOCIAL RESPONSIBILITY

SUSTAINABLE MANAGEMENT

Hana Financial Group is committed to creating shared values, joint growth in partnership with all of our stakeholders, and pursuing green growth through eco-friendly management.



Global Initiatives

Participating in UNEP FI,
Supporting UN SDGs



100

Helping to open 100 childcare centers
across the nation by 2020



4 Years in a row

KEB Hana Bank won the Financial Supervisory
Service Governor's Award for one-company
one-school financial education program



Promoting Sustainability

Hana Financial Group firmly believes that sustainability is the key to competitiveness. We therefore always endeavor to put our mission of 'Growing Together, Sharing Happiness' into practice.

In addition, as a corporate citizen of the global community, we support the 10 principles of the UN Global Compact (UNGC), and understand the profound importance of addressing global challenges, such as climate change and water shortage. The United Nations has set out 17 Sustainable Development Goals (SDGs), and of these, we have chosen the fifth — Gender Equality — and the thirteenth — Climate Action — as our key goals. Accordingly, we have expanded the size and scope of our childcare support initiative, and become a signatory to the Principles of Responsible Banking (PRB) established by the United Nations Environment Program Finance Initiative (UNEP FI).

Hana Financial Group has won a number of awards at home and abroad for its sustainability management. In particular, we won the Grand Prize for Sustainability Report in the 2018 Global Standard Management Awards in recognition of our efforts to share the achievements and plans for sustainability management, in accordance with the GRI Sustainability Reporting Guidelines.

Creating a Digital Culture

Hana Financial Group's vision is to become a customer-centric, data-driven information company by 2020, and accordingly, the Group is vigorously pursuing digital transformation. Digital transformation can only be achieved when it is driven by people, so it is crucial to create a culture in which organization members together execute a digital transformation and unlock their potential. We have therefore defined Hana Digital Culture Code — five keywords that will enable our employees to think from a digital perspective and work within a digital culture. The Hana Digital Code of Culture defines the five core values of POWER — Passion, Openness, Customer first, Excellence and Respect.

SUPPORTING UN SDGS



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Supporting childcare



Take urgent action to combat climate change and its impacts

Participating in UNEP FI

For more information about UN SDGs

<http://www.un.org/sustainabledevelopment/sustainable-development-goals>

The first of the five codes is ‘customer-centricity’. The Group’s management slogan, ‘For the Pure Purpose of Customer Happiness’, embodies our commitment to putting customers’ interests at the center of our business. Even in a digital era, the fundamental values of the financial industry remain unwavering. Customer-centricity in a digital environment means creating excellent customer experiences through accurate data-based customer engagement. We will establish a long-term partnership with our customers by collecting and analyzing customer data to solve issues that they face. The second code is ‘challenge’. We will move forward boldly, unafraid to innovate and learn lessons from failures so that we can take on the next challenge. The third code is ‘collaboration’. There will be no boundaries to collaborate in an era of digital transformation. It will happen in and out of the Group without barriers, enabling collective intelligence to create new value. The fourth code is ‘execution’. In a digital environment, agile execution and continuous improvement will work much better than mid- to long-term decision-making and plans. We will make decisions rapidly, implement them quickly, and continuously incorporate the voices of customers and markets into what we do. The fifth one is ‘initiative’. In a fast-changing environment, a company can only succeed when all its employees have been delegated authority, share the values of the company, and are individually dedicated to their work. The Group will therefore not hesitate to delegate authority, giving our employees considerable responsibilities, making them fully committed to their work, and enabling them to drive the very best outcome.

These five digital culture codes represent the way that people at Hana Financial Group will think, act and work in the digital era. We will utilize various channels to share the codes throughout the Group, and we will also align them into our training, learning and systems, in a continuous endeavor to pursue our transition towards a truly digital culture.

Embracing Corporate Social Responsibility

SOCIAL CONTRIBUTIONS Hana Financial Group has six key themes for its socially responsible management — childcare support, preparing for Korean reunification, social finance, support for the disadvantaged, global social contribution and social responsibility. In 2018, we supported cultural and sports exchange programs to spread mood of unification, and expanded our support for the socially disadvantaged, including the physically-challenged and multi-cultural families, as part of our humanity-based social contribution projects for local communities. We have also rolled out a global social contribution program for people in need in Vietnam and Indonesia, in line with the government’s New Southern Policy.

The Group has actively supported projects to expand the childcare infrastructure in Korea, in order to address the issue of Korea’s low birth rate and the burdens faced by women who want to continue with their careers. We plan to open 100 national or public childcare centers in rural areas and at small companies with relatively poor childcare infrastructure. This will help women continue with their careers after giving birth, increase economic participation of women, and improve Korea’s birth rate. It will also ease childcare burdens on older people, allowing them more time for leisure and social activities, and also reducing the likelihood of family conflicts related to childcare. We hope that these activities will encourage more social contributions by corporates to address the issues of low birth rate and an aging population.

The Hana Power On Challenge program enables the Group to create high quality jobs and contribute to healthy social developments. One example of what the program can do is connecting young designers looking for a job with social enterprises or ventures in need of design skills, thus simultaneously addressing the issues of job creation and growth for social enterprises. The program is also creating an entrepreneurial ecosystem, ranging from entrepreneurship training to evaluation of business models. Also, organizations from various sectors help people with developmental disabilities find jobs through the Hana Power On Challenge program. This issue has not been addressed by existing welfare benefits, and so this program looks for innovative solutions based on each individual’s skills and abilities.



The Group also leverages its expertise to provide financial educations to the people who need it most. KEB Hana Bank offers financial educations nation-wide for elementary, middle, and high school students through a 1:1 branch matching program whereby the Bank retirees donate their time and knowledge. The Bank also hosts Open Days, offering students opportunities to get a taste of what it is like to work in banking business and to gain a better understanding of the business through their visit to its currency museum, counterfeit money center and dealing room, and attending a range of other events. For these and other activities, the Bank has won the Financial Supervisory Service Governor’s Award for one-company one-school financial education program for the past four consecutive years. The Bank also runs an employee volunteer group that offers financial educations to North Korean defectors and multi-cultural families.

Hana Card has run the Hana Multicultural Center Darin since 2017 that offers an on-site financial education to foreign workers. In 2018, following an agreement with Bogil Elementary School in Southern Jeolla Province, the center provided financial educations to elementary school students and their parents living on remote islands of the province.

ENVIRONMENTAL MANAGEMENT Hana Financial Group is committed to green management, including minimizing greenhouse gas emissions to better respond to climate change. The Group has introduced an environmental management system in order to manage its environmental impact and improve energy efficiencies. In August 2018, we received the ISO 14001:2015 certification, an international standard on environmental management systems, thus demonstrating our compliance with global environmental standards.

In addition, the Group is part of the core group developing the Principles of Responsible Banking as one of the 28 global financial institutions supporting the UNEP FI. Going forward, we will actively participate in plans aimed at responding to climate change, thereby contributing to achieving the Goal 13 of UN SDGs.

SOCIALLY RESPONSIBLE FINANCE KEB Hana Bank successfully issued USD 600 million worth of sustainability bonds — dual tranches with maturities of three and five years. The bond aims not only to secure optimum funding and diversify the Bank’s investor base to include investors of the environmental, social and governance (ESG) areas, but also to enable us to take a significant step towards sustainability including inclusive and responsible finance. As part of the Bank’s sustainability policy set out in November 2018, and which included a commitment to creating social value alongside economic value, the Bank plans to issue global sustainability bonds regularly in the future.



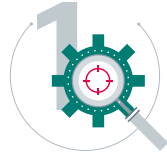
ETHICAL MANAGEMENT

Hana Financial Group puts integrity at the heart of everything we do because high ethical standards compose a core principle in the sustainable growth, and for society as a whole.



Integrity

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



Code One

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



Core 7

The seven core principles of action for execution of Code One and promotion of ethical management



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 the Group's subsidiaries based on employees' opinions.

After establishing 'sharing ethical management' as a key management task, the 'Core 7' plan was set up to put it into action. Core 7 comprises seven core principles that must be observed by all our employees, and reflects the experience and expertise accumulated over many years of ethical management. Core 7 consists of short and easy-to-remember sentences in simple imperatives, with clear purposes, and will be vital in helping our employees exercise the ethical responsibilities in their daily lives.

Ethical management is the 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 as part of our daily operations.

Respecting Human Rights

The Group adopted a 'Declaration of Human Rights' in December 2017, 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.

The Group adopted its own declaration of human rights in 2017, and since then, we have continued to share awareness of human rights through human rights awareness seminars for employees, identifying potential breaches of human rights within the Group, and putting measures into place to remediate human rights infringements at the Group affiliates. In 2019, we are determined that human rights will be central to the group management. We will therefore regularly review our internal activities to improve human rights management, and we will also provide our business partners with counseling on human rights and ethical management so that all of our stakeholders can be sure that their human rights are well protected. In addition, we are putting into place the systems required to acquire ISO 19600 (compliance management) and ISO 37001 (anti-bribery management) certificates, thus demonstrating our commitment to the highest levels of ethical management.





Protecting Financial Consumers

The Group focuses on raising the overall consumer protection level. We therefore convene consumer protection meetings, share consumer protection-related outstanding cases of subsidiaries and discuss matters that need to be shared and cooperated at the Group level.

Seven Group affiliates, including KEB Hana Bank, HFI and Hana Card, run committees charged with eliminating customer inconveniences and improving customer service. At KEB Hana Bank, 2,270 claims of inconvenience and other complaints were submitted, of which 742 were selected for correction and improvement. All Group affiliates have established consumer protection systems through which the voices of customers (VOC) can be heard, while complaints submitted. Data on consumer protection is analyzed, and plans put into place to help consumer protection in the future. In addition, there are other consumer protection portals through which customers can submit their complaints and check on progress. All Group affiliates have also put monthly financial health check-ups in place with the goal of preventing mis-selling and assessing consumer protection, as part of our continued focus on protecting customer rights.

The Bank is committed to helping socially marginalized customers. For example, terms and conditions are published in braille for visually challenged customers. It has set up a new mobile VOC channel, and 27 branches can offer a sign language interpreter service. There is a new online menu offering terms and conditions that can be available in larger fonts, and another new online menu has been specifically designed for customers with disabilities. In addition, as a leader in the prevention of financial fraud, the Bank has established a rapid communications channel between branch employees and the financial fraud prevention team, in order to prevent fraud quickly and effectively. There are also pop-up notices to check against fraud when withdrawal requests are made via branches. In 2018, we successfully prevented withdrawal attempts totaling KRW 15.4 billion by users of fake bank-books. These efforts have earned the Bank a recognition from the Financial Supervisory Service (FSS), and we won an award for excellence in the prevention of financial frauds.

For its efforts of protecting financial consumers, the Bank has received 'Good' grades across all criteria in the FSS' Evaluation of Financial Consumer Protection for the past two consecutive years. It has also earned a certification for Consumer-Centric Management from the Fair Trade Commission. In addition, the Bank won the FSS Governor's Grand Prize at the 7th Financial Consumer Protection Awards, and for the fifth consecutive year, ranked No. 1 in the banking industry category of the Korea Sales Service Satisfaction Index (KSSI) run by the Korea Management Association. The Bank also ranked No. 1 in the banking industry category of the Korean Standard Service Quality Index (KSQI) for the third consecutive year.

AWARDS FOR CUSTOMER SATISFACTION AND FINANCIAL CONSUMER PROTECTION IN 2018



Hana Members, Grand Prize for the Most Loved Brand in Korea (Chosun Business Magazine, 2 times)



Award for excellence in the prevention of losses from financial fraud (Financial Supervisory Service)



Grand Prize from the Governor of the Financial Supervisory Service at the 7th Financial Consumer Protection Awards



No. 1 in the banking industry in the KSSI (Korea Management Association, 5 times)



No. 1 in the banking industry in the KSQI (Korea Management Association Consulting, 3 times)

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Management’s Discussion and Analysis

Hana Financial Group

I. OVERVIEW

The Korean economy in 2018 was marked by various changes brought on by new government policies, including minimum wage increase, adoption of a 52-hour-a-week work system, and stringent real estate regulation. Meanwhile, despite anticipations of a boom in the IT sector driven by the Fourth Industrial Revolution, the negative growth of the construction investment sector led to lower economic growth compared with the previous year. In the financial market, KRW-USD exchange rates fluctuated within a limited range as the US monetary policy slowed its pace of interest rate hike after the initial hike at the beginning of the year, and anticipations grew for the stabilization of market interest rates as the Bank of Korea kept its base rates mostly unchanged. However, external uncertainties remained as the US-China trade conflicts continued unresolved.

Under the mission, ‘Growing Together, Sharing Happiness’, Hana Financial Group strengthened its role in productive finance and inclusive finance and while increasing its support for social enterprises, in order to contribute to building a virtuous cycle of the national economy improving through creation of socio-economic values. We held a ‘2018 Social Value Festival’ at the Group level to provide an arena where social entrepreneurs can share their success in resolving social issues and cases of realizing social value. KEB Hana Bank signed a memorandum of understanding (MOU) with the Korea Housing Finance Corporation and Korea Social Enterprise Promotion Agency for social and inclusive housing finance support. In addition, Hana Financial Group invested in private equity funds dedicated to social enterprises and Social Impact Bond issued by Gyeonggi Province through KEB Hana Bank as part of its effort to facilitate the social economy.

The Group increased its net interest margin (NIM) to 1.99%, a YoY rise of 0.07%p, by improving loan/deposit pricing and increasing low-cost funds. Its consolidated net income grew KRW 196.5 billion YoY to KRW 2,233.3 billion thanks to strong core earnings, efficient cost controls, and thorough risk management, thus improving profitability indicators, such as return on equity (ROE) and return on assets (ROA). Cost to income ratio (C/I ratio) also fell by 0.93%p from the previous year to 52.22%.

The Group’s total assets grew around 6.92% in 2018, which was led mostly by SME and household loans. Total sales went up around 7.01% as deposits and beneficiary certificate sales increased 7.08% and 6.59%, YoY, respectively.

The Group’s asset quality also improved. At the end of 2018, non-performing loan (NPL) ratio stood at 0.59%, 0.19%p lower than the previous year, while NPL coverage ratio was 107.0%, 19.64%p higher than 2017. Delinquency ratio decreased to 0.37%, all indicating the Group’s sound asset quality.

The Group’s BIS capital adequacy ratio and Tier 1 ratio recorded 14.93% and 13.52%, respectively, at the end of 2018, both above the regulatory guidelines set by industry supervisory authorities.

Going forward, Hana Financial Group will focus on building a balanced business portfolio based on preemptive and proactive risk management, enhancing synergy through collaboration, and creating future value using digital technology. By doing so, Hana Financial Group will contribute to inclusive growth, while improving its earnings performance and enhancing shareholder value.

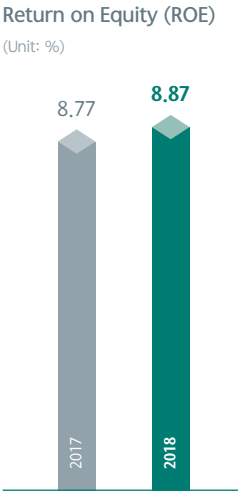
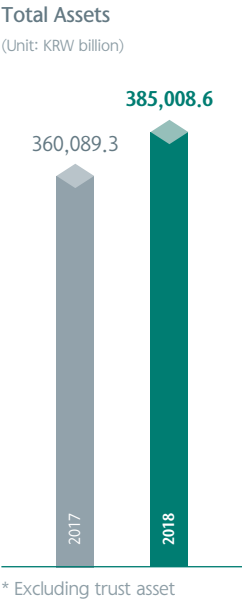


Table 1. Summarized Financial Information

	(Unit: KRW billion)			
	2018	2017	YoY	%
Profitability				
General Operating Income	7,558.4	7,599.8	-41.4	-0.5%
Operating Income	3,152.2	2,718.1	434.0	16.0%
Consolidated Net Income	2,233.3	2,036.8	196.5	9.6%
Return on Assets (ROA)	0.61%	0.60%	0.01%p	-
Return on Equity (ROE)	8.87%	8.77%	0.09%p	-
Earnings per Share (KRW)	7,360	6,817	543	8.0%
Cost to Income Ratio	52.22%	53.15%	-0.93%p	-
Business Volume				
Total Assets ¹⁾	385,008.6	360,089.3	24,919.3	6.9%
Total Sales	291,163.5	272,091.6	19,071.9	7.0%
Total Deposits ¹⁾	249,060.2	232,591.8	16,468.4	7.1%
Sale of Beneficiary Certificates	42,103.3	39,499.8	2,603.4	6.6%
Asset Soundness				
Substandard & Below (NPL) Ratio	0.59%	0.78%	-0.19%p	-
Substandard & Below (NPL) Coverage Ratio ²⁾	107.00%	87.36%	19.64%p	-
Delinquency Ratio	0.37%	0.39%	-0.02%p	-
BPS	84,761	79,154	5,607	7.1%
Capital Adequacy ³⁾				
BIS Capital Adequacy Ratio - Group	14.93%	14.97%	-0.03%p	-
Tier 1 Ratio - Group	13.52%	13.29%	0.23%p	-
Common Equity Tier 1 Ratio - Group	12.86%	12.74%	0.11%p	-
BIS Capital Adequacy Ratio - KEB Hana Bank	16.25%	15.98%	0.27%p	-
Tier 1 Ratio - KEB Hana Bank	13.90%	13.56%	0.33%p	-
Common Equity Tier 1 Ratio - KEB Hana Bank	13.79%	13.45%	0.34%p	-
Net Capital Ratio - Hana Financial Investment	1,176.06%	791.70%	384.36%p	-
Adjusted Equity Capital Ratio - KEB Hana Card	20.58%	20.59%	-0.02%p	-
Solvency Margin Ratio - Hana Life	197.31%	178.32%	19.00%p	-
Adjusted Equity Capital Ratio - Hana Capital	12.77%	12.66%	0.11%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

The consolidated net income of Hana Financial Group in 2018 amounted to KRW 2,233.3 billion, up KRW 196.5 billion over the previous year. This is attributable to a rise across the interest and fee incomes and a reduction in loan loss provision.

Table 2-1. Comprehensive Income Statement (Consolidated)

(Unit: KRW billion)				
	2018	2017	YoY	%
General Operating Income	7,558.4	7,599.8	-41.4	-0.5%
Net Interest Income	5,637.2	5,091.0	546.2	10.7%
Net Fee and Commissions Income	2,224.1	2,026.0	198.1	9.8%
Gains on Disposition & Valuation	377.8	1,017.9	-640.1	-62.9%
Other Operating Income	-680.7	-535.1	-145.7	-
General & Administrative Expenses	3,946.9	4,039.1	-92.2	-2.3%
Pre-Provisioning Operating Profit (PPOP)	3,611.5	3,560.7	50.8	1.4%
Provision	459.3	842.6	-383.3	-45.5%
Operating Income	3,152.2	2,718.1	434.0	16.0%
Non-Operating Income	-2.4	80.5	-83.0	-
Net Income before Income Tax	3,149.7	2,798.7	351.1	12.5%
Income Tax Expense	874.6	682.0	192.5	28.2%
Net Income	2,275.2	2,116.6	158.5	7.5%
Attributed to Non-Controlling Interests	41.8	79.8	-38.0	-47.6%
Net Income Attributable to Controlling Interests	2,233.3	2,036.8	196.5	9.6%

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



General operating income fell by KRW 41.4 billion to KRW 7,558.4 billion. The decrease is mainly attributable to a drop in gains on disposition and valuation resulted by fluctuation-related foreign exchange translation losses, despite the increase in interest income and fee income – KEB Hana Bank and other major subsidiaries achieved margin improvements and balanced asset growth in 2018 which led to the growth in interest income, and made performance improvements in such key fee income sources as asset management, IB-related underwriting and advisory.

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 over the previous year due to a reduction in gains from sales of loans and an increase in deposit insurance fees.

The Group's general and administrative expenses fell to KRW 3,946.9 billion, attributable to Group-wide cost reduction efforts, despite a rise in expenses related to KEB Hana Bank's HR integration.

Provision amounted to KRW 459.3 billion, a YoY decrease of KRW 383.3 billion. Loan loss provision fell by KRW 371.1 billion to KRW 451.4 billion, as a result of the base effect of KEB Hana Bank's large provisioning in the previous year and of various write-backs made in 2018, while unused and other provisions decreased, an outcome of sound risk management and write-back of lawsuit-related provision.

As a result, the Group's operating income rose KRW 434.0 billion YoY to KRW 3,152.2 billion.

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

(Unit: KRW billion)												
	KEB Hana Bank	Hana Financial Investment	Hana Card ¹⁾	Hana Capital	Hana Asset Trust	Hana Alternative Asset Management	Hana Life	Hana Savings	Hana TI	Overseas Affiliates	China	Indonesia
General Operating Income	5,599.0	607.9	658.4	264.3	91.3	25.9	59.0	45.9	7.2	410.6	184.8	129.5
Net Interest Income	4,889.0	218.1	-120.6	239.6	8.1	0.3	83.4	44.8	-7.9	351.1	155.3	119.4
Net Fee and Commission Income	812.5	372.2	728.3	48.4	82.2	24.6	109.4	1.6	0.0	40.4	15.6	8.7
Gains on Disposition & Valuation	383.1	-38.8	39.1	0.9	0.5	0.2	8.4	0.0	0.1	26.1	15.7	5.2
Other Operating Income	-485.5	56.2	11.6	-24.5	0.6	0.9	-142.2	-0.5	15.0	-7.0	-1.8	-3.9
General & Administrative Expenses	2,807.1	375.9	287.5	56.8	28.1	13.9	34.0	24.5	6.1	214.4	92.3	58.3
Pre-Provisioning Operating Profit (PPOP)	2,791.9	231.8	370.9	207.5	63.2	12.0	25.0	21.4	1.2	196.1	92.4	71.2
Provision	100.1	5.7	234.5	65.9	5.5	0.0	-0.6	0.3	0.0	28.3	19.7	12.3
Operating Income	2,691.8	226.1	136.4	141.7	57.7	12.0	25.6	21.2	1.2	167.8	72.8	58.9
Non-Operating Income	-23.4	5.0	4.3	1.4	1.5	0.2	1.4	0.0	-0.3	-0.7	-0.3	0.1
Net Income before Income Tax	2,668.4	231.1	140.7	143.1	59.2	12.2	27.0	21.2	0.9	167.1	72.5	59.0
Income Tax Expense	724.0	56.8	34.0	22.6	15.1	3.2	6.6	5.0	0.4	45.9	18.1	15.3
Net Income	1,944.4	174.3	106.7	120.4	44.2	8.9	20.4	16.2	0.5	121.2	54.4	43.8

Note 1) Consolidated

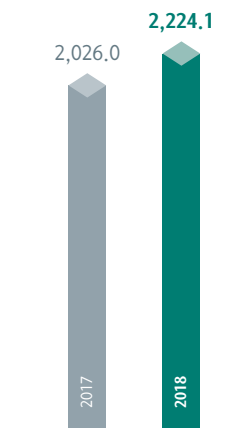
To review income performance by subsidiary, KEB Hana Bank recorded a net income of KRW 1,944.4 billion, KRW 10.3 billion less than the previous year. Interest income rose as interest margins improved and interest-earning assets grew. Fee income increased across the board as well, including asset management fee which went up as a result of robust beneficiary certificate and equity-linked trust (ELT) sales. In contrast, gains on disposition and valuation substantially fell YoY, attributable to foreign exchange translation losses due to rising exchange rates and to the base effect of the gains on marketable securities in 2017, which led to the decrease in general operating income YoY.

The Bank's general and administrative expenses decreased KRW 78.2 billion to KRW 2,807.1 billion, owing to the corporate-wide cost-cutting efforts. Provision fell KRW 426.7 billion to KRW 100.1 billion, as a result of the base effect of a large provision made in 2017 as well as write-backs made possible by thorough risk management in 2018. Ultimately, the sum of a reduction in each of general and administrative expenses, provisions and other expenses exceeded the decrease in general operating income, resulting in an operating income higher than 2017. However, due to such factors as a higher corporate income tax rate, net income went down slightly.

Hana Financial Investment (HFI) generated KRW 174.3 billion in net income, a YoY rise of about 42%. M&A advisory fee and commission income grew substantially, thanks to a capital increase, which boosted the IB sales capacity, while brokerage fee income increased as well on the back of higher trading volume of the securities market. As a result of these improvements in fee income, general operating income grew YoY, and C/I ratio decreased further despite a rise in general and administrative expenses.

KEB Hana Card posted a net income of KRW 106.7 billion, a YoY growth of KRW 300 million. The increase was attributable to increased credit card fees, reduced interest expenses made through refinancing of debentures, and successful cost-cutting efforts, in spite of merchant fee reduction and other unfavorable changes in the regulatory environment. Total revenue reached KRW 65.6 trillion, up KRW 3.1 trillion over the previous year. Active users of KEB Hana cards grew around 380 thousand to 4.38 million, setting in motion a virtuous circle of more membership leading to more income, and then leading to better services.

Net Fee & Commission Income
(Unit: KRW billion)



Hana Capital improved its auto finance-centered asset portfolio by expanding consumer finance business. In addition, the company generated more general operating income, including interest income, while also reducing provision through proactive risk management. As a result, Hana Capital's net income increased KRW 30.0 billion to KRW 120.4 billion.

Hana Life maintained an adequate risk-based capital (RBC) ratio through a capital increase. The company increased its interest and dividend incomes by rebalancing the investment portfolio and expanding loan and alternative investment assets. As a result, Hana Life recorded KRW 20.4 billion in net income, KRW 6.0 billion higher than 2017.

Hana Savings Bank's net income amounted to KRW 16.2 billion, a YoY decrease of KRW 1.4 billion. The decrease was attributable to the base effect of bad debts recovered and recorded as income in the previous year, despite a rise in interest income led by increased assets and improved NIMs.

Hana Asset Trust's trust fee rose around 49% YoY, mainly due to a growth in land management trust, which raised net income by KRW 12.2 billion to KRW 44.2 billion.

Table 3. Non-Interest Income (Consolidated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
Net Fee & Commission Income	2,224.1	2,026.0	198.1	9.8%
Credit Card	830.1	806.3	23.8	3.0%
Loan and FX-related	473.8	452.9	20.9	4.6%
Asset Management	663.9	593.2	70.7	11.9%
Beneficiary Certificates	149.7	135.4	14.3	10.5%
Brokerage	144.4	125.9	18.6	14.8%
Trust Fees	288.6	230.9	57.7	25.0%
Bancassurance	33.2	41.6	-8.4	-20.2%
M&A Advisory	141.7	77.4	64.3	83.1%
Others	114.5	96.2	18.3	19.0%
Gains on Disposition & Valuation	377.8	1,017.9	-640.1	-62.9%
Other Operating Income	-680.7	-535.1	-145.7	-
Dividend Income	119.8	95.2	24.6	25.9%
Contribution to the Credit Guaranteed Fund	-262.7	-265.4	2.7	-
Deposit Insurance Fee	-341.0	-318.7	-22.3	-
Others	-196.8	-46.1	-150.7	-
Total	1,921.2	2,508.8	-587.7	-23.4%

Hana Financial Group's non-interest income fell around 23.4% YoY to KRW 1,921.2 billion. Fee and commission income rose, while gains on disposition and valuation and other operating income went down.

To compare the non-interest income performance in 2018 by sector with 2017's, in the area of fee and commission income, M&A advisory fee and commission income went up considerably, while credit card, loan and FX-related, and asset management fee incomes also increased. Despite merchant fee reduction and other new regulations, credit card fee income rose, attributable to a higher transaction volume reflecting an increased card membership. Securities brokerage fee and trust fee incomes grew as well, thanks to the increase of securities transactions and ELT product sales. Also, M&A advisory fee income went up, as a result of improvements in the IB sales capability following HFI's capital increase.

The Group's gains on disposition and valuation amounted to KRW 377.8 billion, down KRW 640.1 billion. Marketable securities-related income decreased around KRW 310 billion owing mainly to the base effect of gains made on the disposition of shareholdings in SK Hynix and Hyundai Cement and other companies in the previous year. FX/derivatives-related income also went down by around KRW 334.0 billion, mainly attributable to a FX translation loss from KRW depreciation.

Other operating income 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 rose KRW 24.6 billion to KRW 119.8 billion, while contributions to the Credit Guarantee Fund and deposit insurance fee remained unchanged at KRW 262.7 billion and KRW 341.0 billion, respectively.

Table 4. General and Administrative Expenses (Consolidated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
General & Administrative Expenses	3,946.9	4,039.1	-92.2	-2.3%
Salaries and Employment Benefits	1,915.7	2,020.3	-104.6	-5.2%
Severance and Retirement Benefits	347.0	295.3	51.6	17.5%
Administrative Expenses	1,106.8	1,149.9	-43.1	-3.7%
Depreciation and Amortization	448.3	450.3	-1.9	-0.4%
Taxes and Dues	129.0	123.2	5.8	4.7%
Cost to Income Ratio	52.22%	53.15%	-0.93%p	-

The Group's general and administrative expenses decreased 2.3% YoY to KRW 3,946.9 billion despite a rise in severance and retirement benefits related to an early retirement program (ERP) offered in 2018. The decrease can be attributed largely to a control on salaries and employment benefits which had increased substantially in the previous year, and the group-wide efforts to reduce administrative expenses.

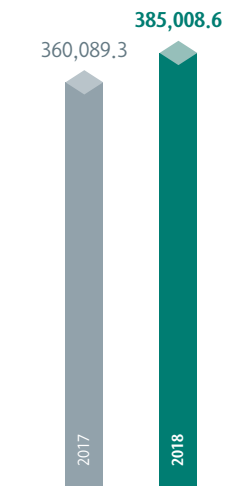
To review the items in detail, salaries and employee benefits went down KRW 104.6 billion to KRW 1,915.7 billion. Severance and retirement benefits rose KRW 51.6 billion to KRW 347.0 billion, due to the ERP and the Bank's HR integration. Administrative expenses dropped 3.7% to KRW 1,106.8 billion, as a result of cost efficiencies improved by cost control measures implemented throughout the year. The year-end C/I ratio of 52.22% represents a YoY decline of 0.93%p, a testament to group-wide cost-cutting endeavors.

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

Cost to Income Ratio
(Unit: %)



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



III. SUMMARIZED GROUP FINANCIAL POSITION

Table 5. Condensed Balance Sheets (Consolidated)

(Unit: KRW billion)				
	2018	2017	YoY	%
Interest Earning Assets	338,800.1	311,199.5	27,600.6	8.9%
Due from Banks	11,877.2	8,794.9	3,082.2	35.0%
Securities	65,739.3	63,461.4	2,277.9	3.6%
Loans	261,183.6	238,943.2	22,240.4	9.3%
Other Revenue Earning Assets	8,101.9	8,095.3	6.6	0.1%
Non-Revenue Earning Assets	38,106.6	40,794.6	-2,688.0	-6.6%
Total Assets	385,008.6	360,089.3	24,919.3	6.9%
Interest Bearing Liabilities	330,149.0	304,110.7	26,038.3	8.6%
Deposits	249,060.2	232,591.8	16,468.4	7.1%
Borrowings	19,394.9	18,791.9	603.0	3.2%
Debentures	41,018.0	36,444.5	4,573.6	12.5%
Policy Reserve	3,432.8	3,198.5	234.4	7.3%
Borrowings from Trust Accounts	5,984.6	4,690.4	1,294.2	27.6%
Non-Interest Bearing Liabilities	27,751.1	31,148.3	-3,397.1	-10.9%
Total Liabilities	357,900.2	335,258.9	22,641.2	6.8%
Shareholders' Equity	27,108.5	24,827.9	2,280.5	9.2%
Total Liabilities & Shareholders' Equity	385,008.6	360,089.3	24,919.3	6.9%

In 2018, Hana Financial Group generated assets of KRW 385,008.6 billion, surpassing the prior-year figure by 7.0%, 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 0.19%p YoY to 0.59%, while delinquency ratio dropped 0.02%p to 0.37%, and other asset quality indicators also remained at satisfactory levels.

To review asset growth by area, loans, which accounts for the highest share of interest-earning assets, rose 9.3% YoY to KRW 261,183.6 billion. KRW loans went up by 7.9% to KRW 209,582.7 billion, mainly in SOHO and household loans. Foreign-currency loans stood at KRW 20,461.0 billion, 2.9% below the 2017 figure.

Total liabilities rose 6.8% to KRW 357,900.2 billion. Deposits totaled KRW 249,060.2 billion, a 7.1% increase from the previous year, while borrowings increased 3.2% YoY to stand at KRW 19,394.9 billion. In particular, the Bank's deposits grew 7.6% to KRW 235,484.9 billion, of which core deposits rose 6.0% to KRW 52,619.6 billion. The growth of core deposits is expected to contribute to funding cost reduction and NIM improvement.

Shareholders' equity stood at KRW 27,108.5 billion, up 9.2% over 2017, as a result of retained earnings increased by the strong consolidated net income performance and the issuance of hybrid securities.

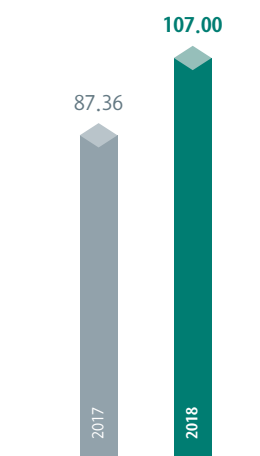
IV. ASSET QUALITY

Table 6. Asset Quality and Loan Loss Provision

(Unit: KRW billion)				
	2018	2017	YoY	%
Total Credit	263,892.5	245,893.2	17,999.3	7.3%
Normal	259,790.3	241,467.9	18,322.4	7.6%
Precautionary	2,545.0	2,512.3	32.7	1.3%
Substandard	765.3	881.9	-116.6	-13.2%
Doubtful	476.6	714.2	-237.6	-33.3%
Estimated Loss	315.3	316.8	-1.6	-0.5%
Precautionary & Below				
Amount	4,102.1	4,425.2	-323.1	-7.3%
Ratio	1.55%	1.80%	-0.25%p	-
Substandard & Below (NPL)				
Amount	1,557.1	1,912.9	-355.8	-18.6%
Ratio	0.59%	0.78%	-0.19%p	-
Loan Loss Allowance	3,587.7	3,473.8	113.9	3.3%
Loan Loss Reserve	1,666.1	1,671.1	-5.0	-0.3%
Credit Loss Reserve	1,921.6	1,802.7	118.9	6.6%
Substandard & Below (NPL) Coverage Ratio¹⁾	107.00%	87.36%	19.64%p	-

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

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



Total credit increased 7.3% YoY to record KRW 263,892.5 billion at the end of 2018, of which NPLs totaled KRW 1,557.1 billion. Precautionary and below loan ratio decreased to 1.55% while NPL ratio also went down to 0.59%, reflecting the improvements made in asset quality. Despite the increase in assets, NPL coverage ratio reached 107.00%, 19.64%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, continued to improve its loan portfolio in 2018, thus recording an increase of KRW 7.4 trillion, KRW 6.6 trillion and KRW 3.5 trillion, respectively, in household, SME and SOHO loans (based on total credits). Accordingly, the Bank reduced the proportion of large corporate loans by 1.1%p YoY from 18.4% to 17.3% at the end of 2018.

KEB Hana Bank annually reviews its credit exposure to large borrowers to keep its watchlist up to date, 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, the Bank is stepping up monitoring for early signs of a major risk factor, a credit rating change, or a restructuring problem.

The Group also regularly updates its list of industries at risk and closely monitors them. In particular, to those recently deemed to have high risk, such as shipbuilding, construction, steel and shipping industries, the Group continually monitors and adjusts its exposure. In order to preemptively manage risks associated with corporate clients with large outstanding loans, the Group's sales, credit evaluation and risk divisions maintain close and in-depth cooperation with one another to thoroughly ascertain and analyze their business and risk status.

V. CAPITAL ADEQUACY

Table 7. BIS Capital and Ratio

	2018	2017	YoY	%
Common Equity Tier 1 Capital	23,743.4	21,707.9	2,035.5	9.4%
Additional Tier 1 Capital	1,227.4	936.4	290.9	31.1%
Tier 2 Capital	2,606.8	2,847.6	-240.8	-8.5%
Total BIS Capital	27,577.6	25,491.9	2,085.6	8.2%
Risk Weighted Assets	184,661.2	170,331.7	14,329.6	8.4%
BIS Capital Adequacy Ratio¹⁾	14.93%	14.97%	-0.03%p	-
Tier 1 Ratio	13.52%	13.29%	0.23%p	-
Common Equity Tier 1 Ratio	12.86%	12.74%	0.11%p	-

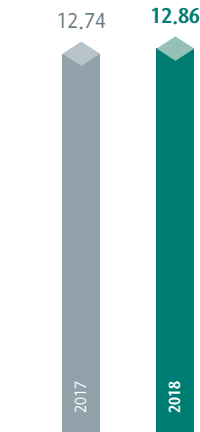
Note 1) Based on Basel III standards

The Group's total BIS capital stood at KRW 27,577.6 billion at the end of 2018, an 8.2% or KRW 2,085.6 billion increase from the previous year. Risk-weighted assets (RWAs) went up KRW 14,329.6 billion or 8.4% to KRW 184,661.2 billion. As a result, BIS capital adequacy ratio fell 0.03%p to 14.93%.

Additional Tier 1 capital decreased KRW 290.9 billion, and Tier 2 capital declined KRW 240.8 billion, YoY. The decrease of Tier 2 capital can be attributed to the reduction of the Group's holdings of subordinate bonds that had been issued prior to the Basel III application and thus recognized as Tier 2 capital.

The Group's RWAs rose KRW 14,329.6 billion to KRW 184,661.2 billion, of which credit RWAs, market RWAs, and operational RWAs went up by KRW 13,138.3 billion, KRW 162.5 billion, and KRW 1,028.8 billion, respectively. As for credit RWAs, corporate RWAs increased KRW 4,524.6 billion as corporate exposure rose KRW 7,060.1 billion, while retail RWAs went up KRW 2,978.8 billion, as retail exposure rose KRW 14,026.8 billion; in addition, overseas, securities and other exposures increased, all contributing to increase credit RWAs in 2018.

Common Equity Tier 1 Ratio
(Unit: %)



KEB Hana Bank

I. OVERVIEW

In 2018, the Korean financial industry was faced with many difficulties and changes amid global trade conflicts, slowing economies at home and abroad, and onrushing waves of the Fourth Industrial Revolution. Notwithstanding, KEB Hana Bank continued its outstanding earnings performance, posting KRW 1,944.4 billion in net income, by linking its face-to-face and non-face-to-face channels leveraging the latest ICT technology, connecting banking services with people's daily lives, and generating on-site collaboration synergies.

The Bank will continue to ready itself for market and economic uncertainties by engaging in preemptive risk management, as the old adage, 'Taking the initiative to control others', teaches us. In addition, the Bank aims to enhance customer value and grow into a bank where customers are happy by valuing customer opinions and embracing customer happiness as its foremost value.

II. SUMMARY OF BUSINESS PERFORMANCE

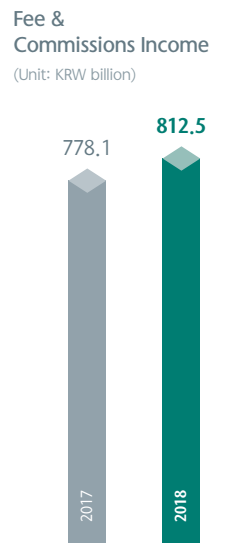
Table 1. Comprehensive Income Statement (Separated)

	2018	2017	YoY	%
General Operating Income	5,599.0	5,952.1	-353.1	-5.9%
Net Interest Income	4,889.0	4,457.5	431.5	9.7%
Net Fee and Commission Income	812.5	778.1	34.4	4.4%
Gains on Disposition & Valuation	383.1	1,117.8	-734.7	-65.7%
Other Operating Income	-485.5	-401.2	-84.3	-
General & Administrative Expenses	2,807.1	2,885.3	-78.2	-2.7%
Pre-Provisioning Operating Profit (PPOP)	2,791.9	3,066.8	-274.9	-9.0%
Credit Loss Provision	100.1	526.8	-426.7	-81.0%
Operating Income	2,691.8	2,540.0	151.8	6.0%
Non-Operating Income	-23.4	-8.2	-15.2	-
Net Income before Income Tax	2,668.4	2,531.8	136.6	5.4%
Income Tax Expense	724.0	577.1	146.9	25.5%
Net Income	1,944.4	1,954.7	-10.3	-0.5%
Cost to Income Ratio	50.14%	48.48%	1.66%p	-

Net Income before Income Tax
(Unit: KRW billion)



KEB Hana Bank recorded a YoY rise of KRW 431.5 billion and 34.4 billion in net interest income and fee income, respectively, the two most important income sources in banking business. General operating income, however, fell KRW 353.1 billion to KRW 5,599.0 billion, as a result of the base effect of the one-off KRW 379.3 billion gain made on the sale of marketable securities in 2017 as well as of a foreign exchange translation loss resulted by weakened KRW in 2018. Nevertheless, the Bank recorded a net income of KRW 1,944.4 billion, maintaining its robust profitability for the second year in a row, mainly attributable to a YoY reduction of KRW 78.2 billion in general and administrative expenses and KRW 426.7 billion in credit loss provision.



Interest income grew 9.7% YoY to KRW 4,889.0 billion. NIM went up 7bps following base rate hikes in the U.S. and Korea, and an increase in market interest rates. Interest-earning assets rose KRW 15.8 trillion, while interest income grew KRW 431.5 billion compared with the previous year.

Fee and commission income rose by KRW 34.4 billion or 4.4% YoY to KRW 812.5 billion. Backed by a bullish stock market at home and overseas, asset management fee on funds and trusts went up KRW 37.0 billion YoY. Retirement pension management fee and housing funding arrangement fee also increased KRW 3.3 billion and KRW 1.8 billion, respectively, as the Bank focused on the pension and housing subscription markets as a way to expand its long-term customer base.

Gains on disposition and valuation amounted to KRW 383.1 billion, representing a KRW 734.7 billion or 65.7% decrease from 2017. This is mainly attributable to an increase in FX translation loss and the base effect of the one-off gain from the sale of marketable securities in 2017.

General and administrative expenses decreased 2.7% to KRW 2,807.1 billion, as a result of the base effect of the ERP offered in the previous year as well as the effective execution of cost-cutting measures in 2018.

Credit loss provision decreased KRW 426.7 billion YoY to KRW 100.1 billion, reflecting the base effect of the one-off loan loss provisioning in 2017 and the write-backs of loan loss provisions made to improve asset quality in 2018.

Table 2. Non-Interest Income (Separated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
Fee & Commissions Income	812.5	778.1	34.4	4.4%
Credit Card	0.3	0.2	0.0	19.6%
Loan & FX-related	444.9	447.6	-2.7	-0.6%
Fees in Acceptances and Guarantees	59.6	60.8	-1.3	-2.1%
Fees Related to Loans	229.2	231.2	-2.0	-0.8%
Fees in Foreign Currencies	156.2	155.6	0.6	0.4%
Asset Management	367.3	330.3	37.0	11.2%
Sales of Beneficiary Certificate	112.0	101.7	10.3	10.1%
Bancassurance	47.7	54.1	-6.5	-12.0%
Trust Fees	207.6	174.4	33.2	19.0%
Gains on Disposition & Valuation	383.1	1,117.8	-734.7	-65.7%
Other Operating Income	-485.5	-401.2	-84.3	-
Dividend Income	48.0	61.8	-13.8	-22.4%
Deposit Insurance Fee	-324.1	-303.1	-21.1	-
Contribution to the Credit Guarantee Fund	-262.5	-265.3	2.8	-
Others	53.1	105.3	-52.2	-49.6%

The Bank recorded KRW 812.5 billion in fee and commissions income, a YoY rise of KRW 34.4 billion or 4.4%. Gains on disposition and valuation dropped KRW 734.7 billion or 65.7% to KRW 383.1 billion, while other operating income fell KRW 84.3 billion to a loss of KRW 485.5 billion.



In the area of fee and commissions income, sales of asset management products, including trusts and funds, rose on the steady flow of domestic and overseas equity markets. As a result, sales of beneficiary certificate and trust fees rose KRW 10.3 billion and KRW 33.2 billion, respectively. Bancassurance fees, on the other hand, went down KRW 6.5 billion YoY, affected mainly by the tax reform in 2018.

Gains on disposition and valuation dropped KRW 734.7 billion or 65.7% YoY to KRW 383.1 billion, mainly attributable to foreign exchange translation losses related to weakened KRW as well as the base effect of the one-off gain from the sale of marketable securities in 2017.

Other operating income decreased KRW 84.3 billion YoY as deposit insurance fee rose with deposits, by KRW 21.1 billion, and gains on sales of loans decreased with mortgage payments transferred to Korea Housing Finance Corporation, by KRW 28.1 billion.

Table 3. General and Administrative Expenses (Separated)

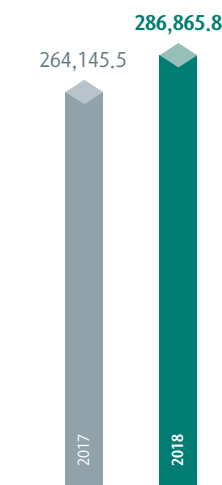
	(Unit: KRW billion)			
	2018	2017	YoY	%
General & Administrative Expenses	2,807.1	2,885.3	-78.2	-2.7%
Salaries and Employee Benefits	1,412.2	1,535.3	-123.0	-8.0%
Severance and Retirement Benefits	313.5	265.6	47.9	18.0%
Administrative Expenses	796.8	805.0	-8.2	-1.0%
Depreciation and Amortization	189.6	187.8	1.8	1.0%
Taxes and Dues	94.9	91.6	3.3	3.6%
Cost to Income Ratio	50.14%	48.48%	1.66%p	-

The Bank's general and administrative expenses fell by KRW 78.2 billion YoY to KRW 2,807.1 billion.

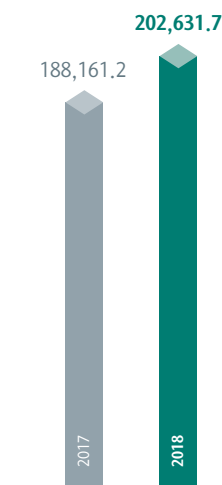
Salaries and employee benefits decreased KRW 123.0 billion to KRW 1,412.2 billion, reflecting the base effect of the ERPs in 2017 and 2018. Severance and retirement benefits increased KRW 47.9 billion YoY, an outcome of the HR system integration in 2018.

Administrative expenses fell by KRW 8.2 billion YoY to KRW 796.8 billion, as continued branch mergers and synergy creation efforts as well as the implementation of cost-cutting measures combined to reduce expenses by an amount greater than the business and service expenses incurred during the Bank's sponsoring of the PyeongChang 2018 Olympic Winter Games. Depreciation and amortization expenses rose by KRW 1.8 billion, and taxes and dues also increased by KRW 3.3 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)			
	2018	2017	YoY	%
Interest Earning Assets	286,865.8	264,145.5	22,720.2	8.6%
Due from Banks	5,611.8	4,217.4	1,394.4	33.1%
Fixed-Income Securities	46,313.6	45,271.6	1,042.0	2.3%
Loans	234,940.4	214,656.5	20,283.9	9.4%
Other Revenue Earning Assets	6,391.0	7,899.3	-1,508.3	-19.1%
Stocks and Others	6,391.0	7,899.3	-1,508.3	-19.1%
Non-Revenue Earning Assets	32,750.2	35,214.7	-2,464.5	-7.0%
Total Assets	326,006.9	307,259.5	18,747.4	6.1%
Interest Bearing Liabilities	279,998.9	258,691.7	21,307.3	8.2%
Deposits	235,484.9	218,904.2	16,580.6	7.6%
Borrowings	14,198.0	13,047.0	1,151.1	8.8%
Debentures	24,172.7	21,995.1	2,177.6	9.9%
Borrowings from Trust Accounts	6,143.3	4,745.4	1,397.9	29.5%
Non-Interest Bearing Liabilities	21,896.4	25,617.0	-3,720.5	-14.5%
Total Liabilities	301,895.3	284,308.6	17,586.7	6.2%
Shareholders' Equity	24,111.6	22,950.9	1,160.7	5.1%
Total Liabilities & Shareholders' Equity	326,006.9	307,259.5	18,747.4	6.1%

Total assets of KEB Hana Bank grew KRW 18,747.4 billion over the previous year to KRW 326,006.9 billion. Interest-earning assets, such as loans, and other income revenue-earning assets, such as securities, increased, while non-revenue income earning assets decreased.

Interest-earning assets totaled KRW 286,865.8 billion, YoY increase of KRW 22,720.2 billion. KRW loans rose a total of KRW 14,470.6 billion, whose figure comprises of KRW 7,107.5 billion in corporate – mainly SME – loans and KRW 7,363.1 billion in household loans. Fixed-income securities increased KRW 1,042.0 billion to KRW 46,313.6 billion.

Interest-bearing liabilities rose by KRW 21,307.3 billion, of which deposits accounted for KRW 16,580.6 billion.

Shareholders' equity went up KRW 1,160.7 billion YoY on the back of the net income of KRW 1,944.4 billion with KRW 886.8 billion paid in dividend.

Table 5. KRW Loans & Deposits

	(Unit: KRW billion)			
	2018	2017	YoY	%
KRW Loans	202,631.7	188,161.2	14,470.6	7.7%
Loans to Corporate	96,184.7	89,077.2	7,107.5	8.0%
SME	79,690.3	73,042.6	6,647.7	9.1%
SOHO	41,765.7	38,255.3	3,510.4	9.2%
Large Corporate	14,566.0	14,361.2	204.8	1.4%
Others	1,928.4	1,673.5	255.0	15.2%
Loans to Households	106,447.0	99,083.9	7,363.1	7.4%

	2018	2017	YoY	%
KRW Deposits¹⁾	211,700.9	194,108.4	17,592.5	9.1%
Low Cost Funding	78,274.1	77,349.5	924.6	1.2%
Core Deposits	52,619.6	49,655.3	2,964.3	6.0%
Money Market Deposit Account (MMDA)	25,654.5	27,694.2	-2,039.7	-7.4%
Time Deposits	119,921.3	105,103.0	14,818.3	14.1%
Installment Deposits	7,422.2	8,217.1	-794.9	-9.7%
Core Deposits & Others	6,083.3	3,438.8	2,644.5	76.9%

Note 1) Excluding foreign currency and trust deposits

KRW loans totaled KRW 202,613.7 billion, an increase of KRW 14,470.6 billion. Loans to corporate grew KRW 7,107.5 billion, which consisted of a KRW 6,647.7 billion increase in SOHO and SME loans and a KRW 204.8 billion rise in large corporate loan. Loans to households went up KRW 7,363.1 billion YoY, an outcome of an increase in *Jeonse* loans backed by Korea Housing Finance Corporation and pre-registration loans.

KRW deposits rose KRW 17,592.5 billion YoY to KRW 211,700.9 billion. Both core deposits and time deposits rose, by KRW 2,964.3 billion and KRW 14,818.3 billion, respectively.

IV. ASSET QUALITY

Table 6. Asset Quality and Loan Loss Provision

	(Unit: KRW billion)			
	2018	2017	YoY	%
Total Credit	231,989.2	217,256.7	14,732.4	6.8%
Normal	229,053.4	214,027.9	15,025.5	7.0%
Precautionary	1,718.4	1,646.0	72.4	4.4%
Substandard	689.7	798.7	-109.1	-13.7%
Doubtful	356.2	599.8	-243.6	-40.6%
Estimated Loss	171.4	184.3	-12.8	-7.0%
Precautionary & Below				
Amount	2,935.8	3,228.9	-293.1	-9.1%
Ratio	1.27%	1.49%	-0.22%p	-
Substandard & Below (NPL)				
Amount	1,217.3	1,582.8	-365.5	-23.1%
Ratio	0.52%	0.73%	-0.20%p	-
Credit Loss Reserves	1,114.1	1,201.7	-87.6	-7.3%
Substandard & Below (NPL) Coverage Ratio¹⁾	91.52%	75.92%	15.60%p	-

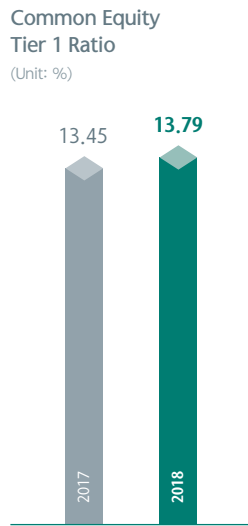
Note 1) Excluding loan loss reserves

At the end of 2018, total credit stood at KRW 231,989.2 billion, up KRW 14,732.4 billion from the previous year. The increase can be attributed mainly to a rise in normal loans, and thus precautionary & below loans and NPLs fell KRW 293.1 billion and KRW 365.5 billion, respectively.

Precautionary & below loan and NPL ratios improved 0.22%p and 0.20%p to 1.27% and 0.52%, respectively, reflecting the continued efforts made of managing distressed loans and risks. NPL coverage ratio also improved to 91.52%.

NPL Ratio
(Unit: %)





V. CAPITAL ADEQUACY

Table 7. BIS Capital and Ratio

(Unit: KRW billion)

	2018	2017	YoY	%
Tier 1 Capital	22,820.1	21,574.6	1,245.5	5.8%
Common Equity Tier 1 Capital	22,643.3	21,389.3	1,254.0	5.9%
Additional Tier 1 Capital	176.8	185.3	-8.5	-4.6%
Tier 2 Capital	3,863.9	3,841.5	22.4	0.6%
Loan Loss Reserve	225.3	125.0	100.2	80.2%
Subordinated Bonds	3,618.9	3,698.2	-79.3	-2.1%
Others	19.7	18.2	1.5	8.3%
Total BIS Capital	26,684.0	25,416.1	1,268.0	5.0%
Risk Weighted Assets	164,191.8	159,062.8	5,129.0	3.2%
BIS Capital Adequacy Ratio ¹⁾				
Common Equity Tier 1 Ratio	13.79%	13.45%	0.34%p	-
Tier 1 Ratio	13.90%	13.56%	0.33%p	-
Tier 2 Ratio	16.25%	15.98%	0.27%p	-

Note 1) Based on Basel III standards

KEB Hana Bank continued efforts to expand its capital base, issuing KRW 300.0 billion worth of subordinated bonds and expanding internal reserves by improving its income performance.

At the end of 2018, the Bank's BIS capital adequacy ratio stood at 16.25%, a 0.27%p improvement YoY, a stable capital adequacy ratio exceeding Basel III standards.

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

Hana Financial Investment

I. OVERVIEW

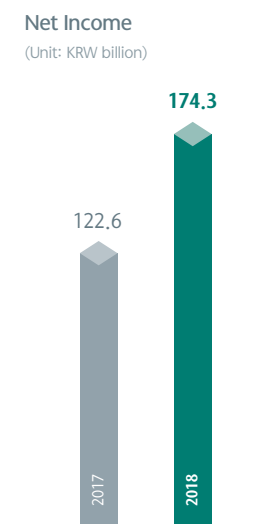
The securities market grew strong in the first half of 2018 in response to the summit meetings between the two Koreas and then between the North and the U.S. in an early part of the year, in addition to an SME promotion policy bearing fruit and a thriving semiconductor industry. However, in the second half, the market showed signs of volatility as concerns over a global slowdown grew on continued US interest rate hikes and an increasing trade protectionism around the globe.

Despite difficult external conditions and growing uncertainties in the global economy, HFI generated general operating income of KRW 607.7 billion, a 24.0% increase from the previous year. Net income rose 42.2% YoY to KRW 174.3 billion, resulting in an ROE of 6.94%.

Table 1. Summarized Financial Information (Separated)

(Unit: KRW billion)

	2018	2017	YoY	%
Business Volume				
Total Assets	22,471.1	18,729.7	3,741.3	20.0%
Shareholders' Equity	3,215.9	1,992.1	1,223.8	61.4%
Profitability				
General Operating Income	607.7	490.0	117.8	24.0%
Operating Income	226.1	155.5	70.6	45.4%
Net Income	174.3	122.6	51.7	42.2%
Return on Assets (ROA)	0.84%	0.65%	0.19%p	-
Return on Equity (ROE)	6.94%	6.33%	0.61%p	-
Cost to Income Ratio	61.86%	68.47%	-6.61%p	-
Capital Adequacy				
Net Capital Ratio	1,176.06%	791.70%	384.36%p	-



II. SUMMARY OF BUSINESS PERFORMANCE

Table 2. Comprehensive Income Statement (Separated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
General Operating Income	607.7	490.0	117.8	24.0%
Net Interest Income	218.1	173.1	45.0	26.0%
Net Fees and Commissions Income	372.2	289.7	82.4	28.5%
Gains on Disposition & Valuation	-38.8	-10.1	-28.7	-
Other Operating Income	56.2	37.2	19.0	51.0%
General & Administrative Expenses	375.9	335.5	40.4	12.1%
Pre-Provisioning Operating Profit (PPOP)	231.8	154.5	77.3	50.0%
Credit Loss Provision	5.7	-1.0	6.7	-
Operating Income	226.1	155.5	70.6	45.4%
Non-Operating Income	5.0	2.6	2.4	93.7%
Income before Income Tax	231.1	158.1	73.0	46.2%
Income Tax Expense	56.8	35.5	21.3	60.1%
Net Income	174.3	122.6	51.7	42.2%

In 2018, HFI's net income grew KRW 51.7 billion to KRW 174.3 billion owing to an increase in interest income and IB fee income.

General operating income rose 24.0% to KRW 607.7 billion – net fees and commissions income went up KRW 82.4 billion to KRW 372.2 billion on the back of balanced growth of securities brokerage and IB fees.

Other incomes besides fees and commissions income grew KRW 35.3 billion YoY to KRW 235.6 billion as security-backed and other credit-based loans contributed to the increase in interest income.

General and administrative expenses stood at KRW 375.9 billion, KRW 40.4 billion more than the 2017 figure. The increase can be attributed to bonuses awarded in connection with growth in profit and a rise in salaries and employee benefits following an increase in sales personnel.

Loan loss provision increased by KRW 5.7 billion, and non-operating income by KRW 2.4 billion to KRW 5.0 billion.

As a result, net income substantially increased by KRW 51.7 billion or 42.2%, to KRW 174.3 billion.

Table 3. Fee & Commissions Income (Separated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
Fee & Commissions Income	372.2	289.7	82.4	28.5%
Brokerage Commissions	144.4	125.9	18.6	14.8%
Management Fee on Wrap Account and Asset Management	75.0	85.9	-10.9	-12.7%
Underwriting Commissions	70.3	28.3	42.0	148.2%
Commissions on Mergers & Acquisitions	72.5	49.5	22.9	46.3%
Others	10.0	0.1	9.8	7,723.3%

Fee and commissions income grew 28.5% to KRW 372.2 billion. In particular, depositary assets grew on a steady flow of funds into a bullish stock market, and sales of front-end load beneficiary certificates and other high-margin financial products such as high-yield trust demonstrated robust growth. Other contributing factors include efforts to diversify revenue sources and strengthen sales capabilities, such as strengthening of collaboration among subsidiaries based on the 'One WM strategy', expansion of whole-tail operations, and facilitation of sales in connection with IB.

Brokerage commissions amount to KRW 144.4 billion, a YoY increase of KRW 18.6 billion resulted from enhanced rates of return on customer investments and strengthened management of stocks recommended by the research center, and the commission up-selling strategy through providing of specialized contents. Management fee on wrap account and asset management fell KRW 10.9 billion to KRW 75.0 billion, due to a base effect from wrap account management fees in 2017.

IB commissions rose 83.4% YoY to a record KRW 142.8 billion, an outcome of Group synergies and global business capabilities enhanced. In global business, HFI further expanded into North America, Europe and the Middle East; and strengthened overseas alternative investment and SOC capabilities by diversifying its real asset portfolio to include not only office buildings but also shopping centers and logistics centers, which resulted in a considerable increase in the amount and proportion of overseas IB income. In addition, by collaborating with the IB division of KEB Hana Bank, HFI successfully arranged large-scale acquisition financing deals, capital increases, initial public offerings (IPOs) and other big deals, maintaining its steady growth in all IB areas in domestic and overseas markets.

Table 4. General and Administrative Expenses (Separated)

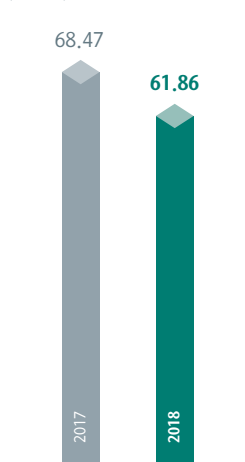
	(Unit: KRW billion)			
	2018	2017	YoY	%
General & Administrative Expenses	375.9	335.5	40.4	12.1%
Salaries and Employee Benefits	225.3	195.0	30.3	15.5%
Severance and Retirement Benefits	12.2	12.0	0.2	1.7%
Administrative Expenses	102.5	93.1	9.3	10.0%
Depreciation and Amortization	23.3	24.3	-1.0	-4.0%
Taxes and Dues	12.7	11.1	1.6	14.6%
Cost to Income Ratio	61.86%	68.47%	-6.61%p	-

General and administrative expenses went up KRW 40.4 billion YoY to KRW 375.9 billion. Despite an increase in performance-linked bonus payments led by the growth of general operating income and a rise in general and administrative expenses owing to an increase in sales personnel, the selective allocation of expenses through select-and-focus strategy resulted in a 6.61%p drop from the previous year in cost to income (C/I) ratio.

To review general and administrative expenses in detail, salaries and employee benefits went up KRW 30.3 billion to KRW 225.3 billion due to the increase of performance-linked bonus payments and sales personnel. Reserves for severance and retirement benefits went up slightly, around KRW 0.2 billion, over the previous year.

Administrative expenses totaled KRW 102.5 billion, a KRW 9.3 billion YoY rise, mainly attributable to an increase in investments made to facilitate sales, despite a cost reduction realized through the integration of five branches. Depreciation and amortization expenses fell KRW 1.0 billion to KRW 23.3 billion, as the depreciation expense of a next-generation IT system decreased in November 2016. Taxes and dues went up KRW 1.6 billion to KRW 12.7 billion on a rise in education tax and others resulting from performance improvements.

Cost to Income Ratio
(Unit: %)



III. KEY FIGURES

Table 5. AUM Breakdown

(Unit: KRW billion)				
	2018	2017	YoY	%
Customer Assets of HFI (AUM)	81,248.8	78,024.2	3,224.6	4.1%
Beneficiary Certificates	20,452.0	18,753.9	1,698.0	9.1%
Equity (Hybrid) Type	3,410.0	3,488.3	-78.3	-2.2%
Fixed-Income (Hybrid) Type	3,179.2	4,015.0	-835.8	-20.8%
Money Market Fund	3,521.4	3,711.5	-190.1	-5.1%
Others	10,341.4	7,539.2	2,802.2	37.2%
Financial Products	30,630.2	30,365.2	265.1	0.9%
Trust	13,502.3	12,837.9	664.4	5.2%
Repurchase Agreement (RP)	2,731.0	2,854.4	-123.4	-4.3%
Fixed-Income/Certificate of Deposit/ Commercial Paper	11,918.2	12,106.9	-188.7	-1.6%
Others	2,478.8	2,566.0	-87.2	-3.4%
Entrusted Assets	30,166.6	28,905.1	1,261.5	4.4%
Market	551,000.1	497,191.4	53,808.7	10.8%
Market Share	3.71%	3.77%	-0.06%p	-

The securities market grew strong in early 2018, in response to the summit meetings between the two Koreas and between the North and the U.S., in addition to an SME promotion policy bearing fruit and a thriving semiconductor industry. However, in the second half, the market showed signs of uncertainties as concerns over a global slowdown grew on continued US interest rate hikes and an increasing trade protectionism around the globe.

Despite difficult external conditions and growing uncertainties in the global economy, HFI grew its assets under management by KRW 3,224.6 billion to KRW 81,248.8 billion.

Beneficiary certificates rose KRW 1,698.0 billion to KRW 20,452.0 billion, thanks to an increase in sales of private equity products, with a particular focus on beneficiary certificates that require upfront-end fees, and the transaction of real estate and overseas deals which led to an expansion of the global revenue base. Financial products went up KRW 265.1 billion to KRW 30,630.2 billion through the supply of high-yield trusts and market-leading derivatives-linked securities.

Entrusted assets grew KRW 1,261.5 billion to KRW 30,166.6 billion, influenced by an increase in the amount of trading and a greater participation by individual investors in the securities market.

HFI will focus all its resources and energies 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

(Unit: KRW billion)				
	2018	2017	YoY	%
Initial Public Offering & Capital Increase (Lead-managed)	97.6	77.5	20.1	25.9%
Debenture Issued	2,276.0	1,387.0	889.0	64.1%
Equity-Linked Securities/Derivatives-Linked Securities Issued (Equity-Linked Bonds/ Derivatives-Linked Bonds Included)	11,433.2	9,642.9	1,790.3	18.6%

HFI successfully underwrote 9 equity capital market (ECM) deals in 2018, and ranked 9th in the league table, two positions higher than the previous year. Despite the downswing of the IPO market, the company arranged the listing of seven companies, including two special purpose acquisition companies (SPAC) and thus made the top 10 in the league table by public subscription amount. In the area of paid-in capital increase, HFI served as the lead underwriter for CrystalGenomics and Sangsin EDP, further strengthening its capability as a lead underwriter. It also took part in the underwriting syndicate for Hyundai Heavy Industries' paid-in capital increase, thus steadily generating income in the ECM market. The company underwrote corporate bonds totaling KRW 2,276.0 billion, 64.1% more than in 2017, and went up three positions to be placed at the 7th in the league table.

HFI also issued over the counter (OTC) products totaling KRW 11,433.2 billion, a YoY increase of KRW 1,790.3 billion, including KRW 6,563.7 billion and KRW 4,869.4 billion worth of ELS and derivatives-linked securities (DLS), respectively. As a result, the company ranked the industry's 6th in issuance volume of OTC (ELS and DLS) and the industry's 1st in DLS issuance. In particular, HFI contributed to expanding the DLS market by reflecting customer needs and market demands right from the product development phase through collaboration with KEB Hana Bank in sales and trading, and thus developed the industry's first multi-structured DLS products linked to interest rates of advanced countries, including the U.S. and the UK. For this achievement, HFI received the 'House of the Year in Korea' at the 'Asia Risk Awards 2018'.

HFI will continue its efforts to earn recognition in Korea as well as overseas by developing and selling various high-margin products as Korea's leading derivative product house.

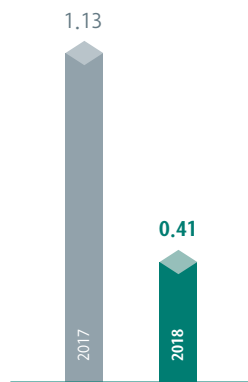
Table 7. Brokerage Contracts

(Unit: KRW billion)				
	2018	2017	YoY	%
Brokerage Contracts	188,534.2	148,507.5	40,027	27.0%
Off	57,720.4	48,266.7	9,454	19.6%
On	130,813.8	100,240.8	30,573	30.5%
Market	6,371,531.7	4,905,158.3	1,466,373	29.9%
Market Share	2.96%	3.03%	-0.07%p	-

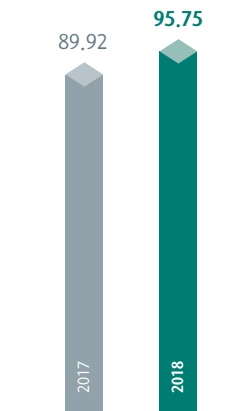
The stock market showed signs of a sustainable ascendancy in an early part of 2018, but turned unstable in the second half as concerns spread over a possible global slowdown in the real economy. Despite difficult external conditions and growing uncertainties in the global economy, daily trading transactions averaged around KRW 13.0 trillion, a YoY rise of 29.3%, thus rendering the overall market environment positive.

The company's brokerage contracts grew to KRW 188,534.2 billion, a YoY increase of 27.0%, and its market share improved to 2.96%. Going forward, HFI will continue to make utmost efforts to enhance its market share by providing specialized services, and to improve rates of return through customer portfolio rebalancing.

NPL Ratio
(Unit: %)



NPL Coverage Ratio
(Unit: %)



IV. ASSET QUALITY

Table 8. Asset Quality and Loan Loss Provision

(Unit: KRW billion)				
	2018	2017	YoY	%
Total Credit	4,030.7	2,841.0	1,189.7	41.9%
Normal	4,014.2	2,808.3	1,205.9	42.9%
Precautionary	-	0.5	-0.5	-100.0%
Substandard	3.1	3.2	-0.1	-1.9%
Doubtful	4.1	3.7	0.4	11.9%
Estimated Loss	9.3	25.3	-16.1	-63.3%
Precautionary & Below				
Amount	16.5	32.7	-16.2	-49.5%
Ratio	0.41%	1.15%	-0.74%p	-
Substandard & Below (NPL)				
Amount	16.5	32.2	-15.7	-48.7%
Ratio	0.41%	1.13%	-0.72%p	-
Loan Loss Reserve	15.8	29.0	-13.1	-45.4%
Normal	2.5	-	2.5	-
Precautionary	-	-	-	-
Substandard	-	-	-	-
Doubtful	4.0	3.6	0.4	12.0%
Estimated Loss	9.3	25.3	-16.1	-63.3%
Precautionary & Below				
Loan Loss Reserve	13.3	29.0	-15.6	-54.0%
Coverage Ratio	95.75%	88.56%	7.19%p	-
Substandard & Below (NPL)				
Loan Loss Reserve	13.3	29.0	-15.6	-53.9%
Coverage Ratio	95.75%	89.92%	5.83%p	-

Total credit went up KRW 1,189.7 billion from KRW 2,841.0 billion in 2017 to KRW 4,030.7 billion in 2018. Of key components, those that increased YoY include debt guarantee (around KRW 1,153.7 billion), broker's loans (around KRW 218.8 billion), private placement corporate bonds (around 43.7 billion), and advances (KRW 1.1 billion); and those that decreased YoY include accounts receivables and accrued revenue (around KRW 180.8 billion), repurchase agreements (KRW 26.5 billion), and loans (around KRW 1.9 billion). Besides key components, a bad debt expense occurred of KRW 18.4 billion.

NPL ratio improved 0.72%p over the previous year, while loan loss reserve decreased by around KRW 13.1 billion. Both are attributable to the write-off of Jung Ang Construction's private placement corporate bonds and loans purchased (around KRW 11.4 billion) as well as of the uncollected balance (around KRW 7.0 billion) of a judgment won in a lawsuit related to Daewoo's unpaid debt.

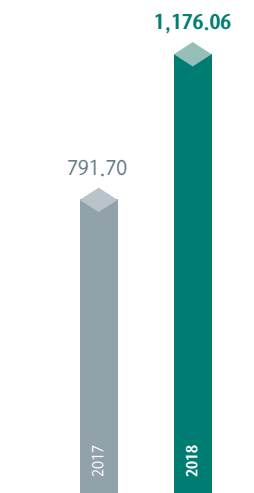
NPL coverage ratio went up 5.83%p YoY to 95.75%. At the end of 2018, loan loss reserves were set at a level deemed appropriate enough to recover individual assets without undue losses.

V. CAPITAL ADEQUACY

Table 9. Net Capital Ratio

(Unit: KRW billion)				
	2018	2017	YoY	%
Net Capital	2,769.1	1,635.2	1,133.8	69.3%
(+) Shareholders' Equity on B/S	3,200.0	1,996.7	1,203.3	60.3%
(+) Allowances for Currency Assets	28.2	11.2	17.0	151.1%
(+) Subordinated Debentures	0.0	0.0	0.0	-
(-) Fixed Assets	60.3	60.8	-0.5	-0.8%
(-) Prepaid Expenses	5.7	3.4	2.3	66.7%
(-) Unsecured Loans (over 3 Months)	205.1	136.0	69.1	50.8%
(-) Others	188.0	172.5	15.5	9.0%
Gross Risk Amount	1,188.5	571.2	617.3	108.1%
Market Risk	895.1	346.8	548.3	158.1%
Counter Party Risk	192.2	148.0	44.2	29.9%
Credit Concentration Risk	23.5	15.7	7.7	49.3%
Operational Risk	77.7	60.7	17.0	28.0%
Indirect Investment Risk	0.0	0.0	0.0	-
Net Capital Ratio	1,176.06%	791.70%	384.36%p	-

Net Capital Ratio
(Unit: %)



Net capital ratio rose 384.36%p in 2018, ending the year at 1,176.06%. 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 2018 balance sheet amounted to KRW 3,200.0 billion, up KRW 1,203.3 billion YoY, while net capital went up KRW 1,133.8 billion to KRW 2,769.1 billion. The rise in net capital is reflective of an increase in shareholders' equity from a capital increase.

Gross risk amount grew KRW 617.3 billion, which is attributable to an increase in market risk owing to a rise in assets, such as collective investment securities held for sell-down purpose.

I. OVERVIEW

Table 1. Summarized Financial Information (Consolidated)

(Unit: KRW billion, thousands)				
	2018	2017	YoY	%
Profitability				
General Operating Income	658.4	676.4	-18.0	-2.7%
Operating Income	136.4	137.2	-0.8	-0.6%
Net Income	106.7	106.4	0.3	0.3%
Return on Assets (ROA)	1.37%	1.46%	-0.10%p	-
Return on Equity (ROE)	7.00%	7.20%	-0.20%p	-
Cost to Income Ratio	43.67%	47.94%	-4.28%p	-
Business Volume ¹⁾				
Lump-sum	51,616	48,928.4	2,687.9	5.5%
Installment	6,069	5,995.9	73.3	1.2%
Cash Advance	4,295	4,396.2	-101.2	-2.3%
Card Loans	3,621	3,164.1	457.2	14.4%

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 – 1.11 million new cardholders, 4.38 million active users, and KRW 65.6 trillion total transaction volume, all 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 its customer service improved to enhance the income quality. By establishing a virtuous circle of more new cardholders leading to more active users, which in turn translates into a higher transaction volume resulting in a bigger income, KEB Hana Card achieved a record net income of KRW 106.7 billion.

In 2019, the card industry is likely to see deterioration in profitability in the face of more stringent regulations, including merchant fee cuts. To overcome these challenges, KEB Hana Card will make continued efforts to enhance cost efficiencies and improve profitability, such as expanding overseas operations and secondary business, shifting to a member-centered profit structure and curtailing costs by sending invoices not through postal services but via email, an app and other digital channels. Moreover, it plans to substantially improve the market competitiveness of its debit card and corporate card sectors.

II. SUMMARY OF BUSINESS PERFORMANCE

Table 2. Comprehensive Income Statement (Consolidated)

(Unit: KRW billion)				
	2018	2017	YoY	%
General Operating Income				
Net Interest Income	-120.6	-107.1	-13.5	-
Net Fee & Commission Income	728.3	706.0	22.3	3.2%
Gains on Disposition & Valuation	39.1	34.2	4.9	14.4%
Other Operating Income ¹⁾	11.6	43.3	-31.8	-73.3%
General & Administrative Expense	287.5	324.3	-36.8	-11.3%
Pre-Provisioning Operating Profit (PPOP)	370.9	352.1	18.8	5.3%
Credit Loss Provision	234.5	214.9	19.6	9.1%
Operating Income	136.4	137.2	-0.8	-0.6%
Non-Operating Income	4.3	3.7	0.6	14.8%
Net Income before Income Tax	140.7	140.9	-0.2	-0.2%
Income Tax Expense	34.0	34.6	-0.6	-1.6%
Net Income	106.7	106.4	0.3	0.3%

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

General operating income fell KRW 18.0 billion YoY as fee income grew KRW 12.1 billion, following an increase in card transaction and loan assets; and as the adoption of IFRS 15 resulted in a KRW 30.1 billion reduction in income. General and administrative expenses dropped KRW 36.8 billion to KRW 287.5 billion, while credit loss provision rose KRW 19.6 billion as a result of a KRW 461.4 billion increase in card assets. Net income reached a record high of KRW 106.7 billion.

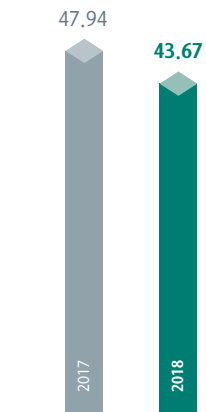
Net interest income fell KRW 13.5 billion reflecting higher funding costs. Net fee and commission income went up KRW 22.3 billion as a result of the growth in transactions, as well as loan assets and other areas related to business expansion. Gains on disposition and valuation grew KRW 4.9 billion, as an increasing number of card users traveling overseas contributed to a higher foreign exchange profit. Other operating income went down KRW 31.8 billion owing to a reduction in gains from the sale of NPLs. General and administrative expenses fell a total of KRW 36.8 billion: the base effect of the IT center relocation to the Hana Financial Group Data Center translated into around KRW 6.7 billion; and the adoption of IFRS 15 enabled the company to save KRW 30.1 billion. Credit loss provision grew KRW 19.6 billion, due mainly to a KRW 461.4 billion increase in earning assets.

Table 3. Fee Structure (Consolidated)

(Unit: KRW billion)				
	2018	2017	YoY	%
Fee Revenue				
Credit Card Receivables in Won	493.2	819.6	-326.4	-39.8%
Cash Advance	101.8	107.2	-5.4	-5.1%
Card Loan	287.3	259.6	27.7	10.7%
Others	406.1	410.4	-4.3	-1.0%
Fee Expenses	560.0	890.8	-330.7	-37.1%
Fee Income	728.3	706.0	22.3	3.2%



Cost to Income Ratio
(Unit: %)



Fee revenue went down a total of KRW 308.4 billion, which consists of a KRW 5.4 billion reduction in cash advance interest income, a KRW 27.7 billion increase in interest income from card loans, and a KRW 326.4 billion decrease in card receivables calculated using on IFRS 15 standards; otherwise, credit card receivables actually increased by KRW 77.9 billion. Fee expenses decreased a total of KRW 330.7 billion, due mainly to a KRW 374.2 billion decrease attributable to the IFRS 15 adoption, despite a KRW 45.3 billion rise in transaction handling cost (processing and service) resulted from the increase in card transactions.

Table 4. General and Administrative Expenses (Consolidated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
General & Administrative Expenses	287.5	324.3	-36.8	-11.3%
Salaries and Employee Benefits	70.4	76.0	-5.7	-7.4%
Severance and Retirement Benefits	9.9	8.0	2.0	24.5%
Administrative Expenses	164.6	195.8	-31.3	-16.0%
Depreciation and Amortization	30.9	32.0	-1.2	-3.6%
Taxes and Dues	11.7	12.4	-0.7	-5.3%
Cost to Income Ratio	43.67%	47.94%	-4.28%p	-

General and administrative expenses fell KRW 36.8 billion, as a result of a reduction of around KRW 6.7 billion attributable to the base effect of the relocation of the IT center to the Hana Financial Group Data Center as well as a decrease of KRW 30.1 billion associated with the application of IFRS 15. The cost to income (C/I) ratio dropped 4.28%p YoY to 43.67%.

III. KEY FIGURES

Table 5. Earning Asset Portfolio

	(Unit: KRW billion)			
	2018	2017	YoY	%
Earning Assets (Managed) ¹⁾	7,490.2	7,057.1	433.1	6.1%
Credit Purchase	3,688.1	3,452.5	235.6	6.8%
Cash Advances	527.2	571.7	-44.5	-7.8%
Card Loan	2,219.9	2,013.2	206.7	10.3%
Re-aged Loan	92.5	73.6	18.9	25.7%
Installment Finance	-	-	-	-
Lease	-	-	-	-
Others	1,055.0	1,019.8	35.2	3.5%

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

Earning assets grew, including KRW 235.6 billion in credit purchase and KRW 206.7 billion in card loans. However, cash advances dropped by KRW 44.5 billion YoY. In 2019, KEB Hana Card will continue to increase high-yield assets by strengthening risk management and improving the convenience of services for customers.

IV. ASSET QUALITY

Table 6. Asset Quality and Loan Loss Provision

	(Unit: KRW billion)			
	2018	2017	YoY	%
Total Credit	7,671.3	7,209.9	461.4	6.4%
Normal	7,284.5	6,865.2	419.4	6.1%
Precautionary	268.3	243.6	24.7	10.1%
Substandard	0.5	0.0	0.5	-
Doubtful	62.6	57.3	5.3	9.2%
Estimated Loss	55.3	43.8	11.6	26.4%
Substandard & Below (NPL)	118.5	101.1	17.3	17.2%
Substandard & Below (NPL) Ratio ¹⁾	1.54%	1.40%	0.14%p	10.1%
Precautionary & Below	386.8	344.8	42.0	12.2%
Precautionary & Below Ratio	5.04%	4.78%	0.26%p	-
Loan Loss Reserves	269.5	209.2	60.2	28.8%
Normal	108.8	78.9	29.8	37.8%
Precautionary	73.6	53.4	20.2	37.9%
Substandard	0.0	0.0	0.0	-
Doubtful	44.8	42.0	2.8	6.7%
Estimated Loss	42.3	35.0	7.3	20.8%
Coverage Ratio				
Substandard & Below (NPL) Coverage	227.47%	206.93%	20.54%p	-
Precautionary & Below	69.67%	60.69%	8.98%p	-

Note 1) NPL ratio inclusive of factoring

Total credit amounted to KRW 7,671.3 billion, a YoY increase of KRW 461.4 billion. NPL ratio deteriorated 14bp from the previous year's 1.40% to 1.54%. Precautionary and below ratio also deteriorated 26bp from the previous year's 4.78% to 5.04% at the end of 2018.

V. CAPITAL ADEQUACY

Table 7. Adjusted Equity Capital Ratio and Leverage Ratio

	(Unit: KRW billion)			
	2018	2017	YoY	%
Adjusted Equity Capital	1,506.2	1,393.0	113.3	8.1%
Adjusted Total Asset	7,320.7	6,764.4	556.2	8.2%
Adjusted Equity Capital Ratio (%)	20.58%	20.59%	-0.02%p	-
Total Equity Capital	1,576.0	1,516.5	59.5	3.9%
Total Assets	7,984.8	7,565.1	419.7	5.5%
Leverage Ratio (Multiples)	5.07	4.99	0.08	1.56%

Adjusted equity capital ratio declined 0.02%p from the previous year's 20.59% to 20.58% which is still considered stable. Leverage ratio increased from 4.99 at the end of 2017 to 5.07 at the end of 2018, well below the regulatory guideline of 6.0.

I. OVERVIEW

In 2018, Korea’s credit financing industry sector continued to grow in the face of challenging market conditions, including tougher regulations and competitions intensifying as an increasing number of players from different industries entered the auto finance market. Interest margins have been steadily going down as interest rate hikes raise funding costs.

Against this backdrop, Hana Capital recorded the highest figure since the founding of Hana Capital by focusing on balancing the asset portfolio and conducting preemptive risk management. It developed robotic process automation (RPA) system to enhance work efficiencies and customer convenience, and adopted the industry’s first non-face-to-face document submission system, as part of its drive for digital transformation.

In 2019, Hana Capital aims to offer more advanced auto finance services through ‘Hana Dream Car’, an auto distribution platform, and diversify revenues by continually developing new businesses. It will also further strengthen its fundamentals through digital transformation and preemptive risk management.

Table 1. Summarized Financial Information (Consolidated)

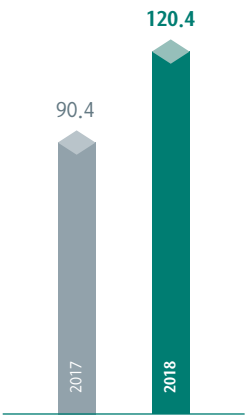
	2018	2017	YoY	%
(Unit: KRW billion)				
Profitability				
General Operating Income	264.3	242.2	22.1	9.1%
Operating Income	141.7	106.3	35.4	33.3%
Net Income	120.4	90.4	30.0	33.2%
Return on Assets (ROA)	1.87%	1.60%	0.28%p	-
Return on Equity (ROE)	15.98%	13.35%	2.63%p	-
Cost to Income Ratio	21.48%	24.71%	-3.23%p	-
Financial Assets				
Lease	2,238.7	1,945.9	292.9	15.1%
Installment	513.3	459.1	54.2	11.8%

II. SUMMARY OF BUSINESS PERFORMANCE

Table 2. Comprehensive Income Statement (Separated)

	2018	2017	YoY	%
(Unit: KRW billion)				
General Operating Income	264.3	242.2	22.1	9.1%
Net Interest Income	239.6	219.7	19.8	9.0%
Net Fee and Commission Income	48.4	34.5	13.8	40.1%
Gains on Disposition & Valuation	0.9	-	0.9	-
Other Operating Income	-24.5	-12.1	-12.5	-
General & Administrative Expenses	56.8	59.8	-3.1	-5.1%
Pre-Provisioning Operating Profit (PPOP)	207.5	182.3	25.2	13.8%
Credit Loss Provision	65.9	76.1	-10.2	-13.4%
Operating Income	141.7	106.3	35.4	33.3%
Non-Operating Income	1.4	7.1	-5.7	-80.1%
Net Income before Income Tax	143.1	113.4	29.7	-80.1%
Income Tax Expense	22.6	23.0	-0.3	-1.4%
Net Income	120.4	90.4	30.0	33.2%

Net Income
(Unit: KRW billion)



Hana Capital generated net income of KRW 120.4 billion in 2018, the highest since its foundation. General operating income grew KRW 22.1 billion as a net increase in assets pushed interest and fee incomes upward. General and administrative expenses totaled KRW 56.8 billion, KRW 3.1 billion less than the figure in 2017. Credit loss provision fell KRW 10.2 billion to KRW 65.9 billion. Income tax expenses went down KRW 0.3 billion to KRW 22.6 billion, owing to a corporate tax return.

Table 3. General and Administrative Expenses (Separated)

(Unit: KRW billion)

	2018	2017	YoY	%
General & Administrative Expenses	56.8	59.8	-3.1	-5.1%
Salaries and Employee Benefits	28.6	26.3	2.3	8.8%
Severance and Retirement Benefits	1.9	1.8	0.1	7.5%
Administrative Expenses	20.0	26.4	-6.4	-24.1%
Depreciation and Amortization	3.7	3.6	0.2	4.5%
Taxes and Dues	2.5	1.8	0.7	38.8%
Cost to Income Ratio	21.48%	24.71%	-3.23%p	-

General and administrative expenses dropped KRW 3.1 billion YoY to KRW 56.8 billion. Salaries and employee benefits rose KRW 2.3 billion on the addition of talent to enhance competitiveness. Administrative expenses, however, fell KRW 6.4 billion as process-improving efforts led to higher work efficiencies, lowering cost to income (C/I) ratio 3.23%p to 21.48% YoY.

III. FINANCIAL ASSETS

Table 4. Lease/Installment

(Unit: KRW billion)

	2018	2017	YoY	%
Lease	2,238.7	1,945.9	292.9	15.1%
Auto	2,051.0	1,776.9	274.1	15.4%
General	187.7	169.0	18.8	11.1%
Installment	513.3	459.1	54.2	11.8%
Durable Goods	106.0	98.7	7.3	7.4%
Auto	385.2	341.8	43.4	12.7%
General	22.0	18.5	3.5	18.8%
Total	2,752.0	2,405.0	347.0	14.4%

Lease and installment finance assets grew KRW 347.0 billion to KRW 2,752.0 billion. Lease assets grew KRW 292.9 billion to KRW 2,238.7 billion, driven by growing auto finance assets, such as imported and rental cars. Installment finance assets went up KRW 54.2 billion to KRW 513.3 billion, driven by the growth of auto finance assets. Lease and installment finance assets accounted for 88.5% of auto-related assets, a YoY rise of 0.4%p.

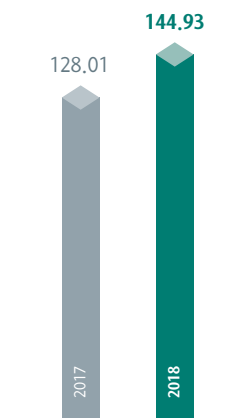
IV. ASSET QUALITY

Table 5. Asset Quality and Loan Loss Provision

(Unit: KRW billion)

	2018	2017	YoY	%
Total Credit	6,714.4	5,931.3	783.1	13.2%
Normal	6,524.0	5,779.1	744.9	12.9%
Precautionary	118.2	92.1	26.1	28.3%
Substandard	31.4	29.9	1.5	4.9%
Doubtful	36.0	29.9	6.1	20.4%
Estimated Loss	4.8	0.3	4.6	1,734.6%
Precautionary & Below				
Amount	190.4	152.2	38.2	25.1%
Ratio	2.84%	2.57%	0.27%p	-
Substandard & Below (NPL)				
Amount	72.2	60.1	12.1	20.2%
Ratio	1.08%	1.01%	0.06%p	-
Loan Loss Reserve	104.7	76.9	27.8	36.1%
Normal	47.6	33.7	13.9	41.3%
Precautionary	19.3	14.9	4.3	29.1%
Substandard	7.5	6.7	0.8	11.6%
Doubtful	25.8	21.4	4.4	20.8%
Estimated Loss	4.4	0.2	4.3	2,813.3%
Precautionary & Below				
Loan Loss Reserve	57.1	43.2	13.9	32.1%
Coverage Ratio	54.98%	50.53%	4.44%p	-
Substandard & Below (NPL)				
Loan Loss Reserve	37.8	28.3	9.5	33.6%
Coverage Ratio	144.93%	128.01%	16.92%p	-

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



Total credit stood at KRW 6,714.4 billion, a YoY rise of KRW 783.1 billion, at the end of 2018. NPLs went up KRW 12.1 billion to KRW 72.2 billion, and NPL ratio stood at 1.08%, a slight YoY rise of 0.06%p. Loan loss reserve rose KRW 27.8 billion YoY to KRW 104.7 billion, while precautionary and below coverage ratio stood at 54.98%, representing a YoY rise of 4.44%p, and NPL coverage ratio increased 16.92%p to 144.93%.

V. CAPITAL ADEQUACY

Table 6. Adjusted Equity Capital Ratio

(Unit: KRW billion)				
	2018	2017	YoY	%
Adjusted Equity Capital	873.0	760.0	113.0	14.9%
Tier 1 Capital	663.5	566.3	97.1	17.2%
Shareholders' Equity	663.5	566.3	97.1	17.2%
Tier 2 Capital	209.5	193.7	15.8	8.2%
Subordinate Debt	149.6	149.6	0.0	0.0%
Loan Loss Reserve	66.9	48.5	18.4	37.9%
(-) Deduction	7.0	4.4	2.6	57.9%
Adjusted Total Assets	6,836.6	6,005.0	831.5	13.8%
Total Assets on Balance Sheet	6,884.2	6,066.6	817.5	13.5%
(-) Deduction	47.6	61.6	-14.0	-22.7%
Adjusted Equity Capital Ratio	12.77%	12.66%	0.11%p	-

Adjusted equity capital ratio improved by 0.11%p to reach 12.77%, well above the 7% guideline set by the financial authorities.

Hana Life

I. OVERVIEW

Against the backdrop of low birth, an aging society, and a low-growth environment, the life insurance industry in Korea has been shifting its sales focus from savings-type to protection-type and variable insurance in response to such institutional changes as reduction of tax-exempted benefits and new accounting system.

In order to better respond to these changes, Hana Life strives to increase sales of protection-type insurance products, which are higher in profitability, and to expand variable insurance products with a small capital burden. The company is diversifying its investment portfolio, including expansion of loans and alternative investments, and pursuing profitability-centered management by reducing costs and strengthening risk management. Hana Life increased protection-type insurance sales mainly through its bancassurance sales channel, leveraging 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 the Group's affiliates, Hana Life achieved an outstanding financial performance despite the challenging environment.

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

The company will continue its profitability-centered management practices and make 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)			
	2018	2017	YoY	%
Monthly Converged Premiums (MCP)	6.5	5.4	1.2	21.8%
Annuity	0.8	2.2	-1.4	-63.3%
Saving	0.2	0.3	-0.1	-23.9%
Protection	3.1	2.8	0.3	11.9%
Variable	2.4	0.1	2.3	-
Premium Income	431.1	485.7	-54.6	-11.2%
Investment Income	146.8	130.0	16.8	12.9%
Investment Income Ratio	3.27%	2.89%	0.39%p	-
Net Income	20.4	14.4	6.0	41.6%
Return on Assets (ROA)	0.46%	0.34%	0.12%p	-
Return on Equity (ROE)	7.54%	6.08%	1.46%p	-
Cost to Income Ratio	57.65%	68.55%	-10.90%p	-

Hana Life generated monthly converged premiums of KRW 6.5 billion in 2018, and recorded net income of KRW 20.4 billion. The rebalancing of its product portfolio with protection-type insurance resulted in a YoY decrease of KRW 54.6 billion in premium income, whereas improvements in the asset portfolio, including an expansion of loans and alternative investments, led to a KRW 16.8 billion rise in investment income.

Table 2. Comprehensive Income Statement (Separated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
Net Insurance Business Income	39.5	177.9	-138.4	-77.8%
Insurance Income	440.0	494.3	-54.3	-11.0%
Premium Income	431.1	485.7	-54.6	-11.2%
Reinsurance Income	8.9	8.6	0.3	3.1%
Insurance Expense	400.5	316.4	84.1	26.6%
Benefit & Payments	334.0	252.8	81.2	32.1%
Reinsurance Expense	10.3	9.5	0.8	8.2%
General & Administrative Expense	54.3	50.5	3.8	7.6%
Decrease (Increase) of Deferred Acquisition Cost	1.9	3.6	-1.7	-48.0%
Discount	0.0	0.0	-	-
Net Investment Business Income	116.8	93.8	23.0	24.5%
Investment Income	146.8	130.0	16.8	12.9%
Investment Expense	30.0	36.2	-6.2	-17.2%
Increase of Policy Reserve	234.4	339.6	-105.2	-31.0%
Operating Income	25.6	15.3	10.3	67.8%
Non-Operating Income	1.4	2.0	-0.6	-29.9%
Net Income before Income Tax	27.0	17.3	9.7	56.5%
Income Tax Expense	6.6	2.8	3.7	133.1%
Net Income	20.4	14.4	6.0	41.6%

Hana Life recorded a net income of KRW 20.4 billion in 2018, a YoY rise of KRW 6.0 billion. Net insurance business income went down KRW 138.4 billion to KRW 39.5 billion, attributable to the company's rebalancing of its product portfolio with protection-type insurance in preparation for the new accounting system, IFRS 17. Investment business income rose KRW 23.0 billion to KRW 116.8 billion, owing to a KRW 14.6 billion increase in dividend income and KRW 2.2 billion in new commission income. Policy reserve went down proportional to the reduction in premium income.

Table 3. General and Administrative Expenses (Separated)

	(Unit: KRW billion)			
	2018	2017	YoY	%
General & Administrative Expenses	34.0	33.1	1.0	2.9%
Salaries and Employee Benefits	13.3	13.8	-0.5	-3.4%
Severance and Retirement Benefits	1.3	1.3	0.0	1.9%
Administrative Expenses	15.3	15.5	-0.2	-1.4%
Depreciation and Amortization	2.2	2.1	0.1	4.3%
Taxes and Dues	1.9	0.4	1.5	401.1%
Cost to Income Ratio	57.65%	68.55%	-10.90%p	-

General and administrative expenses totaled KRW 34.0 billion, up KRW 1.0 billion over the previous year. Taxes and dues rose KRW 1.5 billion due to an education tax payment.

III. CAPITAL ADEQUACY

Table 4. Solvency Margin Ratio

	(Unit: KRW billion)			
	2018	2017	YoY	%
Solvency Margin	335.0	276.8	58.2	21.0%
Shareholders' Equity	291.1	228.9	62.1	27.1%
Loan Loss Reserve	4.1	1.0	3.1	305.2%
Subordinated Debts	40.0	50.0	-10.0	-
Net Premium Reserve in Excess	32.7	33.7	-1.0	-3.1%
(–) Deduction	32.8	36.8	-4.0	-10.9%
Standard Amount of Solvency Margin	169.8	155.2	14.6	9.4%
Solvency Margin Ratio	197.3%	178.3%	19.0%p	-

The RBC ratio of Hana Life stood at 197.3% at the end of 2018, exceeding the previous year's figure by 19%p. Solvency margin rose KRW 58.2 billion to KRW 335.0 billion on the backs of a KRW 50.0 billion paid-in capital increase, a KRW 15.3 billion rise in earned surplus, and a KRW 10.0 billion decrease in subordinated debt recognized as Tier 2 capital. Standard amount of solvency margin grew KRW 14.6 billion YoY to KRW 169.8 billion as an investment portfolio diversification increased credit exposures and reduced guarantee reserves for variable life insurance risk.

I. OVERVIEW

Savings banks are considered as a community financial institution created for the purpose of maintaining credit order and increasing savings through provision of easy-to-use banking services to the underprivileged, SMEs, and the financially marginalized. 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 enhances profitability by engaging in loan operations linked with the business network of KEB Hana Bank. It is also strengthening its sales capacity by generating synergies with the Group’s subsidiaries.

Hana Savings Bank has long been an industry leader in business performance as well as in corporate citizenship. The 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. In 2018, it won the ‘Minister of Health and Welfare Award’ in the social contribution category at the ‘2018 Greater Happiness Social Contribution Campaign’, and it also received ‘the Financial Services Commission Chairman’s Award’ in the sustainable finance category at the ‘National Sustainability Management Awards’.

II. SUMMARY OF BUSINESS PERFORMANCE

Table 1. Comprehensive Income Statement (Separated)

(Unit: KRW billion)				
	2018	2017	YoY	%
General Operating Income	45.9	50.3	-4.4	-8.7%
Net Interest Income	44.8	39.5	5.3	13.4%
Net Fee and Commissions Income	1.6	2.2	-0.7	-29.1%
Gains on Disposition & Valuation	0.0	0.4	-0.4	-99.2%
Other Operating Income (Expenses)	-0.5	8.1	-8.6	-
General & Administrative Expenses	24.5	25.8	-1.3	-5.0%
Pre-Provisioning Operating Income (PPOP)	21.4	24.5	-3.1	-12.6%
Credit Loss Provision	0.3	3.6	-3.3	-92.8%
Operating Income	21.2	21.0	0.2	1.1%
Non-Operating Income	0.0	0.4	-0.4	-99.8%
Net Income before Income Tax	21.2	21.4	-0.2	-0.9%
Income Tax Expense	5.0	3.8	1.2	32.3%
Net Income	16.2	17.6	-1.4	-8.1%

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, which was followed by the net income of KRW 17.6 billion in 2017 and KRW 16.2 billion in 2018. Interest incomes grew in 2018, mainly attributable to the restructuring of the loan portfolio, while gains on sales went down following the liquidation of non-performing loans. Eight years into operation, the Bank has been making a profit every year, growing normal loans and building a stable income structure through qualitative growth and value management.

Table 2. General and Administrative Expenses

(Unit: KRW billion)				
	2018	2017	YoY	%
General & Administrative Expenses	24.5	25.8	-1.3	-5.02%
Salaries and Employee Benefits	10.8	10.6	0.2	1.54%
Severance and Retirement Benefits	0.6	0.7	-0.1	-10.23%
Administrative Expenses	8.4	8.2	0.2	2.08%
Depreciation and Amortization	2.7	4.2	-1.4	-34.39%
Taxes and Dues	2.0	2.1	-0.1	-6.27%
Cost to Income Ratio	53.29%	51.20%	2.09%p	-

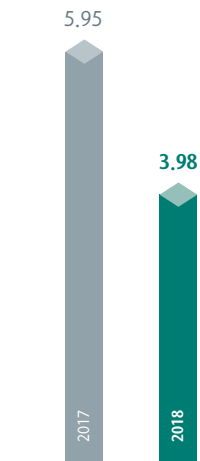
General and administrative expenses fell by KRW 1.3 billion in 2018, which was attributable to a KRW 1.4 billion reduction in depreciation and amortization expenses, owing to the completion of the write-off of core deposits among intangible assets in August 2017. C/I ratio declined by 2.09%p as general operating income went down due to decreased gains from the sale of loans during the year.

III. SUMMARY OF FINANCIAL CONDITION

Table 3. Condensed Balance Sheets (Separated)

(Unit: KRW billion)				
	2018	2017	YoY	%
Interest Earning Assets	1,087.8	1,006.3	81.5	8.1%
Due from Banks	94.5	107.6	-13.1	-12.2%
Fixed-Income Securities	0.0	0.0	0.0	-
Loans	1,035.5	948.6	86.9	9.2%
Loan Loss Allowance	-42.2	-50.0	7.8	-
Other Revenue Earning Assets	19.9	29.1	-9.2	-31.5%
Stocks and Others	16.1	22.3	-6.1	-27.6%
Lease	0.0	0.0	0.0	-
Trust Account Assets	0.0	0.0	0.0	-
Domestic Exchange Settlement	3.8	6.9	-3.0	-44.4%
Non-Revenue Earning Assets	76.2	79.4	-3.1	-3.9%
Total Assets	1,184.0	1,114.7	69.2	6.2%
Interest Bearing Liabilities	949.1	882.4	66.8	7.6%
Deposits	949.1	882.3	66.8	7.6%
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	0.0	0.0	-
Non-Interest Bearing Liabilities	29.9	26.0	3.9	15.2%
Total Liabilities	979.0	908.3	70.7	7.8%
Shareholders' Equity	204.9	206.4	-1.5	-0.7%
Total Liabilities & Shareholders' Equity	1,184.0	1,114.7	69.2	6.2%

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



Hana Savings Bank was launched in February 2012, 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 2018, it operates 4 branches, 3 sub-branches, and Strategic Sales Division at its headquarters. It has KRW 1,184.0 billion of assets, KRW 979.0 billion of liabilities, and KRW 204.9 billion in shareholders' equity.

The Bank recorded total assets of KRW 1,184.0 billion in 2018, KRW 69.2 billion more than the figure in 2017. The increase is an outcome of a growth in loan assets resulted from robust sales.

IV. ASSET QUALITY

Table 4. Asset Quality and Loan Loss Provision

(Unit: KRW billion)				
	2018	2017	YoY	%
Total Credit	1,035.6	948.7	86.9	9.2%
Normal	813.3	645.3	168.0	26.0%
Precautionary	181.1	247.0	-65.9	-26.7%
Substandard	15.3	24.9	-9.7	-38.7%
Doubtful	6.0	15.1	-9.1	-60.1%
Estimated Loss	20.0	16.4	3.5	21.5%
Precautionary & Below				
Amount	222.4	303.5	-81.1	-26.7%
Ratio	21.47%	31.99%	-10.51%p	-
Substandard & Below (NPL)				
Amount	41.3	56.5	-15.2	-26.9%
Ratio	3.98%	5.95%	-1.97%p	-
Loan Loss Reserve	42.3	50.1	-7.8	-15.6%
Normal	8.6	6.2	2.4	39.1%
Precautionary	6.4	7.4	-1.0	-13.2%
Substandard	5.7	11.1	-5.4	-48.5%
Doubtful	3.5	11.8	-8.3	-70.5%
Estimated Loss	18.1	13.6	4.4	32.7%
Precautionary & Below				
Loan Loss Reserve	33.7	43.9	-10.2	-23.2%
Coverage Ratio	19.01%	16.49%	2.51%p	-
Substandard & Below (NPL)				
Loan Loss Reserve	27.2	36.5	-9.2	-25.3%
Coverage Ratio	102.41%	88.64%	13.77%p	-

Total credit, including provisional payments of credit, went up KRW 86.9 billion over the previous year to KRW 1,035.6 billion. The Bank has been continually liquidating troubled assets to strengthen risk management. As a result, NPLs went down KRW 15.2 billion to KRW 41.3 billion at the end of 2018, and NPL ratio decreased 1.97% YoY to 3.98%. Further efforts are being made at increasing loans based on improving assets quality.

V. CAPITAL ADEQUACY

Table 5. BIS Capital and Ratio

(Unit: KRW billion)				
	2018	2017	YoY	%
Tier 1 Capital	154.4	144.0	10.4	7.2%
Common Equity Capital	154.4	144.0	10.4	7.2%
Capital Stock	75.0	75.0	0.0	0.0%
Capital Surplus	108.5	108.3	0.1	0.1%
Retained Earnings	11.9	18.2	-6.3	-34.7%
Others	-41.0	-57.6	16.6	-
Hybrid Bonds	0.0	0.0	0.0	0.0%
Tier 2 Capital	12.2	11.8	0.4	3.6%
Loan Loss Reserve	12.2	11.3	0.8	7.2%
Subordinated Bonds	0.0	0.0	0.0	-
Others	0.0	0.4	-0.4	-93.8%
Total BIS Capital	166.6	155.8	10.8	6.9%
Risk Weighted Assets	943.5	875.0	68.5	7.8%
BIS Capital Adequacy Ratio	17.65%	17.80%	-0.15%p	-
Tier 1 Ratio	16.36%	16.46%	-0.09%p	-
Tier 2 Ratio	1.29%	1.34%	-0.05%p	-

The BIS capital adequacy ratio of Hana Savings Bank stood at 17.65% at the end of 2018, well above the regulatory guideline of 8.00% as stipulated in the Savings Bank Act. BIS capital adequacy ratio went down slightly to 17.65% as loan assets increased over the previous year.

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

Independent Auditors' Report



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

Opinion

We have audited the accompanying consolidated financial statements of Hana Financial Group Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Korean Auditing Standards (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

1) Assessments of loss allowance on loan receivables measured at amortized cost

As discussed in Note 3 to the consolidated financial statements ('Significant accounting policies and basis of preparation'), the Group recognizes loss allowance based on an assessment of the expected credit loss impairment model for loan receivables measured at amortized cost.

The expected credit loss impairment model requires to measure loss allowance for 12-month expected credit loss or life-time expected credit loss based on changes in credit risk since initial recognition of financial assets.

Management's significant judgments are involved in the decision on the level of increase in credit risk to assess loss allowance, the estimation on risk factors such as probability of default and loss given default, and future cash flows and discount rates related to individual assessment. Therefore, we decided to pay significant attention to loss allowance on loan receivables measured at amortized cost and identified it as a key audit matter.

In Note 19 to the consolidated financial statements of the Group, loan receivables measured at amortized cost and loss allowance based on the expected credit loss impairment model are ₩260,663,585 million and ₩1,727,561 million, respectively, as of December 31, 2018. Our audit procedures performed for the management's assertion on the measurement of loss allowance on loan receivables measured at amortized cost are as follows:

- Analytical procedures on appropriateness of stage classification, document inspection and test validation of methodology
- Inspection of documents and validation test for the estimation methodology of probability of default and loss given default involving our internal experts
- Inspection of documents for the estimation methodology of forward-looking information involving our internal experts
- Inquiry, inspection of documents and validation test for appropriateness of future cash flow estimation and discount rate used to calculate a loss allowance on individual basis of assessment

2) Assessment on fair value of financial instruments measured at FVTPL, financial assets measured at FVOCI and derivatives categorized within Level 3 of the fair value hierarchy

As discussed in Note 3 to the consolidated financial statements ('Significant accounting policies and basis of preparation'), the Group categorizes the fair value measurement of financial instruments into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. If input used in the fair value measurement are significant and unobservable, the financial instruments are categorized within Level 3 of the fair value hierarchy.

As discussed in Note 5 to the consolidated financial statements, the Group uses variety of valuation techniques and variables, and the fair value measurement may vary significantly due to high uncertainty in accounting estimates, such as management's judgment on valuation techniques and unobservable inputs. Therefore, we decided to pay significant attention to the fair value measurement of financial instruments within Level 3 of the fair value hierarchy and identified it as a key audit matter.

Financial assets measured at FVTPL (including derivative assets held for trading), financial assets measured at FVOCI, financial liabilities measured at FVTPL (including derivative liabilities held for trading) and financial liabilities designated as measured at FVTPL categorized within Level 3 of the fair value hierarchy are ₩4,659,252 million, ₩773,806 million, ₩768,041 million, and ₩8,683,309 million, respectively, as of December 31, 2018. Our audit procedures performed for the management's assertion on the fair value measurement of financial instruments measured at FVTPL, financial assets measured at FVOCI and derivatives are as follows:

- Inspection of documents on whether the fair value hierarchy of financial instruments is categorized based on the characteristics of significant input variables used in the fair value measurement
- Inquiry and inspection of documents on professional competence and independence of external valuers engaged by the Group to measure fair value
- Inquiry, inspection of documents and validation test of assumptions and methodology of fair value measurement on unlisted equity securities

- Inquiry, inspection of documents and validation test of hybrid financial instruments and derivatives involving our internal experts

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Auditing Standards (KGAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Auditing Standards (KGAAS) we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is *Tae-gu, Kang*.

March 7, 2019

This audit report is effective as of March 7, 2019, 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, 2018 and 2017

(Unit: Korean won in millions)

	Notes	December 31, 2018	December 31, 2017
Assets			
Cash and due from banks	5, 6, 7, 9, 11, 60	₩ 24,306,996	₩ 21,850,692
Financial assets measured at FVTPL	5, 6, 7, 9, 12	26,149,112	-
Financial assets held-for-trading	5, 6, 7, 9, 12	-	22,704,104
Financial assets designated at FVTPL	5, 6, 7, 9, 13	-	1,292,758
Financial assets measured at FVOCI	5, 6, 7, 9, 15	36,770,865	-
Available-for-sale financial assets	5, 6, 7, 9, 14	-	46,921,429
Securities measured at amortized cost	5, 6, 7, 9, 17	14,782,666	-
Held-to-maturity investments	5, 6, 7, 9, 16	-	7,392,100
Loans measured at amortized cost	5, 6, 7, 9, 19	260,663,585	238,943,185
Derivative assets used for hedging	5, 6, 7, 9, 20	7,575	23,724
Investments in associates and joint ventures	21	1,224,883	1,073,578
Property and equipment	22	3,036,071	2,651,551
Investment properties	23	711,148	976,572
Intangible assets	25	685,716	823,856
Net defined benefit assets	33	-	44,545
Deferred income tax assets	56	154,926	150,533
Current income tax assets		12,165	10,868
Non-current assets held for sale	26	447,742	439,324
Other assets	5, 6, 7, 9, 27	16,055,170	14,790,530
Total assets		385,008,620	360,089,349
Liabilities			
Financial liabilities measured at FVTPL	5, 6, 7, 28	4,693,618	-
Financial liabilities held-for-trading	5, 6, 7, 28	-	7,834,600
Financial liabilities designated as measured at FVTPL	5, 6, 7, 29	11,971,802	-
Financial liabilities designated at FVTPL	5, 6, 7, 29	-	8,819,336
Deposits	5, 6, 7, 30	248,559,497	232,166,153
Borrowings	5, 6, 7, 31	19,182,273	18,791,895
Debentures	5, 6, 7, 32	41,018,021	36,444,451
Derivative liabilities used for hedging	5, 6, 7, 20	98,960	71,797
Net defined benefit liabilities	33	170,262	25,573
Provisions	34	352,498	384,102
Deferred income tax liabilities	56	264,392	144,676
Current income tax liabilities		309,685	678,253
Other liabilities	5, 6, 7, 9, 35	31,279,152	29,900,569
Total liabilities		357,900,160	335,261,405
Equity			
Issued capital	36	1,501,210	1,480,015
Hybrid equity securities	36	980,304	443,769
Capital surplus	36	10,602,594	10,463,033
Capital adjustments	37	(15,049)	(15,049)
Accumulated other comprehensive income	38	(863,890)	(765,642)
Retained earnings	39	14,224,003	12,267,565
Equity attributable to equity holders of the parent		26,429,172	23,873,691
Non-controlling shareholders' equity		679,288	954,253
Total equity		27,108,460	24,827,944
Total liabilities and equity		₩ 385,008,620	₩ 360,089,349

(*) The comparative financial statements as at December 31, 2017 is stated in accordance with KIFRS 1039 Financial instruments : *Recognition and measurement*.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Unit: Korean won in millions)

	Notes	2018	2017
Net interest income:			
Interest income	41, 42	₩ 10,340,924	₩ 8,932,396
Interest expense		(4,703,719)	(3,841,417)
		5,637,205	5,090,979
Net fee and commission income:			
Fee and commission income	41, 43	2,787,010	2,856,157
Fee and commission expense		(718,030)	(979,551)
		2,068,980	1,876,606
Net gain on financial instruments measured at FVTPL	41, 44	259,928	-
Gain on financial instruments held-for-trading	41, 44	-	411,539
Net gain on financial instruments designated as measured at FVTPL	41, 45	23,857	-
Gain (loss) on financial instruments designated at FVTPL	41, 45	-	(382,240)
Net gain on financial instruments measured at FVOCI	41, 46	20,955	-
Gain on disposal of financial assets measured at amortized cost	41, 47	67,831	-
Gain (loss) on derivative assets used for hedging	41, 48	(24,830)	36,240
Other income on financial instruments	41, 49	-	662,598
Gain on foreign currency transactions	41	233,491	694,819
Total operating income		8,287,417	8,390,541
Impairment loss on financial assets	41, 50	(466,043)	(947,496)
Net operating income		7,821,374	7,743,045
General and administrative expenses	41, 51	(3,946,860)	(4,039,072)
Other operating income	41, 52	918,563	857,490
Other operating expenses	41, 53	(1,640,897)	(1,543,326)
Operating income		3,152,180	2,718,137
Non-operating income:			
Net gain on valuation of investments in associates and joint ventures	21	22,873	99,892
Other non-operating income	54	88,831	126,727
Other non-operating expenses	55	(114,140)	(146,091)
		(2,436)	80,528
Net income before income tax		3,149,744	2,798,665
Income tax expense	56	(874,592)	(682,043)
Net income for the year		2,275,152	2,116,622
Equity holders of the parent		2,233,325	2,036,839
Non-controlling interests		41,827	79,783
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Gain on valuation of debt securities measured at FVOCI		171,753	-
Gain on valuation of available-for-sale financial assets		-	(132,503)
Exchange differences on translation of foreign operations		(14,623)	(203,042)
Share of other comprehensive income (loss) of an associate		20,885	(50,648)
Gain on valuation of net investment hedges		(8,949)	42,427
Gain on valuation of cash flow hedges		(166)	1,314
Gain on valuation of fair value hedge instruments		(6,772)	-
		162,128	(342,452)
Items that will not be reclassified subsequently to profit or loss:			
Gain on valuation of equity securities measured at FVOCI		166,912	-
Effect of changes in the credit risk of financial liabilities designated as measured at FVTPL		749	-
Remeasurement of the net defined benefit liability		(103,093)	30,636
		64,568	30,636
		226,696	(311,816)
Total comprehensive income for the year		₩ 2,501,848	₩ 1,804,806
Equity holders of the parent		2,463,704	1,732,566
Non-controlling interests		38,144	72,240
Earnings per share			
	58		
Basic earnings per share (Korean won)		₩ 7,360	₩ 6,817
Diluted earnings per share (Korean won)		₩ 7,325	₩ 6,774

(*) The comparative financial statements as at December 31, 2017 is stated in accordance with KIFRS 1039 Financial instruments : *Recognition and measurement*.

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

Consolidated statements of changes in equity

For the years ended December 31, 2018 and 2017

(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, 2017		₩ 1,480,015	₩ 443,769		₩ 10,463,067	₩ (13,183)	₩ (461,369)	₩ 10,575,395	₩ 22,487,694	₩ 902,344	₩ 23,390,038
Annual dividends		-	-		-	-	-	(236,802)	(236,802)	-	(236,802)
Interim dividends		-	-		-	-	-	(88,801)	(88,801)	-	(88,801)
Acquisition of subsidiary		-	-		-	(1,710)	-	-	(1,710)	1,710	-
Dividends on hybrid equity securities		-	-		-	-	-	(19,098)	(19,098)	(20,824)	(39,922)
Dividends on preferred shares		-	-		-	-	-	-	-	(1,247)	(1,247)
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)
Share of other comprehensive income (loss) of an associate		-	-		-	-	(50,325)	-	(50,325)	(323)	(50,648)
Gain on valuation of hedge of a net investment hedges of a net investment hedges		-	-		-	-	42,427	-	42,427	-	42,427
Gain on valuation of cash flow hedges		-	-		-	-	1,124	-	1,124	190	1,314
Remeasurement gain (loss) of the net defined benefit plan		-	-		-	-	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
As of January 1, 2018 (IFRS 39)		₩ 1,480,015	₩ 443,769		₩ 10,463,033	₩ (15,049)	₩ (765,642)	₩ 12,267,565	₩ 23,873,691	₩ 954,253	₩ 24,827,944
Cumulative effect of adoption of new accounting standards	3	-	-		-	-	(346,220)	260,435	(85,785)	(13,640)	(99,425)
As of January 1, 2018 (IFRS 9)		1,480,015	443,769		10,463,033	(15,049)	(1,111,862)	12,528,000	23,787,906	940,613	24,728,519
Annual dividends		-	-		-	-	-	(370,004)	(370,004)	-	(370,004)
Interim dividends		-	-		-	-	-	(120,097)	(120,097)	-	(120,097)
Paid-in capital increase		21,195	-		178,689	-	-	-	199,884	-	199,884
Issuance of hybrid equity securities		-	536,535		-	-	-	-	536,535	-	536,535
Paid-in capital increase of subsidiaries		-	-		(767)	-	-	-	(767)	-	(767)
Acquisition of a subsidiary		-	-		(38,361)	-	-	-	(38,361)	(277,399)	(315,760)
Dividends on hybrid equity securities		-	-		-	-	-	(29,319)	(29,319)	(20,824)	(50,143)
Dividends on preferred shares		-	-		-	-	-	-	-	(1,247)	(1,247)
Transfer of fair value reserve of equity securities measured at FVOCI		-	-		-	-	17,593	(17,593)	-	-	-
Others		-	-		-	-	-	(309)	(309)	-	(309)
		1,501,210	980,304		10,602,594	(15,049)	(1,094,269)	11,990,678	23,965,468	641,144	24,606,612
Net income for the year		-	-		-	-	-	2,233,325	2,233,325	41,827	2,275,152
Gain on valuation of financial assets measured at FVOCI		-	-		-	-	340,421	-	340,421	(1,756)	338,665
Exchange differences on transaction of foreign operations		-	-		-	-	(13,323)	-	(13,323)	(1,300)	(14,623)
Share of other comprehensive income (loss) of an associate		-	-		-	-	21,063	-	21,063	(178)	20,885
Gain on valuation of hedge of a net investment		-	-		-	-	(8,949)	-	(8,949)	-	(8,949)
Gain on valuation of cash flow hedges		-	-		-	-	(141)	-	(141)	(25)	(166)
Gain on valuation of fair value hedge instruments		-	-		-	-	(6,772)	-	(6,772)	-	(6,772)
Effect of changes in the credit risk of financial liabilities designated as measured at FVTPL		-	-		-	-	749	-	749	-	749
Remeasurement of the net defined benefit liability		-	-		-	-	(102,669)	-	(102,669)	(424)	(103,093)
Total comprehensive income for the year		-	-		-	-	230,379	2,233,325	2,463,704	38,144	2,501,848
As at December 31, 2018		₩ 1,501,210	₩ 980,304		₩ 10,602,594	₩ (15,049)	₩ (863,890)	₩ 14,224,003	₩ 26,429,172	₩ 679,288	₩ 27,108,460

(*) The comparative financial statements for the year ended December 31, 2017 is stated in accordance with KIFRS 1039 Financial instruments : *Recognition and measurement*.

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

Consolidated Statements of Cash Flows

As at December 31, 2018 and 2017

(Unit: Korean won in millions)

	Notes	2018	2017
Operating activities			
Net income before income tax		₩ 3,149,744	₩ 2,798,665
Adjustments to reconcile net income before income tax to net cash flows:			
Net interest income		(5,331)	431,718
Net loss (gain) on valuation of financial assets measured at FVTPL		23,331	-
Net loss on disposal of financial assets measured at FVTPL		13,521	-
Net gain on valuation of financial instruments designated as measured at FVTPL		(218,145)	-
Net gain on transaction of financial assets measured at FVOCI		(13,095)	-
Provision of credit losses on fiancial assets measured at amortized cost		2,392	-
Net gain on valuation of financial instruments held for trading		-	(160,133)
Net gain on valuation of financial assets and liabilities designated at FVTPL		-	(91,177)
Net loss (gain) on valuation of trading securities		-	(448,618)
Net loss on fair value of hedged items		8,828	(36,219)
Reversal of credit losses on financial assets measured at FVOCI		(1,861)	-
Impairment loss on available-for-sale financial assets		-	155,713
Net loss (gain) on foreign currencies transactions		(380,349)	(306,747)
Provision of allowance for possible impairment		465,512	791,783
Depreciation and amortization		591,837	535,404
Share based payment expense (income)		9,007	45,917
Provision of post-employment benefit obligations		234,456	163,190
Share of profit of associates and joint ventures		(22,873)	(99,892)
Other loss (gain) relating to property, equipment and intangible assets		(4,170)	(46,707)
Others gains		(9,030)	(98,270)
		694,030	835,962
Changes in operating assets and liabilities:			
Due from banks		(5,497,299)	6,827,925
Financial assets measured at FVTPL		3,211,882	-
Financial assets held-for-trading		-	(864,697)
Financial assets designated at FVTPL		-	539,867
Loans measured at amortized cost		(22,112,925)	(15,605,340)
Derivative assets used for hedging purposes		3,590	9,626
Investment in associates and joint ventures		8,828	40,376
Other assets		(1,712,775)	(520,606)
Financial liabilities measured at FVTPL		(3,142,332)	-
Financial liabilities designated as measured at FVTPL		3,382,827	-
Financial liabilities held-for-trading		-	767,818
Financial liabilities designated at FVTPL		-	(791,027)
Deposits		16,141,548	13,587,681
Derivative liabilities used for hedging purposes		(13,988)	(27,383)
Net defined benefit liabilities		(187,535)	(201,542)
Provisions		(48,816)	(63,082)
Other liabilities		1,895,213	(965,371)
		(8,071,782)	2,734,245
Payment of income tax		(1,203,726)	(356,947)
Net cash flows provided by operating activities		(5,431,734)	6,011,925

(Unit: Korean won in millions)

	Notes	2018	2017
Investing activities			
Acquisition of subsidiaries, net of cash acquired		(345,351)	-
Purchase of financial assets measured at FVTPL		(12,291,714)	-
Proceeds from sale of financial assets measured at FVTPL		12,273,976	-
Purchase of financial assets measured at FVOCI		(6,752,507)	-
Proceeds from sale financial assets measured at FVOCI		13,405,384	-
Purchase of securities measured at amortized cost		(8,145,413)	-
Proceeds from sale of securities measured at amortized cost		822,680	-
Purchase of available-for-sale financial assets		-	(33,559,715)
Proceeds from sale of available-for-sale financial assets		-	26,702,282
Purchase of held-to-maturity financial assets		-	(3,101,936)
Proceeds from sale of held-to-maturity investments		-	181,343
Acquisition of associates and joint ventures		(141,009)	(54,007)
Proceeds from disposal of associates and joint ventures		31,739	2,247
Purchase of property and equipment		(497,066)	(740,284)
Proceeds from disposal of property and equipment		92,031	232,267
Purchase of investment property		(1,234)	(266)
Proceeds from disposal of investment property		2,416	-
Purchase of intangible assets		(145,645)	(116,173)
Proceeds from disposal of intangible assets		2,148	12,383
Decrease in non-current assets held for sale, net		(8,424)	59,845
Decrease in guarantee deposit, net		87,267	129,031
Net cash flows used in investing activities		(1,610,722)	(10,252,983)
Financing activities			
Increase of borrowings, net		247,856	52,922
Issuance of debentures		31,944,951	25,321,837
Redemption of debentures		(28,522,959)	(20,916,143)
Paid-in capital increase		199,884	-
Payment of dividends		(490,101)	(325,603)
Issuance of debentures		536,535	-
Dividends of hybrid equity securities		(26,937)	(19,098)
Decrease (increase) in non-controlling shareholders' equity, net		(22,070)	(22,071)
Net cash flows provided provided by (used in) financing activities		3,867,159	4,091,844
Net foreign exchange difference		60,262	(399,451)
Net increase (decrease) in cash and cash equivalents (I+II+III+IV)		(3,115,035)	(548,665)
Cash and cash equivalents at the beginning of the year		8,371,767	8,920,432
Cash and cash equivalents at the end of the year	60	₩ 5,256,732	₩ 8,371,767

(*) The comparative financial statements as at December 31, 2017 is stated in accordance with KIFRS 1039 Financial instruments : *Recognition and measurement*.

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

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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 Companies Act, in exchange for those entities' shares owned by the shareholders of Hana Bank, Hana Financial Investment Co., Ltd. (“HFI”), Hana TI, and Hana Institute of Finance (“HIF”). HFG primarily engages in the management of its subsidiaries, which operate in the financial services industry in the Republic of Korea. As of December 31, 2018, the Company's subsidiaries included in and excluded from the consolidation are as follows.

Date	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
February 20, 2014	PT Bank KEB	Merged with PT Bank Hana(PT Bank KEB Hana)
September 1, 2014	KEB Hana Card Co., Ltd. (KEB Hana Card)	Established by the spin-off of KEB credit card business
December 1, 2014	Hana SK Card Co., Ltd.	Merged with KEB Hana Card Co., Ltd.
December 15, 2014	KEB Bank(China) Co., Ltd.	Merged with Hana Bank(China) Co., Ltd.
September 1, 2015	Hana Bank	Merged with KEB Hana Bank
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
May 26, 2016	Hana Alternative Asset Management	Acquired by h 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)	Liquidated
October 4, 2018	Hana Ventures Inc.	Established by capital investment

The capital stock amounted to ₩1,021,281 million at the time of establishment. As of December 31, 2018, the capital stock amounted to ₩1,501,210 million due to stock dividends, stock exchanges and paid-in capital increase. Also, the Company's common shares were listed on the Korea Exchange (KRX) on December 12, 2005 and the Company's common shares authorized to issue are 800,000,000 shares as of December 31, 2018.

1.2 Scope of consolidation

	Country	Major business	Number of shares	Ownership (%)	Reporting date
Subsidiaries of HFG:					
KEB Hana Bank	Korea	Banking	1,071,915,717	100.0	December 31
HFI	Korea	Financial investments	58,637,495	100.0	December 31
KEB Hana Card	Korea	Credit card business	226,113,162	85.0	December 31
Hana Capital	Korea	Installment credit financing and facility rental business	14,484,157	100.0	December 31
Hana Asset Trust	Korea	Real estate trust	10,000,000	100.0	December 31
Hana TI	Korea	System development service	18,600,000	90.0	December 31

	Country	Major business	Number of shares	Ownership (%)	Reporting date
Hana Savings Bank	Korea	Mutual savings banking	15,000,000	100.0	December 31
Hana Life Insurance	Korea	Life insurance	33,710,200	100.0	December 31
HIS	Korea	Transfer agent	510,000	100.0	December 31
Hana Alternative Asset Management Co., Ltd.	Korea	Asset management	2,000,000	100.0	December 31
Hana Ventures	Korea	New technology business financing	6,000,000	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
Hana Alternative Professional Investment Type Private Real Estate Investment Trust 68-1 (*1)	Korea	Private investment trust company	-	40.0	December 31
Hana Alternative Investment Black Rock Professional Investment Type Special Private Asset Investment Trust 73 (*1)	Korea	Private investment trust company	-	33.3	December 31
Hana Alternative Professional Investment Type Private Real Estate Investment Trust 90 (*1)	Korea	Private investment trust company	-	67.5	December 31
Hana Alternative Investment England Government Office Professional Investment Type Private Real estate Investment Trust 1 (*1)	Korea	Private investment trust company	-	49.9	December 31
Special Money Intrust (*1)(*2)	Korea	Specified Money Intrust	-	-	December 31
Subsidiaries of KEB Hana Bank:					
Hana Bank (China) Co., Ltd. (*1)	China	Banking	-	100.0	December 31
Hana Micro Finance Ltd.	Myanmar	Financial business	1,751,121	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
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
Kyobo Axa Tomorrow Private equity KH-1 [Bond] (*1)	Korea	Private investment trust company	-	100.0	December 31
DGB Leading Solution Private Bond 143 (*1)	Korea	Private investment trust company	-	100.0	December 31
Sevenstar Co., Ltd. (*3)	Korea	Asset Securitization	-	-	December 31
Marine Solution Co., Ltd. (*3)	Korea	Asset Securitization	-	-	December 31
Chungangstar Co., Ltd. (*3)	Korea	Asset Securitization	-	-	December 31
Antakya Co., Ltd. (*3)	Korea	Asset Securitization	-	-	December 31
Cosmos Solution Ltd. (*3)	Korea	Asset Securitization	-	-	December 31
Hana Display First Ltd. (*3)	Korea	Other financial business	-	-	December 31

	Country	Major business	Number of shares	Ownership (%)	Reporting date
Hana Indonesia Green Forest Co., Ltd. (*3)	Korea	Asset securitization	-	-	December 31
Bulls Hana 1 st Co., Ltd. (*3)	Korea	Asset securitization	-	-	December 31
Trust agreement to guarantee principal and profit (*3)	Korea	Trust Account	-	-	December 31
Subsidiaries of Hana F&I Inc.:					
HFSCN81 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFB81 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
KEBW First Securitization Specialty Co., Ltd.(*1)	Korea	Asset securitization	-	5.0	December 31
KEB Pepper First Securitization Co., Ltd. (*1)	Korea	Asset securitization	-	5.0	December 31
KEBI First Securitization Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
KEBS Third Securitization Co., Ltd. (*1)	Korea	Asset securitization	-	5.0	December 31
KEBT First Securitization Specialty Co., Ltd (*1)	Korea	Asset securitization	-	5.0	December 31
KEB The Loft Co., Ltd. (*3)	Korea	Asset securitization	-	-	December 31
HFS First Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	14.0	December 31
Hana Stone First Co., Ltd. (*3)	Korea	Asset securitization	-	-	December 31
HFT Second Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	5.0	December 31
Hana Stone Second Co., Ltd. (*3)	Korea	Asset securitization	-	-	December 31
Hana Sinji First, Inc. (*3)	Korea	Asset securitization	-	-	December 31
Hana SH First Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	14.0	December 31
HFS Second Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	14.0	December 31
Hana K First Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	14.0	December 31
HFD First Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	14.0	December 31
HFDG Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	14.0	December 31
HFS 73A Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFS 73B Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFW 73 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFK74 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
Fine Fifth Securitization Specialty co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
Fine Sixth Securitization Specialty co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFS 82 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFF 82 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFN 82 Securitization Specialty Co., Ltd. (*1)	Korea	Asset securitization	-	9.0	December 31
HFDD 82 Co., Ltd (*3)	Korea	Asset securitization	-	-	December 31
HFI 83 Securitization Specialty Co., Ltd (*1)	Korea	Asset securitization	-	9.0	December 31
HFS84 Securitization Specialty Co., Ltd (*1)	Korea	Asset securitization	-	9.0	December 31
HFF84 Securitization Specialty Co., Ltd (*1)	Korea	Asset securitization	-	9.0	December 31
HFK84 Securitization Specialty Co., Ltd (*1)	Korea	Asset securitization	-	9.0	December 31
Subsidiaries of Hana Bancorp, Inc. :					
KEB Hana Bank, USA	U.S.	Banking	500,100	100.0	December 31
Subsidiaries of HFI:					
Hana the First Privat Equity Fund (*1)(*5)	Korea	Private equity fund	-	48.9	December 31
Racia the Third Co., Ltd. (*3)	Korea	Other financial business	-	-	December 31
Racia the Fourth Co., Ltd (*3)	Korea	Other financial business	-	-	December 31

	Country	Major business	Number of shares	Ownership (%)	Reporting date
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
Hana Land Chip Houston Real Estate Private Fund 59 (*1)	Korea	Investment trust	-	100.0	December 31
Hana the Third Private Equity Fund (*1)(*6)	Korea	Private equity fund	-	35.0	December 31
Hana New Technology Partnership 1 (*1)	Korea	Other financial business	-	50.0	December 31
Yellow Balloon 2nd co.,Ltd. (*3)	Korea	Other financial business	-	-	December 31
Citizenryu.,Ltd (*3)	Korea	Other financial business	-	-	December 31
Tominic Co., Ltd (*3)	Korea	Other financial business	-	-	December 31
Hana North America Midwest Office Co., Ltd (*3)	Korea	Other financial business	-	-	December 31
Portfolio 1st CO., Ltd (*3)	Korea	Other financial business	-	-	December 31
Hana AI The 2nd co., Ltd (*3)	Korea	Other financial business	-	-	December 31
Yellow Balloon 3rd co.,Ltd. (*3)	Korea	Other financial business	-	-	December 31
YDL 1st co., Ltd (*3)	Korea	Other financial business	-	-	December 31
Hana Snowman 1st Co., Ltd (*3)	Korea	Other financial business	-	-	December 31
Nizhny First Co., Ltd (*3)	Korea	Other financial business	-	-	December 31
Irene First CO., Ltd (*3)	Korea	Other financial business	-	-	December 31

Subsidiaries of Hana the First Private Equity Fund :

Warden 1 SPC Ltd.(*1)	Korea	SPC	-	100.0	December 31
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Subsidiaries of Hana the Third Private Equity Fund :

Venus 1 SPC Co., Ltd. (*1)	Korea	SPC	-	100.0	December 31
Rea 1 SPC Co., Ltd. (*1)	Korea	SPC	-	100.0	December 31
Taitan SPC Co., Ltd. (*1)	Korea	SPC	-	100.0	December 31

Subsidiaries of Rea 1 SPC Co., Ltd.:

Dduksim Co., Ltd.	Korea	Meat wholesale and retail	435,000	72.2	September 30
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Subsidiaries of Dduksim Co., Ltd.:

HYOCHANG Co., Ltd.	Korea	Packed meat and frozen meat processing	30,000	100.0	September 30
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Subsidiaries of KEB Hana Card:

Hana Card Payment	Japan	Other financial support service	1	100.0	December 31
Special money intrust (*1) (*2)	Korea	Specified money intrust	-	-	December 31

Subsidiaries of Hana Life Insurance:

Hana Land Chip Houston Real Estate Private Fund 68 (*1)	Korea	Investment trust	-	100.0	December 31
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Subsidiaries of Hana TI:

PT Next Transformtech Indonesia (*4)	Indonesia	Computer development service	25,000	100.0	December 31
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(*1) The number of shares is not presented since the Company did not issue shares.
(*2) Special money intrust accounts consist of many accounts, but the number of accounts is not recorded.
(*3) The investee was included in the scope of consolidation due to credit provision by the Group.
(*4) Hana TI and Hana Capital hold 95.1% and 4.9% shares, respectively.
(*5) HFI and KEB Hana bank hold 18.9% and 30.0% shares of the investee, respectively.
(*6) HFI and KEB Hana bank hold 25.0% and 10.0% shares of the investee, respectively.

The financial information of subsidiaries as of December 31, 2018 and 2017 is as follows (Korean won in millions):

	December 31, 2018						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
KEB Hana Bank (*1)	₩ 340,252,543	₩ 315,743,124	₩ 24,509,419	₩ 26,052,734	₩ 2,092,432	₩ 230,432	₩ 2,322,864
HFI (*1)	23,537,258	20,337,280	3,199,978	3,774,874	151,649	2,584	154,233
KEB Hana Card (*1)	7,985,110	6,408,755	1,576,355	1,296,957	106,675	(3,365)	103,310
Hana Capital	6,884,177	6,071,096	813,081	606,928	120,431	(399)	120,032
Hana Asset Trust	346,829	133,587	213,242	93,521	44,150	-	44,150
Hana TI (*1)	469,402	359,362	110,040	177,362	474	(680)	(206)
Hana Savings Bank	1,183,963	979,041	204,922	72,070	16,160	(806)	15,354
Hana Life Insurance (*1)	4,697,044	4,387,715	309,329	693,004	19,504	(5,470)	14,034
HIS	35,149	3,180	31,969	25,092	1,989	(93)	1,896
Hana Alternative Asset Management Co., Ltd	51,557	6,795	44,762	29,655	8,949	-	8,949
Hana Ventures	29,535	149	29,386	49	(182)	-	(182)
Hana Professional Investment Type Private Equity Real Estate 28	12,062	12	12,050	756	702	-	702
Hana Japan Residence Professional Investment Type Private Equity Real Estate 47	29,912	121	29,791	6,546	3,763	-	3,763
Hana Alternative Professional Investment Type Private Real Estate Investment Trust 68-1	34,103	1,792	32,311	3,930	859	-	859
Hana Alternative Investment Black Rock Professional Investment Type Special Private Asset Investment Trust 73	49,837	2,164	47,673	3,334	1,068	-	1,068
Hana Alternative Professional Investment Type Private Real Estate Investment Trust 90	20,452	1,000	19,452	850	(268)	-	(268)
Hana Alternative Investment England Government Office Professional Investment Type Private Real estate Investment Trust 1	40,727	1,621	39,106	294	(1,567)	-	(1,567)

	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

	December 31, 2017						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
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	-	-	-	597	(202)	-	(202)

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

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

Changes in scope of consolidation for the year ended December 31, 2018 are as follows:

Name of subsidiaries	Reason
Included in scope of consolidation:	
Hana Display the First Co., Ltd.	Included due to the new investments
Hana Indonesia Green Forest Co., Ltd.	Included due to the new investments
Bulls Hana 1 st Co., Ltd.	Included due to the new investments
HFSCN81 Securitization Specialty Co., Ltd.	Included due to the new investments
HFB81 Securitization Specialty Co., Ltd.	Included due to the new investments
Fine5th Securitization Specialty Co., Ltd.	Included due to the new investments
Fine6th Securitization Specialty Co., Ltd.	Included due to the new investments
HFS 82 Securitization Specialty Co., Ltd.	Included due to the new investments
HFF 82 Securitization Specialty Co., Ltd.	Included due to the new investments
HFN 82 Securitization Specialty Co., Ltd.	Included due to the new investments
HFDD 82 Co., Ltd	Included due to the new investments
HFI 83 Securitization Specialty Co., Ltd	Included due to the new investments
HFS84 Securitization Specialty Co., Ltd	Included due to the new investments
HFF84 Securitization Specialty Co., Ltd	Included due to the new investments
HFK84 Securitization Specialty Co., Ltd	Included due to the new investments
Hana Prime the First Co., Ltd.	Included due to exposure to variable profit from single credit provision
H Best the Sixth Co., Ltd.	Included due to exposure to variable profit from single credit provision
Racia the Third Co., Ltd.	Included due to exposure to variable profit from single credit provision

Name of subsidiaries	Reason
Racia the Fourth Co., Ltd.	Included due to exposure to variable profit from single credit provision
Hana MIK Co., Ltd.	Included due to exposure to variable profit from single credit provision
Hana AI the First Co., Ltd.	Included due to exposure to variable profit from single credit provision
Baratheon 1st Co., Ltd.	Included due to exposure to variable profit from single credit provision
Hana New Technology Fund No.1	Included due to the new investments
Venus 1 SPC Co., Ltd.	Included due to the new investments
Rea 1 SPC Co., Ltd.	Included due to the new investments
Dduksim Co., Ltd.	Included due to the new investments
Yellow Balloon 2nd Co., Ltd.	Included due to exposure to variable profit from single credit provision
Citizenryu.,Ltd	Included due to exposure to variable profit from single credit provision
Tominic Co., Ltd	Included due to exposure to variable profit from single credit provision
Hana North America Midwest Office Co., Ltd	Included due to exposure to variable profit from single credit provision
Portfolio 1st Co., Ltd	Included due to exposure to variable profit from single credit provision
Hana AI The 2nd Co., Ltd	Included due to exposure to variable profit from single credit provision
Taitan SPC Co., Ltd.	Included due to the new investments
HYOCHANG Co., Ltd.	Included due to the new investments
Yellow Balloon 3rd Co., Ltd.	Included due to exposure to variable profit from single credit provision
YDL 1st Co., Ltd	Included due to exposure to variable profit from single credit provision
Hana Snowman 1st Co., Ltd	Included due to exposure to variable profit from single credit provision
Nizhny First Co., Ltd	Included due to exposure to variable profit from single credit provision
Irene First CO., Ltd	Included due to exposure to variable profit from single credit provision
Hana Alternative Professional Investment Type Private Real Estate Investment Trust 68-1 (*1)	Included due to the new investments
Hana Alternative Investment Black Rock Professional Investment Type Special Private Asset Investment Trust 73	Included due to the new investments
Hana Alternative Professional Investment Type Private Real Estate Investment Trust 90	Included due to the new investments
Hana Alternative Investment England Government Office Professional Investment Type Private Real estate Investment Trust 1	Included due to the new investments
Hana ventures	Included due to the new investments
Excluded from scope of consolidation:	
Okea Co., Ltd.	Excluded due to the disposal
BNB Statutory Trust I	Excluded due to the liquidation
BNB Funding Corp.	Excluded due to the liquidation
Radian 1 SPC Co., Ltd.	Excluded due to the liquidation
Shinseung Building Inc.	Excluded due to the disposal
H Best the Sixth Co., Ltd.	Excluded due to the suspension of credit provision
HS First Securitization Specialty Co., Ltd	Excluded due to the disposal
Hanastone First Inc. (*1)	Excluded due to the disposal
Hana MIK Co., Ltd.	Excluded due to the suspension of credit provision
Hana AI the 1st Co., Ltd.	Excluded due to the suspension of credit provision
Hana Prime First, Inc.	Excluded due to the suspension of credit provision
KEB Veritas Second Loan Securitization Specialty Co., Ltd.	Excluded due to the disposal
Hyundai Veritas Investment 1 Loan	Excluded due to the disposal
Baratheon the 1st Co., Ltd.	Excluded due to the suspension of credit provision

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 of 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 of April 5, 2013. As of 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, and acquired the remaining stake in February 2018 and classified Hana Capital as a wholly-owned subsidiary of the Company.

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 of March 10, 2010. The Company additionally acquired 7% ownership of Hana Daol Trust as of 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 of December 31, 2013.

1.2.6 Hana TI

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.

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 Hana Ventures Inc.

Hana Ventures Inc. ("Hana Ventures") was established on October 4, 2018 as a wholly-owned subsidiary of the Company. Hana Ventures is a new technology based business finance company formed under the *Specialized Credit Financial Business Act*. Its primary business is to invest in venture companies and start-up SMEs to form and manage new technology business investment associations, Korea Venture Investment Association and private equity investment companies

1.2.12 Special Money Intrust

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

1.2.13 Subsidiaries of KEB Hana Bank

1.2.13.1 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.

1.2.13.2 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.

1.2.13.3 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.

1.2.13.4 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.

1.2.13.5 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.

1.2.13.6 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.

1.2.13.7 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.

1.2.13.8 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.

1.2.13.9 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.

1.2.13.10 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.

1.2.13.11 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.

1.2.13.12 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.

1.2.13.13 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.

1.2.13.14 Sevenstar Co., Ltd. and 7 other Special Purpose Entities

In accordance with the KIFRS 1110 *Consolidated Financial Statements*, the Group consolidated Sevenstar Co., Ltd. and 7 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.

1.2.13.15 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 of 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. On the other hand, Hana Bancorp, Inc. is a financial holding company with 100% stake in KEB Hana Bank USA.

1.2.13.16 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.

1.2.14 Subsidiaries of HFI

1.2.14.1 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. The initial contribution was made on January 13, 2010. Hana the First Private Equity Fund owns Warden 1 SPC, Ltd., a special purpose company as a subsidiary.

1.2.14.2 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 is located at 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.

1.2.14.3 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.

1.2.14.4 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.

1.2.14.5 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.

1.2.14.6 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. Hana the Third Private Equity Fund has Venus 1 SPC Co., Ltd., Rea 1 SPC Co., Ltd. and Taitan SPC Co., Ltd., which are special purpose companies, as subsidiaries Rea 1 SPC Co., Ltd. has Dduksim Co., Ltd. as a subsidiary and Dduksim Co., Ltd. has HYOCHANG Co., Ltd. as a subsidiary.

1.2.14.7 Racia the Third Co., Ltd. And 12 others

In accordance with KIFRS 1110 *Consolidated Financial Statements*, the Group consolidated Racia the Third Co., Ltd., Racia the Fourth Co., Ltd., Yellow Balloon 2nd Co., Ltd., Citizenryu., Ltd., Tominic Co., Ltd., Hana North America Midwest Office Co., Ltd., Portfolio 1st Co., Ltd., Hana AI The 2nd Co., Ltd., Yellow Balloon 3rd Co., Ltd., YDL 1st Co., Ltd., Hana Snowman 1st Co., Ltd., Nizhny First Co., Ltd., and Irene First CO., Ltd., as the Group is exposed, or has rights, to variable returns from credit provision and has the ability to affect those returns through its power over the corporations.

1.2.14.8 Hana New Technology Investment Partnership 1

Hana New Technology Investment Partnership 1 was established with the purpose of investing and managing its profits in accordance with the *Specialized Credit Financial Business Act*, its enforcement ordinance, enforcement regulations and relevant laws and regulations, and distributing its profits to its members.

1.2.15 Subsidiaries of KEB Hana Card

1.2.15.1 Special money intrust

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

1.2.15.2 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.

1.2.16 Subsidiaries of Hana Life Insurance

1.2.16.1 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.*

1.2.17 Subsidiaries of Hana TI

1.2.17.1 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

The structured company for the securitization of assets is established for the securitization of non-performing loans (NPL). The Group acquires subordinated bonds issued by the consolidated structured company, and is exposed to risk of not being able to recover the acquisition (investment) money according to the performance.

Nature and reason of the contractual arrangements for providing the financial support to a consolidated structured entity as of December 31, 2018 are as follows:

Entity	The Characteristics and Purposes	Intention
Trust accounts with guarantee of the repayment of principal and interest	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
Antakya Co., Ltd.	The Group partially purchased ABCP (purchase commitment of ₩50 billion) from Antakya Co., Ltd.	Operating activities
Cosmos Solution Co., Ltd.	The Group partially purchased ABCP (purchase commitment of ₩14.4 billion) from Cosmos Solution Co., Ltd.	Operating activities
Hana Display the First Co., Ltd.	The Group committed to purchase ABCP of ₩200 billion from Hana Display the First Co., Ltd.	Operating activities
Hana Indonesia Green Forest Co., Ltd.	The Group committed to purchase ABSTB of 1.1 billion from Hana Indonesia Green Forest Co., Ltd.	Operating activities
Racia the Third Co., Ltd.	The Group is obligated to acquire privately-placed bonds up to ₩121.8 billion in case the repayment of bonds issued by Racia the Third Co., Ltd. is not completed.	Asset securitization

Entity	The Characteristics and Purposes	Intention
Racia the Fourth Co., Ltd.	The Group is obligated to acquire privately-placed bonds up to ₩36 billion in case the repayment of bonds issued by Racia the Fourth Co., Ltd. is not completed.	Asset securitization
Yellow Balloon 2nd Co., Ltd.	The Group is obligated to acquire privately-placed bonds up to ₩137 billion in case the repayment of bonds issued by Yellow Balloon 2nd Co., Ltd. is not completed.	Asset securitization
Citizenryu.,Ltd	The Group is obligated to acquire privately-placed bonds up to ₩118.5 billion in case the repayment of bonds issued by Citizenryu.,Ltd. is not completed.	Asset securitization
Tominic Co., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩7.3 billion in case the repayment of bonds issued by Tominic Co., Ltd. is not completed.	Asset securitization
Hana North America Midwest Office Co., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩122 billion in case the repayment of bonds issued by Hana North America Midwest Office Co., Ltd. is not completed.	Asset securitization
Portfolio 1st Co., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩118 billion in case the repayment of bonds issued by Portfolio 1st Co., Ltd. is not completed.	Asset securitization
Yellow Balloon 3rd Co., Ltd.	The Group is obligated to acquire privately-placed bonds up to ₩142.5 billion in case the repayment of bonds issued by Yellow Balloon 3rd Co., Ltd. is not completed.	Asset securitization
YDL 1st Co., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩11.5 billion in case the repayment of bonds issued by YDL 1st Co., Ltd. is not completed.	Asset securitization
Hana Snowman 1st Co., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩57.9 billion in case the repayment of bonds issued by Hana Snowman 1st Co., Ltd. is not completed.	Asset securitization
Nizhny First Co., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩79 billion in case the repayment of bonds issued by Nizhny First Co., Ltd. is not completed.	Asset securitization
Irene First CO., Ltd	The Group is obligated to acquire privately-placed bonds up to ₩17.2 billion in case the repayment of bonds issued by Irene First CO., Ltd. is not completed.	Asset securitization

2. Unconsolidated structured entities

Details of the nature of the Group's interests in unconsolidated structured entities as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Classification	Purpose	Financing arrangement	Total assets	
			December 31, 2018	December 31, 2017
Special purpose company	Financing through asset liquidation and securitization	Issuing ABL/ABCP and others	₩ 11,426,873	₩ 12,404,601
Real estate finance	Operation for real estate (including SOC) development	Investment and borrowing	18,403,159	25,327,687
Shipping finance and primary market finance	Financing to purchase ships, NPL and ownership	Investment and borrowing	27,703,454	12,788,536
Investment fund	Managing investment fund and trust fund and trust	Issuing beneficiary certificates	122,764,262	150,620,427

Details of the nature of the Group's interests in unconsolidated structured entities as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Classification	December 31, 2018			
	Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
Assets:				
Loans receivable (A)	₩ 836,661	₩ 1,224,365	₩ 939,731	₩ 765,726
Securities (B)	739	82,561	-	7,918,809
Derivatives (C)	7,130	12,160	1,067	8,655
Others (D)	2,898	2,288	3,893	6
Liabilities:				
Derivatives	1,513	4,614	4,155	7,509
Provision	958	2,939	333	38
Others	84	26	10	104
Net asset	₩ 844,873	₩ 1,313,795	₩ 940,193	₩ 8,685,545
Maximum exposure to loss				
Financial assets (A+B+C+D)	₩ 847,428	₩ 1,321,374	₩ 944,691	₩ 8,693,196
Credit and other commitment	2,676,966	548,833	191,544	21,277

Classification	December 31, 2017			
	Special purpose company	Real estate finance	Shipping finance and primary market finance	Investment fund
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

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 of 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 of 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 of 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 1109, 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 of 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 in accordance with KIFRS 1103 Business combinations. 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 of 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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Financial assets are classified, at initial recognition, as fair value through profit or loss, fair value through other comprehensive income (OCI), and subsequently measured at amortized cost, and financial liabilities are classified as fair value through profit of loss, and subsequently measured at amortized cost.

Purchase or sale of financial assets is recognized at the date of settlement. However, purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group initially measures a financial asset and a financial liability at its fair value plus (minus), in the case of a financial asset (financial liability) not at fair value through profit or loss, transaction costs. Fair value is defined as the amount by which an asset can be exchanged or a liability settled in a transaction between an independent party with a reasonable judgment and a willingness to trade. The fair value of a financial instrument at initial recognition is generally the transaction price (the fair value provided or received).

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, financial assets designated upon initial recognition at fair value through profit or loss and financial assets not classified as fair value through OCI or subsequently measured at amortized cost.

In addition, if the designation of a financial asset eliminates or significantly reduces the recognition and measurement inconsistencies that may arise from the measurement of assets or liabilities on a different basis or recognition of gains or losses, a financial asset can be designated as fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value and the gains or losses arising from changes in fair value are recognized in profit or loss. Dividends and interest income from financial assets are also recognized in profit or loss.

3.5.2 Financial assets at fair value through OCI

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- 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

The Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they are held strategically not for short-term trading. Financial assets at fair value through OCI are measured at fair value after initial recognition. For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in OCI.

Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss. However, the cumulative fair value change from equity instruments designated at fair value through OCI is never recycled to profit or loss when derecognized. The fair value of financial assets at fair value through OCI is measured in the foreign currency and translated at the exchange rate at the end of the reporting period. The part of changes in fair value arising from changes in the amortized cost is recognized in profit or loss and other changes are recognized in equity.

3.5.3 Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- 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

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Interest income is recognized using the EIR method.

The Group defers LOF/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF/LOCs. The deferred LOF/LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

3.6 Derivative financial instruments and hedge accounting

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 Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI while any gains or losses relating to the ineffective portion are recognized in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of comprehensive income in accordance with KIFRS 1021 *The Effects of Changes in Foreign Exchange Rates*.

3.6.4 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.

3.6.5 ‘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.

3.6.6 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

The Group evaluates expected credit losses (ECLs) of financial assets at amortized cost and fair value through OCI except financial assets at fair value through profit or loss at the end of each reporting period, and an allowance for ECLs is recognized.

The expected credit loss (ECL) is the weighted average amount of possible outcomes within a certain range, reflecting the time value of money, estimates on the past, current and future situations, and information accessible without excessive cost of effort.

The ECL can be measured in three followings ways:

- General approach: when financial assets do not fall into below two categories and are off-balance-sheet undrawn commitments
- Simplified approach: when financial assets are trade receivables, contract assets or lease receivables
- Credit-impaired approach: when financial assets are credit-impaired at initial recognition

The general approach is applied differently depending on the significance of the increase of the credit risk. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an

amount equal to 12-month expected credit losses. If the credit risk on that financial instrument has increased significantly since initial recognition, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses at each reporting date.

The loss allowance is measured at an amount equal to lifetime expected credit losses for the simplified approach, and an entity shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at each reporting date for the credit-impaired approach.

The following non-exhaustive list of information may be relevant in assessing changes in credit risk:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception
- Other changes in the rates or terms of an existing financial instrument that would be significantly different
- An actual or expected significant change in the financial instrument's external credit rating.
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally
- An actual or expected significant change in the operating results of the borrower
- Past due information

(1) Forward-looking information

The Group measures the significance of the increase of the credit risk and the expected credit loss using forward-looking information.

The Group assumes that the risk component is correlated with changes in market conditions, and calculates the expected credit loss using the forward-looking information by modelling macroeconomic variables and risk components.

The forward-looking information used to measure the expected credit loss is derived from 'stress-case' or 'worst-case' scenarios.

(2) Measurement of expected credit loss for financial assets measured at amortized cost

Expected credit loss for financial assets measured at amortized cost is measured as the difference between the present value of the cash flows expected to be received and the cash flow expected to paid. For this purpose, the Group calculates expected cash flows for individually significant financial assets. (Individual valuation allowance)

Financial assets insignificant in value individually are measured on a collective basis with financial assets with similar credit risks (collective loss allowance).

1) Loss allowance on an individual assessment basis

Loss allowance on an individual assessment basis is based on the best estimates of management in regards to the present value of cash flows expected to be recovered from receivables. In estimating the cash flows, the Group uses all available information including the financial conditions such as the operating cash flows of counterparties and the net realizable value of collateral provided.

2) Loss allowance on a collective assessment basis

Loss allowance on a collective assessment basis uses the estimation model that accounts for the forward-looking information based on the past loss rate to measure the expected credit loss. The model considers the probability of default (PD) and the loss given default (LGD) reflecting the type of instruments and borrowers, credit rating, portfolio size and collection period. Also, certain assumptions are applied to model the expected credit loss measurement and to determine input variables based on past experiences and forward-looking information. Methodologies and assumptions for this model are regularly reviewed to minimize the difference between the loss allowance and the actual loss.

The expected credit loss for financial assets measured at amortized cost is recognized as the loss allowance, and when the financial asset is determined to be irrecoverable, the carrying amount and loss allowance are decreased. If financial assets previously written off are recovered, the loss allowance is increased and the difference is recognized in the current profit or loss.

(3) Expected credit loss measurement for financial assets measured at fair value through other comprehensive income

The measurement method is the same as the one for financial assets measured at amortized cost, but the change in the loss allowance is recognized as other comprehensive income. The loss allowance for financial assets measured at fair value through other comprehensive income is reclassified from other comprehensive income to current profit or loss when the assets are disposed of or repaid.

3.9 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when (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.

3.10 Classification and measurement of financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or borrowings. All financial liabilities are recognized initially at fair value and, except for financial liabilities at fair value through profit or loss, net of directly attributable transaction costs.

3.10.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit or loss are subsequently measured at fair value and the related gain and income expense are recognized in the statement of profit or loss.

The Group performs securities lending and borrowing classified to financial liabilities at fair value through profit or loss. 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.

3.10.2 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.

3.11 Derecognition of financial liabilities

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

3.12 Offsetting of financial 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.

3.13 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.

3.14 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 KIFRS 1109 *Financial instruments* and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with KIFRS 1115 *Revenues from contracts with cumstomers*.

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

Bonds purchased under resale agreements and bonds sold under repurchase agreements are included in loans 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.

3.16 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 55
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.

3.17 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	5 to 55

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.

3.18 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.

3.18.1 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.

3.18.2 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.

3.19 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 27

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 of 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.

3.20 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.

3.21 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.

3.22 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.

3.23 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.

3.24 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.

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.

3.25 Insurance contracts

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

3.25.1 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.

3.25.2 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.

3.25.3 Liabilities reserves

The Group recognizes liabilities reserves by types of insurance contracts as of 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.

3.25.4 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.

3.26 Equity

3.26.1 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.

3.26.2 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.

3.26.3 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.

3.26.4 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.

3.27 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.

3.28 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.

3.29 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:

3.29.1 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.

3.29.2 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.

3.30 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.

3.31 Fee and commission income

The Group earns fees and commissions income from a diverse range of services it provides to its customers. Fee income, which is part of the effective interest rate of a financial instrument, is adjusted to an effective interest rate and recognized as interest income.

Under the new KIFRS 1115, the commission income charged by providing services is recognized by applying a five-stage revenue recognition model (Identification of a contract with a customer → Identification of performance obligations in the contract → Determination of the transaction price → Allocation of the transaction price to the separate performance obligations in the contract → Recognition of revenue upon satisfying the performance obligations) to all of its contracts with customers.

3.32 Dividend income

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

3.33 Transaction under common control

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

3.34 New and amended standards and interpretations

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

3.34.1 KIFRS 1109 Financial Instruments

KIFRS 1109 Financial Instruments replaces KIFRS 1039 *Financial Instruments: Recognition and Measurement* and all previous versions. KIFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Also, KIFRS 1107 *Financial Instruments: Disclosures* has been amended in accordance with KIFRS 1109.

KIFRS 1109 provides guidance on the classification and measurement of financial assets based on the business model for the management of financial assets and the nature of the contractual cash flows of financial assets, and the impairment model for financial instruments based on expected credit losses. The main characteristics are the items to be hedged, the expansion of the hedging instrument, and the change of the hedging effectiveness evaluation method.

- Financial asset 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 eliminate or reduce accounting mismatch.
(*2) can be irrevocably designated at FVOCI in case of equity securities not for held-for-trading purpose.

The table below summarizes the impact of adopting KIFRS 1109 on the classification and measurement of financial assets held by the Group as of January 1, 2018. (Korean won in millions):

Classification	Book Value under KIFRS 1039 on December 31, 2017		Reclassification		Remeasurement		Book Value under KIFRS 1109 on January 1, 2018
<Financial assets>							
Cash and due from banks							
Book value (KIFRS 1039, 1109)	₩	21,850,692	₩	-	₩	-	₩ 21,850,692

Classification	Book Value under KIFRS 1039 on December 31, 2017	Reclassification	Remeasurement	Book Value under KIFRS 1109 on January 1, 2018
Financial assets held-for-trading				
Book value (KIFRS 1039)	22,704,104			
Reclassified as financial assets measured at FVTPL		(22,704,104)	-	-
Book value (KIFRS 1109)				
Financial assets designated at FVTPL (*)				
Book value (KIFRS 1039)	1,292,758			
Reclassified as financial assets measured at FVTPL		(1,292,758)	-	-
Book value (KIFRS 1109)				
Available-for-sale financial assets				
Book value (KIFRS 1039)	46,921,429			
Reclassified as financial assets measured at FVTPL		(4,093,936)	-	
Reclassified as securities measured at amortized cost		(21,938)	-	
Reclassified as financial assets measured at FVOCI		(42,805,555)	-	
Book value (KIFRS 1109)				-
Held-to-maturity investments				
Book value (KIFRS 1039)	7,392,100			
Reclassified as financial assets measured at amortized cost		(7,392,100)	-	
Book value (KIFRS 1109)				-
Loans				
Book value (KIFRS 1039)	238,943,185			
Reclassified as financial assets measured at FVTPL		(215,206)		
Remeasurement: Expected credit losses			(152,342)	
Book value (KIFRS 1109)				238,575,637
Derivatives assets used for hedging				
Book value (KIFRS 1039, 1109)	23,724	-	-	23,724
Other financial assets				
Book value (KIFRS 1039)	13,678,057			
Remeasurement: Expected credit losses		-	(1,665)	
Book value (KIFRS 1109)				13,676,392
Financial assets measured at FVTPL				
Book value (KIFRS 1039)	-			
Reclassified from financial assets held-for-trading		22,704,104		
Reclassified from financial assets designated at fair valu through profit or loss		1,292,758		
Reclassified from available-for-sale financial assets		4,093,936		
Reclassified from loans and receivables		215,206		
Remeasurement: Adjustment of fair value assessment, etc.			3,816	
Book value (KIFRS 1109)				28,309,820
Financial assets measured at FVOCI				
Book value (KIFRS 1039)	-			
Reclassified from available-for-sale financial assets		42,805,555	-	
Book value (KIFRS 1109)				42,805,555
Securities measured at Amortized cost				
Book value (KIFRS 1039)	-			

Classification	Book Value under KIFRS 1039 on December 31, 2017	Reclassification	Remeasurement	Book Value under KIFRS 1109 on January 1, 2018
Reclassified from available-for-sale financial assets - Debt securities		21,938		
Reclassified from held-to-maturity investments		7,392,100	24,769	
Remeasurement: Expected credit losses			(1,789)	
Book value (KIFRS 1109)				7,437,018
	₩ 352,806,049	₩ -	₩ (127,211)	₩ 352,678,838

(*) As of December 31, 2017, the Group designated a financial asset at FVTPL to eliminate an accounting mismatch but in accordance with KIFRS 1109, the financial asset is classified as measured at FVTPL without a designation as there is no accounting mismatch.

- Financial liabilities classification and measurement

In KIFRS 1109, fair value changes of financial liabilities designated at FVTPL attributable to changes in credit risk of the financial 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 financial liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

The effect of adoption of KIFRS 1109 on financial liabilities as of January 1, 2018 is shown in the table below. (Korean won in millions):

Classification	Book Value under KIFRS 1039 on December 31, 2017	Reclassification	Remeasurement	Book Value under KIFRS 1109 on January 1, 2018
<Financial liabilities>				
Financial liabilities held-for-trading				
Book value (KIFRS 1039)	₩ 7,834,600	₩	₩	₩
Reclassified as financial liabilities measured at FVTPL		(7,834,600)	-	
Book value (KIFRS 1109)				-
Financial liabilities designated at FVTPL				
Book value (KIFRS 1039)	8,819,336			
Reclassified as financial liabilities designated as measured at FVTPL		(8,819,336)	-	
Book value (KIFRS 1109)				-
Deposits				
Book value (KIFRS 1039, 1109)	232,166,153	-	-	232,166,153
Borrowings				
Book value (KIFRS 1039, 1109)	18,791,895	-	-	18,791,895
Debentures				
Book value (KIFRS 1039, 1109)	36,444,451	-	-	36,444,451
Derivatives liabilities used for hedging				
Book value (KIFRS 1039, 1109)	71,797	-	-	71,797
Financial liabilities measured at FVTPL				
Book value (KIFRS 1039)	-			
Reclassified from financial liabilities at FVTPL		7,834,600	-	
Book value (KIFRS 1109)				7,834,600
Financial liabilities designated As measured at FVTPL				
Book value (KIFRS 1039)	-			
Reclassified from financial liabilities designated at FVTPL		8,819,336	-	
Book value (KIFRS 1109)				8,819,336
	₩ 304,128,232	₩ -	₩ -	₩ 304,128,232

- Impairment: financial assets and contract assets

The Group recognizes impairment of debt instruments, lease bonds, contract assets, loan commitments and financial guarantee contracts that are measured at amortized costs or fair value through OCI based on the expected credit loss (ECL) impairment model.

The Group adopts 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.

	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 of the adoption of KIFRS 1109 on loss provisions as of January 1, 2018. (Korean won in millions):

Subsequent measurement categories		Provision for loss			
December 31, 2017 (Amounts under KIFRS 1039)	January 1, 2018 (Amounts under KIFRS 1109)	December 31, 2017 (Loss allowance under KIFRS 1039)	Reclassification	Remeasurement	January 1, 2018 (Loss allowance under KIFRS 1109)
Loans and receivables	Financial assets measured at amortized cost	₩ 1,700,138	₩ -	₩ 152,347	₩ 1,852,485
Loans and receivables	Financial assets measured at FVTPL	12,917	(12,917)	-	-
Other financial assets	Financial assets measured at amortized cost	28,652	-	1,669	30,321
Available-for-sale financial assets	Financial assets measured at FVOCI	-	-	8,969	8,969
Held-to-maturity investments	Financial assets measured at amortized cost	-	-	1,790	1,790
		1,741,707	(12,917)	164,775	1,893,565
Loss allowance for financial guarantee	Loss allowance for financial guarantee	765	-	(288)	477
Loss allowance for acceptances and guarantee	Loss allowance for acceptances and guarantee	84,459	-	(4,864)	79,595
Loss allowance for unused credit limit	Loss allowance for unused credit limit	94,568	-	28,341	122,909
		179,792	-	23,189	202,981
		₩ 1,921,499	₩ (12,917)	₩ 187,964	₩ 2,096,546

- Impact on capital

The effect of adoption of KIFRS 1109 on the equity items as of the initial application date is as follows (Korean won in millions):

Classification	Amounts
Beginning accumulated other comprehensive income (loss) (KIFRS 1039)	₩ (765,642)
Adjustment of accumulated other comprehensive income (loss) due to the adoption of KIFRS 1109	(346,220)
Reclassified from available-for-sale financial assets to financial assets measured at FVTPL	34,248
Reclassified from available-for-sale financial assets to financial assets measured at amortized cost	1
Reclassified from available-for-sale financial assets to financial assets measured at amortized cost (Retroactive adjustment)	24,769
Revaluation of impairment loss on equity securities measured at FVOCI	(517,089)
Credit losses measurement of debt securities measured at FVOCI	8,969
Effect of changes in risk of financial liabilities designated at FVTPL	(28,417)
Changes in equity method gains and losses for associates and joint ventures	(2,359)
Changes in non-controlling interests	77
Tax effect	133,581
Beginning accumulated other comprehensive income (loss) (KIFRS 1109)	₩ (1,111,862)

Classification	Amounts
Beginning retained earnings (KIFRS 1039)	₩ 12,267,565
Adjustment of retained earnings due to the adoption of KIFRS 1109	246,855
Reclassified from available-for-sale financial assets to financial assets measured at FVTPL	(35,313)
Revaluation of impairment loss on equity securities measured at FVOCI	517,089
Remeasurement of financial assets measured at FVTPL	4,875
Measurement of credit losses of loan receivable measured at amortized cost	(150,810)
Measurement of credit losses of other financial assets measured at amortized cost	(1,665)
Credit losses measurement of debt securities measured at amortized cost	(1,786)
Credit losses measurement of loan agreements and financial guarantee contracts	(22,858)
Credit losses measurement of debt securities measured at FVOCI	(8,969)
Effect of changes in risk of financial liabilities designated at FVTPL	28,417
Changes in equity method gains and losses for associates and joint ventures	2,359
Changes in non-controlling interests	12,263
Tax effect	(96,747)
Beginning retained earnings (KIFRS 1109)	₩ 12,514,420

- Hedge accounting

The KIFRS 1109 maintains mechanics of hedge accounting (fair value hedge, cash flow hedge and 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.

3.34.2 KIFRS 1115 Revenue from Contracts with Customers

The amendments to KIFRS 1115 *Revenue from Contracts with Customers* are effective for annual periods beginning on or after 1 January 2018. The new standard supersedes the following KIFRS: KIFRS 1018 Revenue, KIFRS 1011 *Construction Contracts*, KIFRS 2031 *Revenue-Barter Transactions Involving Advertising Services*, KIFRS 2113 *Customer Loyalty Programmes*, KIFRS 2115 *Agreements for the Construction of Real Estate*, and KIFRS 2118 *Transfers of Assets from Customers*.

The current KIFRS 1018 provides the criteria for recognition of revenue relating to sale of goods, rendering of services, interest income, royalties, dividends and construction contracts. However, under the new KIFRS 1115, revenue is recognized by applying a five-stage revenue recognition model (Identification of a contract with a customer → Identification of performance obligations in the contract → Determination of the transaction price → Allocation of the transaction price to the separate performance obligations in the contract → Recognition of revenue upon satisfying the performance obligations) to all of its contracts with customers.

The Group adopted the new standard using the modified retrospective adoption method approach. Accordingly, the cumulative effects of the application of KIFRS 1115 are adjusted in beginning balance of capital as of January 1, 2018.

Therefore, the information in the comparative period has not been restated, and is prepared in accordance with KIFRS 1018 *Revenue*, and the related interpretations. Significant changes and impact on the amounts are as follows.

The effect of adopting KIFRS 1115 is as follows.

- Impact on assets and liabilities from the adoption of KIFRS 1115 as of January 1, 2018 (Korean won in millions):

Classification	Book value on January 1, 2018 before applying KIFRS 1115	Changes	Book value on January 1, 2018 under KIFRS 1115
Deferred income tax assets			
Book value (Before applying KIFRS 1115)	₩ 180,999	₩ -	₩ -
Less: payment in advance based on the changes in cumulative revenue recognized in the prior period	-	(5,151)	-
Book value (Under KIFRS 1115)	-	-	175,848
Other liabilities			
Advances	-	-	-
Book value (Before applying KIFRS 1115)	160,912	-	-
Less: payment in advance based on the changes in cumulative revenue recognized in the prior period	-	(18,731)	-
Book value (Under KIFRS 1115)	-	-	142,181

- Impact on equity from the adoption of KIFRS 1115 as of January 1, 2018 (Korean won in millions):

Classification	Book value on January 1, 2018 before applying KIFRS 1115	Changes	Book value on January 1, 2018 under KIFRS 1115
Retained earnings			
Book value (Before applying KIFRS 1115)	₩ 12,514,420	₩ -	₩ -
Plus: increase in retained earnings based on the changes in cumulative revenue recognized in the prior period	-	18,731	-
Less: deferred income tax effect based on the changes in cumulative revenue recognized in the prior period	-	(5,151)	-
Book value (KIFRS 1115)	-	-	12,528,000

- Impact on the line items in the consolidated statement of financial position from the adoption of KIFRS 1115 as of December 31, 2018 (Korean won in millions):

Classification	Book value on December 31, 2018 before applying KIFRS 1115	Changes	Book value on December 31, 2018 under KIFRS 1115
Assets			
Other assets	₩ 16,052,045	₩ 3,125	₩ 16,055,170
Receivables	6,603,561	3,394	6,606,955
Allowance for possible loan losses	(28,126)	(269)	(28,395)
Total assets	385,005,495	3,125	385,008,620
Liabilities			
Current tax liabilities	306,151	3,534	309,685
Other liabilities	31,288,878	(9,726)	31,279,152
Advances	188,492	(9,726)	178,766
Total liabilities	357,906,352	(6,192)	357,900,160
Equity			
Retained earnings	14,214,686	9,317	14,224,003
Total equity	27,099,143	9,317	27,108,460

- Impact on the line items in the consolidated statement of comprehensive income from the adoption of KIFRS 1115 for the year ended December 31, 2018 (Korean won in millions):

Classification	Book value on December 31, 2018 before applying KIFRS 1115	Changes	Book value on December 31, 2018 under KIFRS 1115
Other operating income	₩ 924,174	₩ (5,611)	₩ 918,563
Trust fee	292,995	(5,611)	287,384
Impairment loss on financial assets	(465,774)	(269)	(466,043)
Operating income	3,158,060	(5,880)	3,152,180
Income tax expenses	(876,209)	1,617	(874,592)
Net income for the year	2,279,415	(4,263)	2,275,152
Equity holder of the parent	2,237,588	(4,263)	2,233,325
Non-controlling interests	41,827	-	41,827
Total comprehensive income for the year	2,506,111	(4,263)	2,501,848
Equity holder of the parent	2,467,967	(4,263)	2,463,704
Non-controlling interests	38,144	-	38,144
Earnings per share			
Basic earnings per share	7,374 won	(14) won	7,360 won
Diluted earnings per share	7,339 won	(14) won	7,325 won

Hana Asset Trust, the subsidiary of the Company, is primarily engaged in the real estate trusts, including land trusts. In connection with the borrowing-type land trust, it provides the services of administration of parcel-out, administrative management of construction and licensing. The services may be provided individually or may be provided by others and are not significantly modified or customized.

Before the adoption of KIFRS 1115, the Group had allocated the contract fee to a single contract without distinguishing the performance obligation for the land trust fee. The revenue for the borrowing-type land trust fee was recognized by multiplying the progress rate of construction based on the percentage-of-completion and the rate of parcel-out. The revenue for management-type land trust (including management-type land trust under the condition of fulfilling the obligation) was recognized by applying the progress rate of construction based on the percentage-of-completion.

When KIFRS 1115 is applied to the land trust fees, the Group shall identify each promise to provide distinguishable service to the customer as a single performance obligation after reviewing the promised goods or services in the contract with customer at the inception of a contract. Accordingly, the

Group calculates trust fees of land trust contract by adding consideration of fulfilling the obligation, consideration for administrative management of construction and consideration for management of parcel-out. The relative individual selling price of borrowing-type land trust is calculated based on the ratio of total fees and fees of fulfilling the obligation and parcel-out fee. The relative individual selling price of management-type land trust is calculated based on the ratio of total fees and construction fees and parcel-out fees. The relative individual selling price of management-type land trust under the condition of fulfilling the obligation, is calculated based on the ratio of total fees and fees of fulfilling the obligation, construction fees and parcel-out fees.

In addition, the Group calculates the relative individual selling price of the consideration of fulfilling the obligation by applying the percentage-of-completion as the obligation to fulfill decreases as construction period elapses. Also, the Group calculates the relative individual selling price of the consideration of administrative management of construction and consideration of parcel-out by applying the percentage-of-completion and parcel-out ratio, respectively.

However, there is no impact on assets, liability, and equity but the adoption of KIFRS 1115 has changed the consideration paid to customers for credit card commission income to be treated as a deduction of expenses rather than expenses. The effect of these accounting changes on the consolidated statement of comprehensive income is as follows.

Classification	Book value on January 1, 2018 Before applying KIFRS 1115	Changes	Book value on January 1, 2018 under KIFRS 1115
Net fee and commission income	₩ 2,099,083	₩ (30,103)	₩ 2,068,980
Fee and commission income	3,191,303	(404,293)	2,787,010
Fee and commission expense	(1,092,220)	374,190	(718,030)
General and administrative expenses	(3,976,963)	30,103	(3,946,860)
Operating income	3,152,180	-	3,152,180

3.34.3 Amendments to KIFRS 1028 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments has no effect on the Group's consolidated financial statements.

3.34.4 Amendments to KIFRS 1102 Share-based Payment – Classification and measurement of Share-based Payment Transactions

The 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. These amendments have no impact on the Group's financial statements.

3.34.5 Amendments to KIFRS 1107 Financial instruments : Disclosures

The amendment requires the entity to disclose the analysis of profit or loss recognized in the statement of comprehensive income at the time of derecognition of the financial asset measured at amortized cost. Gains and losses arising from the derecognition of financial assets are separately presented and the reasons for the derecognition should be included. The amendment has no significant effect on the Group's financial statements. These amendments have no impact on the financial statements of the Group.

3.34.6 Amendments to IFRIC Interpretation 2122 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

3.34.7 Amendments to IFRIC Interpretation 1101 *First-time Adoption of Korean International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3 ~ E7 of KIFRS 1101 were deleted because they have now served their intended purpose. This amendment is not applicable to the Group. These amendments have no impact on the financial statements of the Group.

3.35 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.

3.35.1 Amendments to KIFRS 1116 *Leases*

KIFRS 1116 was issued in May 22, 2017 and is effective for annual periods on or after January 1, 2019. Early adoption is permitted. It 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*.

At the commencement date of a lease, a lessee will recognize 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). The Group recognizes the contract in accordance with the standard at the date of initial application. However, the Group may not re-judge all contracts by applying the simplified method for contracts signed before the first application date.

The Group will adopt IFRS 1116 only for contracts entered into after the initial date of adoption (or changed) on the basis of the simplified method.

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). 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.

Lessor accounting under KIFRS 1116 is not significantly changed from today's accounting under KIFRS 1017.

3.35.1.1 Adoption of KIFRS 1116 *Leases*

The lessee can choose full retrospective approach to apply the effect for each past reporting period presented in accordance with KIFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* or (Cumulative Effect Batch Reconciliation Action) or cumulative effect approach (modified retrospective method) to recognize the cumulative effect of the initial application on the initial application date.

The Group plans to apply KIFRS 1116 for the first time using the cumulative effect approach as of January 1, 2019. Accordingly, the cumulative effect of applying KIFRS 1116 is adjusted in the retained earnings (or, where appropriate, other components of equity) at the date of initial application and the Group will not restate the comparative financial statements.

3.35.1.2 Financial effect of KIFRS 1116 *Leases*

In assessing the financial impact of the initial adoption of KIFRS 1116, the Group assessed the impact on the financial statements for the year 2019 based on the information and available information as of January 1, 2019.

The aggregate amount of the minimum lease payments prior to the present value discount of the assets that the Group is currently using as operating leases is ₩568,929 million and the discount amount is ₩547,665 million at the incremental borrowing rate of the lessee. However, the Group will

account for each lease element and related non-lease element as a single lease element by applying the simplified method of accounting for contracts that include full (or in part) lease or lease.

As a result of a detailed analysis of the effect on the financial statements, the Group expects to increase the amount of using assets and liabilities by ₩582,183 million and ₩547,665 million as of January 1, 2019, respectively. However, the financial impact assessment may change depending on additional information available in the future.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

3.35.2 IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation provides guidance on determining the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If probable, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If not probable, the entity should reflect the effect of uncertainty which is measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted. On initial application, the Group shall apply this interpretation retrospectively or retrospectively with the cumulative effect of initially applying the interpretation recognized at the date of initial application. The Group expects that the amendments will not have a significant impact on its separate financial statements.

3.35.3 Amendments to KIFRS 1109: *Prepayment Features with Negative Compensation*

Under KIFRS 1109, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to KIFRS 1109 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments are effective from January 1, 2019, with early application permitted. The Group expects that the amendments will not have a significant impact on its separate financial statements

3.35.4 Amendments to KIFRS 1028: *Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies KIFRS 1109 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in KIFRS 1109 applies to such long-term interests.

The amendments also clarified that, in applying KIFRS 1109, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying KIFRS 1028 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

3.35.5 Amendments to KIFRS 1019: *Plan Amendment, Curtailment or Settlement*

The amendments to KIFRS 1019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. The Group expects that the amendments will not have a significant impact on its separate financial statements.

3.36 Accounts reclassification

Some accounts in the comparative statements of comprehensive income for the period ended December 31, 2017 have been reclassified as a result of changes in accounting policies. The Group recognized the gain or loss related to the changes in non-controlling investors' liabilities as interest income or expense until the December 31, 2017. In accordance with the new accounting policies, the effective interest expense based on the initial effective interest rate is recognized as interest expense. Other changes are recognized as other operating income.

There is no impact on the net asset value or income for the period ended December 31, 2017, and the impact of account reclassification on the statement of comprehensive income for the period ended December 31, 2017 are as follows. (Korean won in millions):

Classification	Before changing accounting standard	Effect of Change	After changing accounting standard
Net interest income	₩ 5,109,508	₩ (18,529)	₩ 5,090,979
Interest income	8,932,396	-	8,932,396
Interest expense	(3,822,888)	(18,529)	(3,841,417)
Operating income	838,961	18,529	857,490
Other operating income	2,718,137	-	2,718,137

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 financial assets

The Group recognizes impairment losses on debt instruments, lease receivables, contract assets, loan commitment, and financial guarantee contracts that were accounted for at amortized cost, or FVOCI, based on the expected credit loss (ECL) impairment model using a three-stage model for 12-month expected credit losses, or lifetime expected credit losses based on changes in credit risk since initial recognition of financial assets.

	Classification	Loss allowance
Stage 1	Credit risk on a financial instrument has not increased significantly 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	Credit risk on a financial instrument has increased significantly 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	

The cumulative changes in lifetime expected credit losses since initial recognition are recognized as loss allowance for a financial asset that is considered credit-impaired at initial recognition.

4.3 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.

4.4 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.

4.5 Income tax

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.

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.

The fair value hierarchy of financial instruments measured at fair value as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at FVTPL				
Debt securities	₩ 3,159,283	₩ 14,307,888	₩ 2,472,383	₩ 19,939,554
Equity securities	162,572	23,253	277,870	463,695
Derivative assets held-for-trading	51,078	3,785,786	505,891	4,342,755
Loans	-	-	520,029	520,029
Others	-	-	883,079	883,079
	3,372,933	18,116,927	4,659,252	26,149,112

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets designated at FVOCI				
Debt securities	19,430,656	16,147,079	4,615	35,582,350
Equity securities	419,324	-	769,191	1,188,515
	19,849,980	16,147,079	773,806	36,770,865
Derivative assets used for hedging	-	7,568	7	7,575
	₩ 23,222,913	₩ 34,271,574	₩ 5,433,065	₩ 62,927,552
Financial liabilities:				
Financial liabilities measured at FVTPL				
Derivative liabilities held-for-trading	₩ 120,429	₩ 3,554,532	₩ 768,041	₩ 4,443,002
Securities sold	230,453	20,163	-	250,616
	350,882	3,574,695	768,041	4,693,618
Financial liabilities designated as measured at FVTPL	200,000	3,088,493	8,683,309	11,971,802
Derivative liabilities used for hedging	-	82,738	16,222	98,960
	₩ 550,882	₩ 6,745,926	₩ 9,467,572	₩ 16,764,380

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held-for-trading				
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	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
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

(*) As of December 31, 2017, available-for-sale financial assets are not quoted in an active market, and fair value can not be measured reliably. Equity securities measured at cost are ₩87,098 million, which is included in Level 3.

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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Fair value	Valuation method	Input variables
Financial assets:			
Financial assets measured at FVTPL			
Debt securities	₩ 14,307,888	Black-Scholes model, Hull-White 1 factor model, DCF model, Gaussian 1 factor model, Net asset value model, etc	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, price of underlying asset such as bond, stock, etc.
Equity securities	23,253	DCF model, Net asset value model, etc	Discount rate, price of underlying asset such as bond, stock, etc.
Derivative assets held-for-trading	3,785,786	Black-Scholes model, Hull-White 1 factor model, DCF model, Black model, Gaussian 1 factor model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, yield curve of swap, volatility of swaption, yield curve of currency etc.
	18,116,927		
Financial assets measured at FVOCI			
Debt securities	16,147,079	DCF model	Discount rate, etc.
Derivative assets used for hedging	7,568	Hull-White 1 factor model	Exchange rate, yield curve of swap, volatility of swaption, yield curve of currency
	₩ 34,271,574		
Financial liabilities:			
Financial liabilities measured at FVTPL			
Derivative liabilities held-for-trading	3,554,532	Black-Scholes model, Hull-White factor model, DCF model, Black model, Gaussian 1 factor model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, yield curve of swap, volatility of swaption, yield curve of currency, Index etc.
Securities sold	20,163	DCF model	Discount rate, etc.
	3,574,695		
Financial liabilities designated as measured at FVTPL	3,088,493	Black-Scholes model, Hull-White 1 factor model, DCF model, Gaussian 1 factor 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	82,738	Hull-White 1 factor model, Black model, etc.	Exchange rate, yield curve of swap, volatility of swaption, yield curve of currency
	₩ 6,745,926		

	December 31, 2017		
	Fair value	Valuation method	Input variables
Financial assets:			
Financial assets held-for-trading			
Debt securities	₩ 10,717,498	DCF model, etc	Discount rate, etc.
Equity securities	212,355	DCF model, etc	Discount rate, etc.
Derivative assets held-for-trading	6,979,885	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		
Financial assets designated at fair value through profit or loss	259,735	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	DCF model, etc.	Discount rate, etc.
Equity securities	3,495,652	DCF model, Net asset value, etc.	Discount rate, price of underlying asset such as bond and stock, etc.
	20,314,487		
Derivative assets used for hedging	23,724	Hull-White 1 factor model, Black model, etc.	Volatility, discount rate, yield curve of swap, volatility of swaption, yield curve of currency, volatility of KRW Cap/Floor, etc.
	₩ 38,507,684		
Financial liabilities :			
Financial liabilities held-for-trading			
Derivative liabilities held-for-trading	7,082,278	Black-Scholes model, Hull-White 1 factor model, Black model, DCF model, Gaussian 1 factor model, Option model, etc.	Volatility, discount rate, stock price, exchange rate, interest rate, CDS premium, yield curve of swap, volatility of swaption, yield curve of currency, etc.
Financial liabilities designated at FVTPL	2,604,836	Black-Scholes model, Hull-White 1 factor model, Black 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	Hull-White 1 factor model, Black model, etc.	Volatility, discount rate, yield curve of swap, volatility of swaption, yield curve of currency, volatility of KRW Cap/Floor etc.
	₩ 9,748,458		

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 as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018					
	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
Financial assets :						
Financial assets measured at FVTPL						

	December 31, 2018					
	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
Debt securities	₩ 2,472,383	DCF model, Net asset value model, Binomial model, Black-Scholes model, Hull-White 1 factor model, Gaussian 1 factor model etc.	Volatility, Exchange rate, Interest rate, Correlation of CDS premium, price and volatility of underlying assets, Stock price	Volatility, Correlation, volatility of underlying assets, etc.	Volatility: 0~100% Correlation: -1~+1	Volatility of underlying assets: Positive Correlation: Positive (negative in some cases)
Equity securities	277,870	DCF model, Monte Carlo Simulation model, Hull-White 1 factor model, Comparable company analysis etc.	Growth rate, Discount rate, Stock price, Rate, Volatility of striking price	Growth rate, Discount rate, etc.	Discount rate: 2.00~14.07% Growth rate: 0~1% Volatility: 1~35% Liquidation rate: -1~+1%	Discount rate: Negative Growth rate: Positive Liquidation rate: Positive Volatility: Positive
Derivative assets held-for-trading	₩ 505,891	Black-Scholes model, Hull-White 1 factor model, Hull-White 2 factor model, DCF model, Gaussian 1 factor model, Binomial model, etc.	Exchange rate, Swap yield Curve, Swaption volatility, Yield curve of each currency, Correlation within evaluation model, Discount rate, Stock price, Correlation of CDS premium, etc.	Volatility Correlation	Volatility:0~100% Correlation:-1~+1	Positive Positive (negative in some cases)
Loans	520,029	Binomial model, DCF model etc.	Price and volatility of underlying assets, Discount rate, etc.	Volatility of underlying assets, Discount rate	Volatility: 17.13~41.37% Discount rate: 2.98~3.17%	Volatility: Positive Discount rate: Negative
Others	883,079	DCF model etc.	Discount rate, etc.	Discount rate, etc.		
	₩ 4,659,252					
Financial assets measured at FVOCI						
Debt securities	4,615	DCF model	Discount rate, etc.	Discount rate, etc.	Discount rate: 7.80%	Negative
Equity securities	769,191	DCF model, Comparable company analysis, Net value method, Market approach, etc.	Growth rate, Liquidation value, discount rate, Price and volatility of underlying assets, etc.	Growth rate, Liquidation value, Discount rate, and volatility of underlying assets	Growth rate: 0~3% Liquidation value: 0 Discount rate: 7.15~18.13% and volatility of underlying assets: 24.11~25.62%	Growth rate: Positive Liquidation value: Positive Discount rate: Negative Volatility: Positive
	773,806					
Derivative assets used for hedging	7	Hull-White 2 factor model	Exchange rate, Swap yield curve, Swaption volatility, Yield curve of each currency, Correlation within evaluation model, etc.	Correlation within evaluation model	-98.17	Fair value increase or decrease based on the changes in correlation by the effect of trading instruments and market status
	₩ 5,433,065					
Financial liabilities:						
Financial liabilities measured at FVTPL						

	December 31, 2018					
	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
Derivative liabilities held-for-trading	₩ 768,041	Black-Scholes model, Hull-White 1 factor model, Hull-White 2 factor model, DCF model, Gaussian 1 factor model, etc.	Exchange rate, Swap yield Curve, Swaption volatility, Yield curve of each currency, Correlation within evaluation model, Discount rate, Stock price, Correlation of CDS Premium, Volatility, Rate, etc.	Volatility of each yield correlation of underlying assets	Volatility: 0~100% Correlation: -1~+1	Volatility: Positive Correlation: Positive (negative in some cases)
Financial liabilities designated as measured at FVTPL	8,683,309	DCF model, Black-Scholes model, Hull-White 1 factor model, Gaussian 1 Factor model, etc.	Volatility, discount rate, Stock price, Exchange rate, interest rate, CDS premium, correlation, etc.	Volatility, Correlation	Volatility: 0~1 Correlation: -1~+1	Volatility: Positive Correlation: Positive (negative in some cases)
Derivative liabilities used for hedging	16,222	Hull-White 2 factor model	Exchange rate, Swap yield Curve, Swaption volatility, Yield curve of each currency, Correlation within evaluation model	Correlation within evaluation model	-95.07~-80.15	Fair value increase or decrease based on the changes in correlation by the effect of trading instruments and market status
	₩ 9,467,572					

	December 31, 2017					
	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
Financial assets :						
Financial assets held-for trading:						
			KRW swap yield Curve, Korean government bond yield curve, volatility of each yield, discount rate, Stock price, Exchange rate, interest rate, CDS premium, correlation of each yield curve of underlying assets, etc.	Volatility	Volatility: 0~1	Positive
Derivative assets held-for-trading	₩ 328,673	Black-Scholes model, Hull-white 1 factor model, Gaussian 1 factor model, Binomial Tree, etc.		Correlation of each yield curve of underlying assets, etc.	Correlation: -1~+1	Positive (negative in some cases)
Others	982,885	DCF model, etc.	Discount rate, etc.	Discount rate, etc.	-	
	1,311,558					
Financial assets designated at FVTPL	1,033,023	DCF model, Black-Scholes model, Hull-White 1 factor model, Gaussian 1 factor model, etc.	Volatility, discount rate, Stock price, Exchange rate, interest rate, CDS premium, correlation, etc.	Volatility	Volatility: 0~1	Positive
				Correlation of each yield curve of underlying assets, etc.	Correlation: -1~+1	Positive (negative in some cases)

	December 31, 2017					
	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
Financial assets :						
Available-for-sale financial assets:						
Debt securities	₩ 18,299	DCF model, etc.	Discount rate, etc.	Discount rate, etc.	11.88	Negative
				Growth rate	-1.0%~2.0%	Positive
Equity securities	1,052,217	DCF model, Comparison with similar business, Net asset value model, Utilization of past transaction, Risk-adjusted discount rate model, Residual income model, etc.	Growth rate, discount rate, liquidating value	Discount rate	4.0%~18.5%	Negative
Others	20,167	DCF model, Comparison with similar business, Risk-adjusted discount rate model	Discount rate	Discount rate	-	Negative
	1,090,683					
	₩ 3,435,264					
Financial liabilities :						
Financial liabilities held-for-trading:						
			KRW interest swap yield curve, USD interest swap yield curve, volatility of each yield, correlation of underlying assets (each yield)	Volatility	0~1	Positive
Derivative liabilities held-for-trading	₩ 283,808	Black-Scholes model, Hull-White 1 factor, Hull-White 2 factor, DCF model, Gaussian 1 factor, Binomial tree model, etc.		Correlation of underlying assets (each yield)	-1~1	Negative (positive in some cases)
			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	0~1	Negative
Financial liabilities designated at FVTPL	6,214,500	Black-Scholes model, Hull-White 1 factor, DCF model, Gaussian 1 factor, etc.		Correlation between underlying assets (each yield)	-1~1	Positive (negative in some cases)
			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	Fair value increase or decrease based on the changes in correlation by the effect of trading instruments and market status
Derivative liabilities used for hedging	10,453	Hull-White 2 factor model				
	₩ 6,508,761					

	Financial assets measured at FVTPL				Financial assets measured at FVOCI		Financial liabilities designated as measured at FVTPL	Net derivative instruments	
	Debt securities	Equity securities	Loans	Others	Debt securities	Equity securities		Held-for-trading	Held-for-hedging
January 1, 2018	₩ 1,278,881	₩ 393,072	₩ 219,834	₩ 1,003,052	₩ 7,738	₩ 692,305	₩ 6,214,500	₩ 43,708	₩ (10,453)
Increase due to business combination	189,594	25,545	141,545	-	-	-	-	-	-
Net income	(4,992)	(21,048)	(8,719)	16,760	1,239	-	(17,810)	(69,447)	4,412
Other comprehensive Income	-	-	-	-	746	58,104	446	-	-
Purchase / issue	2,013,136	426,117	563,704	2,907,514	-	18,791	7,468,646	(9,338)	(10,174)
Sell / settlement	(1,001,758)	(538,952)	(396,335)	(3,044,247)	(5,108)	(9)	(4,982,473)	(227,073)	-
Others	(2,478)	(6,864)	-	-	-	-	-	-	-
December 31, 2018	₩ 2,472,383	₩ 277,870	₩ 520,029	₩ 883,079	₩ 4,615	₩ 769,191	₩ 8,683,309	₩ (262,150)	₩ (16,215)

	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)

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, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	
	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized
Related financial instruments measured at FVTPL net profit	₩ (87,446)	₩ (261,582)
Related financial instruments designated as measured at FVTPL net profit	17,810	275,437
Gain on derivative instruments used for hedging	4,412	3,788
Related financial instruments measured at FVOCI net profit	1,239	-
	₩ (63,985)	₩ 17,643

	December 31, 2017	
	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized
Gain (loss) on financial instruments measured at FVTPL	₩ (219,454)	₩ 186,642
Loss on financial instruments designated at FVTPL	937,172	40,307
Loss on derivative instruments used for hedging	(1,164)	-
Other gain on financial instruments	(20,860)	(20,860)

	December 31, 2017	
	Total gains or losses recognized in profit or loss	The line item in profit or loss in which those gains or losses are recognized
Impairment loss on financial assets	(121,575)	(121,575)
	₩ 574,119	₩ 84,514

There was no transfer into or out of level 3 of the fair value hierarchy for the years ended December 31, 2018 and 2017.

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, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	
	Favorable changes	Unfavorable changes
Financial assets:		
Financial assets measured at FVTPL		
Debt securities (*3)	₩ 8,583	₩ (8,559)
Equity securities (*2)	2,742	(2,134)
Derivative assets held-for-trading (*1)	2,732	(2,777)
Loans (*4)	1,849	(1,286)
	15,906	(14,756)
Financial assets measured at FVOCI		
Debt securities (*3)	96	(94)
Equity securities (*2)	111,819	(44,585)
	111,915	(44,679)
Derivative assets used for hedging (*1)	7	(51)
	₩ 127,828	₩ (59,486)
Financial liabilities:		
Financial liabilities measured at FVTPL	₩ 15,279	₩ (15,234)
Derivative liabilities held-for-trading (*1)	15,877	(15,877)
Financial liabilities designated as measured at FVTPL (*5)	31,156	(31,111)
	1,170	(1,068)
Derivative liabilities used for hedging (*1)	32,326	(32,179)
	₩ 8,583	₩ (8,559)

	December 31, 2017	
	Favorable changes	Unfavorable changes
Financial assets:		
Financial assets held-for-trading:		
Derivative assets held-for-trading (*1)	₩ 376	₩ (166)
Financial assets designated at FVTPL	6,549	(6,549)
Available-for-sale financial assets:		
Debt securities (*3)	226	(218)
Equity securities (*2)	110,708	(41,032)
	₩ 117,859	₩ (47,965)

	December 31, 2017	
	Favorable changes	Unfavorable changes
Financial liabilities:		
Financial liabilities held-for-trading:		
Derivative liabilities held-for-trading (*1)	₩ 32	₩ (120)
Financial liabilities designated at FVTPL	2	(2)
Derivative liabilities used for hedging (*1)	287	(361)
	₩ 321	₩ (483)

(*1) 1) Correlation between rates of interest rate swap of KRW, 2) Correlation between interest rates of treasury, 3) Correlation between interest rate swap and interest rate of treasury, 4) Correlation between KRW-USD interest rate swap, 5) Favorable and unfavorable changes are calculated by taking 10% fluctuation of correlation between KRW/USD exchange rate and rate of USD interest rate swap.

(*2) Changes in fair value of equity securities are calculated by changing growth rate (0.0~1.0%) and discount rate, which are main unobservable inputs. Favorable changes and unfavorable changes in fair value of beneficiary securities are calculated by changing discount rate of lease cash flow (-1.0~1.0%) and growth rate of selling price of real estate (-1.0~1.0%), under limited circumstances when it is consisted of real estate. However it is impossible to calculate sensitivity of beneficiary securities based on changes in inputs.

(*3) Changes in fair value of debt securities are calculated by changing discount rate (-1.0~1.0%), which is the main unobservable input.

(*4) For convertible privately-placed bonds, favorable and unfavorable changes in fair value are calculated by increasing or decreasing the price (-10.0~10.0%) and variability (-10.0~10.0%) of underlying assets, which are the main unobservable inputs.

Fair value hierarchy of financial instruments disclosed as fair value though it cannot be measured as fair value as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018				
	Levels of the fair value hierarchy			Total	
	Level 1	Level 2	Level 3		
Financial assets:					
Cash and due from banks	₩ 2,121,331	₩ 22,185,665	₩ -	₩	24,306,996
Securities measured at amortized cost	2,303,448	12,576,380	8,079		14,887,907
Loans measured at amortized cost	-	-	260,830,854		260,830,854
Others	-	-	15,012,158		15,012,158
	₩ 4,424,779	₩ 34,762,045	₩ 275,851,091	₩	315,037,915
Financial liabilities:					
Deposits	₩ -	₩ 29,915,812	₩ 219,569,590	₩	249,485,402
Borrowings	-	4,422,923	14,755,193		19,178,116
Debentures	-	40,397,461	1,003,365		41,400,826
Others	-	-	25,793,101		25,793,101
	₩ -	₩ 74,736,196	₩ 261,121,249	₩	335,857,445

	December 31, 2017			
	Levels of the fair value hierarchy			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
Financial liabilities:				
Deposits	-	31,795,621	199,434,885	231,230,506
Borrowings	-	7,090,370	11,685,671	18,776,041

	December 31, 2017			
	Levels of the fair value hierarchy			Total
	Level 1	Level 2	Level 3	
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

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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Fair value	Valuation method	Input variables
Financial assets:			
Cash and due from banks	₩ 22,185,665	DCF model	Discount rate
Securities measured at amortized cost	12,576,380	DCF model	Discount rate
	₩ 34,762,045		
Financial liabilities:			
Deposits	₩ 29,915,812	DCF model	Discount rate
Borrowings	4,422,923	DCF model	Discount rate
Debentures	40,397,461	DCF model	Discount rate
	₩ 74,736,196		

	December 31, 2017		
	Fair value	Valuation method	Input variables
Financial assets:			
Cash and due from banks	₩ 19,625,903	DCF model	Discount rate
Held-to-maturity investments	5,705,697	DCF model	Discount rate
Others	11,816	DCF model	Discount rate
	₩ 25,343,416		
Financial liabilities:			
Deposits	₩ 31,795,621	DCF model	Discount rate
Borrowings	7,090,370	DCF model	Discount rate
Debentures	36,459,009	DCF model	Discount rate
Others	438,184	DCF model	Discount rate
	₩ 75,783,184		

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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Fair value	Valuation method	Input variables
Financial assets:			
Securities measured at amortized cost	₩ 8,079	DCF model	Discount rate
Loans measured at amortized cost	260,830,854	DCF model, etc.	Credit spread, other spread and rate of advanced redemption,discount rate, etc.
Others	15,012,158	DCF model, etc.	Discount rate, etc.
	₩ 275,851,091		

	December 31, 2018		
	Fair value	Valuation method	Input variables
Financial liabilities:			
Deposits	₩ 219,569,590	DCF model, etc.	Other spread, rate of advanced redemption, discount rate
Borrowings	14,755,193	DCF model, etc.	Other spread, discount rate
Debentures	1,003,365	DCF model, etc.	Other spread, rate of inheritance bankruptcy, discount rate
Others	25,793,101	DCF model, etc	Discount rates, etc.
	₩ 261,121,249		

	December 31, 2017		
	Fair value	Valuation method	Input variables
Financial assets:			
Loans	₩ 237,374,928	DCF model, etc.	Credit spread, other spread and rate of advanced redemption, Discount rate etc.
Others	13,666,241	DCF model	Discount rate, etc.
	₩ 251,041,169		
Financial liabilities:			
Deposits	₩ 199,434,885	DCF model, etc.	Other spread, rate of advanced redemption, Discount rate
Borrowings	11,685,671	DCF model, etc.	Other spread, Discount rate
Debentures	119,660	DCF model, etc.	Other spread, rate of inheritance bankruptcy, Discount rate
Others	24,393,097	DCF model, etc.	Discount rate, etc.
	₩ 235,633,313		

Changes in deferred Day 1 gain (loss), for the years ended December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Beginning balance	₩ (25,180)	(9,321)
Increase	(57,194)	(36,321)
Profit or loss	44,685	20,462
Ending balance	₩ (37,689)	(25,180)

Details of transferred financial assets that are not derecognized in entirety as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	
	Book value	Fair value
Assets:		
Financial assets measured at FVTPL	₩ 3,451,170	₩ 3,451,170
Financial assets measured at FVOCI (*)	2,634,624	2,634,624
Securities measured at amortized cost (*)	442,526	436,312
	6,528,320	6,522,106
Liabilities:		
Securities sold under repurchase agreements	4,059,177	4,058,942
	₩ 2,469,143	₩ 2,463,164

(*) As of December 31, 2018 a part of financial assets measured at FVOCI, in which the associated liabilities are not recognized, includes loaned securities of ₩1,923,773 million.

	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

(*) As of December 31, 2017 a part of available-for-sale financial assets, in which the associated liabilities are not recognized, includes loaned securities of ₩613,005 million.

6. Fair value of financial assets and liabilities

Details of carrying amount and fair value of financial instruments as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from banks	₩ 24,306,996	₩ 24,306,996	₩ 21,850,692	₩ 21,850,692
Financial assets measured at FVTPL	26,149,112	26,149,112	-	-
Financial assets held-for-trading	-	-	22,704,104	22,704,104
Financial assets designated at FVTPL	-	-	1,292,758	1,292,758
Financial assets measured at FVOCI	36,770,865	36,770,865	-	-
Available-for-sale financial assets	-	-	46,921,429	46,921,429
Securities measured at amortized cost	14,782,666	14,887,907	-	-
Held-to-maturity investments	-	-	7,392,100	7,426,741
Loans receivable	260,663,585	260,830,854	238,943,185	237,374,928
Derivative assets used for hedging	7,575	7,575	23,724	23,724
Others	15,012,348	15,012,158	13,678,057	13,678,057
	₩ 377,693,147	₩ 377,965,467	₩ 352,806,049	₩ 351,272,433
Financial liabilities:				
Financial liabilities measured at FVTPL	₩ 4,693,618	₩ 4,693,618	₩ -	₩ -
Financial liabilities held-for-trading	-	-	7,834,600	7,834,600
Financial liabilities designated as measured at FVTPL	11,971,802	11,971,802	-	-
Financial liabilities designated at FVTPL	-	-	8,819,336	8,819,336
Deposits	248,559,497	249,485,402	232,166,153	231,230,506
Borrowings	19,182,273	19,178,116	18,791,895	18,776,041
Debentures	41,018,021	41,400,826	36,444,451	36,578,669
Derivative liabilities used for hedging	98,960	98,960	71,797	71,797
Others	25,793,102	25,793,101	24,834,520	24,831,281
	₩ 351,317,273	₩ 352,621,825	₩ 328,962,752	₩ 328,142,230

The following standards are applied in measuring the fair value of financial instruments

- Loans measured at amortized cost: Expected cash flows, current market interest rates and discount rates including borrowers' credit risks are factors to calculate the fair value of loans. 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.
- Financial investment assets: The fair value of securities measured at amortized cost are as stated by the market, broker, or by credible sources. If none of the information from these entities is usable, published market price of financial instruments with similar credit rating, maturity, and ROI is used to estimate the fair value.
- Deposits : For deposits without an explicit maturity period including deposits with no interests, deposits that have a short term maturity (less than three months), and deposits with a floating rate readjustment period of less than three months, it is assumed that the carrying amounts approximate to their fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.
- Borrowings: For borrowings that have a short term maturity (less than three months) and borrowings with floating rate readjustment period of less than three months, it is assumed that the carrying amounts approximate to their fair value. The estimated fair value of fixed interest bearing borrowings is based on and discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.
- 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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018				
	Financial assets measured at FVTPL	Financial assets measured at FVOCI	Financial assets measured at amortized cost	Derivatives for hedging	Total
Financial assets					
Cash and due from banks	₩ -	₩ -	₩ 24,306,996	₩ -	₩ 24,306,996
Financial assets measured at FVTPL	26,149,112	-	-	-	26,149,112
Financial assets measured at FVOCI	-	36,770,865	-	-	36,770,865
Securities measured at amortized cost	-	-	14,782,666	-	14,782,666
Loans measured at amortized cost	-	-	260,663,585	-	260,663,585
Derivative assets used for hedging	-	-	-	7,575	7,575
Others	-	-	15,012,348	-	15,012,348
	₩ 26,149,112	₩ 36,770,865	₩ 314,765,595	₩ 7,575	₩ 377,693,147

	December 31, 2018				
	Financial liabilities measured at FVTPL	Financial liabilities designated as measured at FVTPL	Financial liabilities measured at amortized cost	Derivatives for hedging	Total
Financial liabilities					
Financial liabilities measured at FVTPL	₩ 4,693,618	₩ -	₩ -	₩ -	₩ 4,693,618
Financial liabilities designated as measured at FVTPL	-	11,971,802	-	-	11,971,802
Deposits	-	-	248,559,497	-	248,559,497
Borrowings	-	-	19,182,273	-	19,182,273
Debentures	-	-	41,018,021	-	41,018,021
Derivative liabilities used for hedging	-	-	-	98,960	98,960
Others	-	-	25,793,102	-	25,793,102
	₩ 4,693,618	₩ 11,971,802	₩ 334,552,893	₩ 98,960	₩ 351,317,273

	December 31, 2017						
	Financial assets held-for-trading	Financial assets designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity investments	Loans and receivables	Derivatives for hedging	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 FVTPL	-	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	-	-	-	-	238,943,185	-	238,943,185
Derivative assets used for hedging	-	-	-	-	-	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 FVTPL	Amortized cost of financial instruments	Derivatives for hedging	Total
Financial liabilities					
Financial liabilities held-for-trading	₩ 7,834,600	₩ -	₩ -	₩ -	₩ 7,834,600
Financial liabilities designated at FVTPL	-	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 liabilities 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

8. Offsetting financial assets and liabilities

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset	Net amounts of financial assets presented in the financial statements	Related amounts not off set in the statement of financial position		Net amount
				Financial instruments recognized in the financial statements(*)	Financial collateral, etc.	
Derivatives	₩ 4,184,301	₩ -	₩ 4,184,301	₩ (3,127,313)	₩ (421,944)	₩ 635,044
Loaned securities	1,923,773	-	1,923,773	-	(1,923,773)	-
Bonds purchased under resale agreement	8,021,732	-	8,021,732	-	(8,021,732)	-
Unsettled spot exchanges	4,822,022	-	4,822,022	(4,818,379)	-	3,643
Domestic exchange settlement debts	24,394,333	(21,168,935)	3,225,398	-	-	3,225,398
Other accounts receivable	282,626	(239,131)	43,495	-	-	43,495
	₩ 43,628,787	₩ (21,408,066)	₩ 22,220,721	₩ (7,945,692)	₩ (10,367,449)	₩ 3,907,580

	December 31, 2017					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset	Net amounts of financial assets presented in the financial statements	Related amounts not off set in the statement of financial position		Net amount
				Financial instruments recognized in the financial statements(*)	Financial collateral, etc.	
Derivatives	₩ 7,253,468	₩ -	₩ 7,253,468	₩ (5,160,605)	₩ (1,076,559)	₩ 1,016,304
Loaned securities	613,005	-	613,005	-	(613,005)	-
Bonds purchased under resale agreement	4,552,229	-	4,552,229	-	(4,552,229)	-
Unsettled 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
Other accounts receivable	464,523	(437,151)	27,372	-	-	27,372
	₩ 44,180,054	₩ (24,055,819)	₩ 20,124,235	₩ (11,286,610)	₩ (6,241,793)	₩ 2,595,832

(*) 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 of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset	Net amounts of financial liabilities presented in the financial statements	Related amounts not off set in the statement of financial position		Net amount
				Financial instruments recognized in the financial statements(*)	Financial collateral, etc.	
Derivatives	₩ 4,240,353	₩ -	₩ 4,240,353	₩ (3,590,222)	₩ (111,818)	₩ 538,313
Bonds sold under repurchase agreements	4,059,177	-	4,059,177	(4,059,177)	-	-
Unsettled spot exchanges	4,821,771	-	4,821,771	(4,818,379)	-	3,392
Domestic exchange settlement credit	24,888,176	(21,168,935)	3,719,241	(3,719,241)	-	-
Other accounts payable	239,131	(239,131)	-	-	-	-
Securities sold	250,616	-	250,616	(250,616)	-	-
	₩ 38,499,224	₩ (21,408,066)	₩ 17,091,158	₩ (16,437,635)	₩ (111,818)	₩ 541,705

	December 31, 2017					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset	Net amounts of financial liabilities presented in the financial statements	Related amounts not off set in the statement of financial position		Net amount
				Financial instruments recognized in the financial statements(*)	Financial collateral, etc.	
Derivatives	₩ 7,105,233	₩ -	₩ 7,105,233	₩ (5,200,476)	₩ (126,654)	₩ 1,778,103
Securities sold	436,248	-	436,248	(436,248)	-	-
Bonds purchased under resale agreement	4,731,409	-	4,731,409	(4,731,409)	-	-
Unsettled spot exchanges	6,170,414	-	6,170,414	(6,126,005)	-	44,409
Domestic exchange settlement credit	27,925,849	(23,618,668)	4,307,181	(4,307,177)	-	4
Other accounts payable	442,107	(437,151)	4,956	-	-	4,956
	₩ 46,811,260	₩ (24,055,819)	₩ 22,755,441	₩ (20,801,315)	₩ (126,654)	₩ 1,827,472

(*) 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 compiled 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 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 of December 31, 2018 and 2017 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 financial assets measured at FVTPL, financial assets held-for-trading, financial assets measured at FVOCI and available-for-sale financial assets are excluded (Korean won in millions):

	December 31, 2018
On balance accounts:	
Due from banks	₩ 22,185,665
Financial assets measured at FVTPL	
Debt securities	15,374,295
Derivative assets held-for-trading	4,342,755
Loans	520,029
Others	883,079
	21,120,158
Financial assets measured at FVOCI	35,582,350
Securities measured at amortized cost	14,782,666
Derivative assets used for hedging	7,575

	December 31, 2018
Loans measured at amortized cost	260,663,585
Other financial assets	15,012,348
	₩ 369,354,347
Off balance accounts:	
Financial guarantees	1,529,746
Guarantee contracts	15,877,747
Commitment	106,857,118
Merchant banking account-commitment	1,199,000
	₩ 125,463,611

	December 31, 2017
On-balance-sheet items	
Due from banks	₩ 19,625,903
Financial assets held-for-trading	
Debt securities	13,840,920
Derivative assets held for trading	7,330,570
Others	982,886
	22,154,376
Financial assets designated at FVTPL	930,714
Available-for-sale financial assets	41,930,817
Held-to-maturity financial assets	7,392,100
Derivative assets used for hedging	23,724
Loans	238,943,185
Others	13,678,057
	₩ 344,678,876
Off-balance-sheet items	
Financial guarantees	₩ 684,944
Guarantee contracts	16,227,466
Commitment	89,491,516
Merchant banking account-commitment	1,021,000
	₩ 107,424,926

Details of collateral management and credit risk mitigation as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018			
	Impaired loan		Total	
	Individual assessment	Collective assessment		
Guarantees	₩ 44,752	₩ 89,886	₩ 134,638	
Deposit	56,078	7,134	63,212	
Real estate	418,711	208,109	626,820	
Securities	6,885	7,608	14,493	
Movables and others	3,063	17,356	20,419	
	₩ 529,489	₩ 330,093	₩ 859,582	

	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	
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	
Movables and others	62,958	36,906	3,127	7,387,703	7,490,694	
	₩ 662,713	₩ 266,603	₩ 598,059	₩ 165,311,815	₩ 166,839,190	

Details of delinquency on loans as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Classification	December 31, 2018									
	12-month expected credit loss	Life time expected credit loss		Subject to the application of credit-impaired approach	Total					
		Non credit-impaired loan	Credit-impaired loans							
Household loans										
Grade 1	₩	79,098,165	₩	8,332,276	₩	-	₩	-	₩	87,430,441
Grade 2		4,317,823		18,316,520		-		-		22,634,343
Grade 3		101,146		450,205		279,109		-		830,460
Unrated (*)		1,188,324		2,088		2,818		-		1,193,230
		84,705,458		27,101,089		281,927		-		112,088,474
Corporate loans										
Grade 1		84,697,005		4,715,911		-		-		89,412,916
Grade 2		40,117,243		8,099,869		4		-		48,217,116
Grade 3		271,803		2,417,172		1,352,030		777,180		4,818,185
Unrated (*)		62,882		-		2,106		-		64,988
		125,148,933		15,232,952		1,354,140		777,180		142,513,205
Credit Card loans										
Grade 1		3,076,179		194,275		-		-		3,270,454
Grade 2		3,423,217		515,236		-		-		3,938,453
Grade 3		12,413		61,031		177,223		-		250,667
		6,511,809		770,542		177,223		-		7,459,574
	₩	216,366,200	₩	43,104,583	₩	1,813,290	₩	777,180	₩	262,061,253

(*) Amount for borrowers whose ratings are not internally calculated.

- The total book value does not reflect deferred assets.

The Group classifies the grade of loan in accordance with the credit rating chart below, based on the credit worthiness of borrowers.

Classification	Household loans	Corporate loans	SOHO
Grade 1	Less or equal to 0.93% of PD	Less or equal to 0.58% of PD	Less or equal to 1.78% of PD
Grade 2	From 0.93% to 19.65% of PD	From 0.58% to 12.43% of PD	From 1.78% to 21.02% of PD
Grade 3	From 19.65% to 100% of PD	From 12.43% to 100% of PD	From 21.02% to 100% of PD

Details of delinquency rates on loans as of December 31, 2017 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			
Neither past due nor impaired	₩ 103,664,481	₩ 32,692,558	₩ 78,735,464	₩ 15,069,873	₩ 6,687,862	₩ 236,850,238	
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	
Past due but not impaired	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	

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.

As of the end of the previous reporting period, the delinquency period for each type of loan that is overdue but not impaired is as follows. The consolidated entity will not consider any overdue loans that are less than ninety (90) days in the absence of any other credit information to identify the impairment.

	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	

Types of impaired loans and receivables as at December 31, 2017 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:							
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 an 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	

Interest income on impaired loans and receivables as at December 31, 2017 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

As of December 31, 2018, exposures of off-balance-sheet items by internal credit rating in accordance with the loss allowance measurement method are as follows (Korean won in millions):

Classification	December 31, 2018				
	12 month expected credit loss	Lifetime expected credit losses		Total	
		Non credit-impaired loans	Credit-impaired loans		
Financial guarantees					
Grade 1	₩ 449,589	₩ 62,912	₩ -	₩ 512,501	
Grade 2	923,498	93,631	-	1,017,129	
Grade 3	-	116	-	116	
	1,373,087	156,659	-	1,529,746	
Guarantee contracts					
Grade 1	12,121,606	1,413,618	-	13,535,224	
Grade 2	1,398,832	556,081	-	1,954,913	
Grade 3	7,956	306,075	73,579	387,610	
	13,528,394	2,275,774	73,579	15,877,747	
Commitment					
Grade 1	84,461,102	4,597,779	-	89,058,881	
Grade 2	9,741,349	7,440,481	-	17,181,830	
Grade 3	15,932	493,918	106,557	616,407	
	94,218,383	12,532,178	106,557	106,857,118	
	₩ 109,119,864	₩ 14,964,611	₩ 180,136	₩ 124,264,611	

As of December 31, 2018 and December 31, 2017 carrying amounts of debt securities by internal credit rating in accordance with the loss allowance measurement method are as follows (Korean won in millions):

Classification	December 31, 2018							
	12 month expected credit loss	Lifetime expected credit losses		Total				
		Non credit-impaired loans	Credit-impaired loans					
Financial assets measured at FVOCI								
Grade 1	₩	35,582,350	₩	-	₩	-	₩	35,582,350
		35,582,350		-		-		35,582,350
Securities measured at amortized cost								
Grade 1		14,777,856		-		-		14,777,856
Grade 2		8,000		-		-		8,000
		14,785,856		-		-		14,785,856
	₩	50,368,206	₩	-	₩	-	₩	50,368,206

	December 31, 2017				
	Financial assets held-for-trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	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

Overdue payments on debt securities as at December 31, 2017 is 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

The credit ratings of debt securities based on the internal rating used by KEB Hana bank and credit ratings by external credit rating agencies are as follows.

Classification	Internal credit 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 of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Industry	Amounts	Ratio (%)
On-balance-sheet items			
Due from banks	Financial services	₩ 22,185,665	100.0
Financial assets measured at FVTPL (debt securities, loans)	Financial services	7,628,806	48.0
	Manufacturing	1,832,141	11.5
	Public administration	3,547,858	22.3
	Construction	29,726	0.2
	Wholesale & retail	359,920	2.3
	Others	2,495,873	15.7
		15,894,324	100.0
Financial assets measured at FVOCI	Financial services	17,293,323	48.6
	Manufacturing	482,784	1.4
	Public administration	15,741,052	44.2
	Construction	141,066	0.4
	Wholesale & retail	16,444	-
	Others	1,907,681	5.4
		35,582,350	100.0

	December 31, 2018		
	Industry	Amounts	Ratio (%)
Securities measured at amortized cost	Financial services	₩ 8,696,118	58.8
	Manufacturing	12,822	0.1
	Public administration	3,843,910	26.0
	Construction	633,661	4.3
	Others	1,599,345	10.8
		14,785,856	100.0
	Allowance for credit loss	(3,190)	-
		14,782,666	100.0
Loans measured at amortized cost	Household loans	112,088,474	43.0
	Credit card loans	7,459,574	2.9
	Corporate loans		
	Manufacturing	37,184,293	14.3
	Construction	3,510,560	1.3
	Wholesale & retail	16,398,794	6.3
	Financial services	20,388,709	7.8
	Real estate rental	32,183,891	12.3
	Transportation	29,551	-
	Electricity, gas and water supply	20,411	-
	Others	32,796,996	12.6
		262,061,253	100.5
	Deferred loan fees	336,746	0.1
	Present value discount	(6,853)	-
	Provision for loss	(1,727,561)	(0.6)
		(1,397,668)	(0.5)
		260,663,585	100.0
		₩ 349,108,590	
Off-balance-sheet items			
Financial guarantees	Manufacturing	₩ 191,939	12.5
	Construction	10,054	0.7
	Wholesale & retail	93,610	6.1
	Financial services	153,095	10.0
	Real estate rental	59,163	3.9
	Others	1,021,885	66.8
		1,529,746	100.0
Guarantee contracts	Manufacturing	8,253,245	52.0
	Construction	1,973,896	12.4
	Wholesale & retail	2,082,637	13.1
	Financial services	1,211,923	7.6
	Real estate rental	114,653	0.7
	Others	2,241,393	14.2
		15,877,747	100.0

	December 31, 2018		
	Industry	Amounts	Ratio (%)
Commitment	Household loans	47,765,645	44.7
	Manufacturing	4,075,236	3.8
	Construction	824,856	0.8
	Wholesale & retail	3,661,051	3.4
	Financial services	1,455,084	1.4
	Real estate rental	1,632,859	1.5
	Others	47,442,387	44.4
		106,857,118	100.0
		₩	124,264,611

	December 31, 2017		
	Industry	Amounts	Ratio (%)
On-balance-sheet items			
Due from banks	Financial services	₩ 19,625,903	100.0
Financial assets held-for-trading (debt securities)	Financial services	6,863,811	49.6
	Manufacturing	1,044,594	7.5
	Public administration	3,896,657	28.2
	Construction	18,431	0.1
	Wholesale & retail	417,775	3.0
	Others	1,599,652	11.6
		13,840,920	100.0
Financial assets designated at FVTPL	Financial services	930,714	100.0
Available-for-sale financial assets	Financial services	23,915,530	57.0
	Manufacturing	157,518	0.4
	Public administration	15,983,764	38.1
	Construction	113,692	0.3
	Others	1,760,313	4.2
		41,930,817	100.0
Held-to-maturity financial assets	Financial services	3,896,062	52.7
	Manufacturing	22,904	0.3
	Public administration	2,470,698	33.4
	Construction	274,388	3.7
	Others	728,048	9.9
		₩ 7,392,100	100.0

	December 31, 2017		
	Industry	Amounts	Ratio (%)
Loans	Household loans	₩ 104,429,063	43.7
	Credit card loans	7,029,120	2.9
	Corporate loans		
	Manufacturing	35,870,850	15.0
	Construction	3,705,184	1.6
	Wholesale & retail	15,285,486	6.4
	Financial services	14,944,579	6.3
	Real estate rental	28,151,621	11.8
	Transportation	46,426	-
	Electricity, gas and water supply	20,018	-
	Others	30,873,721	12.9
		240,356,068	100.6
	Deferred loan fees	300,172	0.1
	Provision for loss	(1,713,055)	(0.7)
		(1,412,883)	(0.6)
		238,943,185	100.0
		₩ 322,663,639	
Off-balance-sheet items			
Financial guarantees	Manufacturing	₩ 267,482	39.1
	Construction	16,814	2.5
	Wholesale & retail	132,142	19.3
	Financial services	69,925	10.2
	Real estate rental	60,524	8.8
	Others	138,057	20.1
		684,944	100.0
Guarantee contracts	Manufacturing	7,767,491	47.9
	Construction	2,277,730	14.0
	Wholesale & retail	2,317,726	14.3
	Financial services	1,033,041	6.4
	Real estate rental	164,766	1.0
	Others	2,666,712	16.4
		16,227,466	100.0
Commitment	Manufacturing	25,055,081	28.0
	Construction	3,539,842	4.0
	Wholesale & retail	7,279,124	8.1
	Financial services	7,043,645	7.9
	Real estate rental	1,433,585	1.6
	Others	45,140,239	50.4
		89,491,516	100.0
		₩ 106,403,926	

Credit risk concentration in each country as of December 31, 2018 and 2017 is as follows (Korean won in millions):

	December 31, 2018		
	Industry	Amounts	Ratio (%)
On balance accounts:			
Due from banks	Korea	₩ 17,664,060	79.6
	U.S	465,384	2.1
	China	1,652,138	7.4
	Japan	234,499	1.1
	Singapore	126,288	0.6
	Hong Kong	174,795	0.8
	Others	1,868,501	8.4
		22,185,665	100.0
Financial assets measured at FVTPL (debt securities, loans)	Korea	14,848,455	93.4
	U.S	331,044	2.1
	China	94,818	0.6
	Japan	136,996	0.9
	Hong Kong	13,576	0.1
	Others	469,435	2.9
		15,894,324	100.0
Financial assets measured at FVOCI	Korea	32,307,633	90.8
	U.S	648,849	1.8
	China	941,634	2.6
	Japan	97,228	0.3
	Others	1,587,006	4.5
Securities measured at amortized cost		35,582,350	100.0
	Korea	13,773,310	93.2
	U.S	115,186	0.8
	China	434,733	2.9
	Others	462,627	3.1
		14,785,856	100.0
	Allowance for credit loss	(3,190)	
Loans measured at amortized cost		14,782,666	100.0
	Korea	242,420,255	93.2
	U.S	2,189,021	0.8
	China	3,748,338	1.4
	Japan	943,580	0.4
	Hong Kong	2,381,680	0.9
	Others	10,378,380	4.0
		262,061,253	100.5
	Deferred loan fees and expenses	336,746	0.1
	Present value discount	(6,853)	-
	Allowance for possible loan losses	(1,727,561)	(0.6)
		(1,397,668)	(0.5)
		260,663,585	100.0
	₩	349,108,590	

	December 31, 2018		
	Industry	Amounts	Ratio (%)
Off-balance accounts:			
Financial guarantees	Korea	₩ 1,529,746	100.0
	Korea	12,515,520	78.8
Guarantee contracts	U.S	60,712	0.4
	China	1,678,983	10.6
	Japan	35,883	0.2
	Others	1,586,649	10.0
		15,877,747	100.0
Commitment	Korea	103,326,014	96.7
	U.S	1,061,045	1.0
	China	1,114,217	1.0
	Japan	42,891	-
	Others	1,312,951	1.3
		106,857,118	100.0
	₩	124,264,611	

	December 31, 2017		
	Industry	Amounts	Ratio (%)
On balance accounts:			
Due from banks	Korea	₩ 13,539,864	69.0
	U.S	1,566,711	8.0
	China	2,042,552	10.4
	Japan	221,603	1.1
	Singapore	71,399	0.4
	Hong Kong	111,640	0.6
	Others	2,072,134	10.5
		19,625,903	100.0
Financial assets held-for-trading: (Debt securities)	Korea	13,154,333	95.0
	U.S	214,687	1.6
	China	26,260	0.2
	Japan	141,026	1.0
	Hong Kong	5,172	0.0
	Others	299,442	2.2
		13,840,920	100.0
Financial assets designated at FVTPL	Korea	930,714	100.0
Available-for-sale financial assets	Korea	38,885,239	92.7
	U.S	858,594	2.0
	China	770,246	1.8
	Japan	84,027	0.2
	Others	1,332,711	3.3
		41,930,817	100.0

	December 31, 2017		
	Industry	Amounts	Ratio (%)
Held-to-maturity investments	Korea	6,572,596	88.9
	U.S	107,079	1.4
	China	333,392	4.5
	Others	379,033	5.2
		₩ 7,392,100	100.0
Loans	Korea	₩ 219,544,030	91.9
	U.S	1,307,986	0.5
	China	4,005,324	1.7
	Japan	681,510	0.3
	Hong Kong	2,534,823	1.1
	Others	12,282,395	5.1
	Deferred loan fees and expenses	300,172	0.1
	Allowance for possible loan losses	(1,713,055)	(0.7)
		238,943,185	100.0
		₩ 322,663,639	
Off-balance accounts:			
Financial guarantees	Korea	₩ 684,944	100.0
Guarantee contracts	Korea	13,451,000	82.9
	U.S	56,908	0.4
	China	1,579,792	9.7
	Japan	35,723	0.2
	Others	1,104,043	6.8
		16,227,466	100.0
Commitment	Korea	86,949,342	97.2
	U.S	283,171	0.3
	China	1,067,339	1.2
	Japan	62,294	0.1
	Others	1,129,370	1.2
		89,491,516	100.0
		₩ 106,403,926	

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 details of the remaining contractual maturities of financial liabilities are analyzed by the earliest maturity date when the Group would be required to pay, based on the undiscounted cash outflows of the Group's financial liabilities. In addition, financial liabilities at fair value through profit or loss and depository liabilities (payment on demand) are shown at fair value in the immediate payment column.

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 of December 31, 2018 and December 31, 2017 is summarized as follows (Korean won in millions):

	December 31, 2018						
	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 year ~ but no later than 5 years	After 5 years	Total
On balance accounts:							
Financial liabilities measured at FVTPL	₩ 4,693,618	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 4,693,618
Financial liabilities designated as measured at FVTPL	11,471,110	-	-	-	-	720,675	12,191,785
Deposits	102,907,289	22,389,333	28,887,497	85,543,829	9,648,518	1,943,069	251,319,535
Borrowings	5,148,987	4,222,749	1,924,875	5,325,396	2,253,857	468,608	19,344,472
Debentures	623	2,109,300	2,119,459	11,011,989	23,209,119	4,201,888	42,652,378
Derivative liabilities used for hedging	-	59	(1,989)	6,660	28,891	(165,940)	(132,319)
Others	7,940,474	14,747,087	91,622	191,620	443,597	64,637	23,479,037
	₩ 132,162,101	₩ 43,468,528	₩ 33,021,464	₩ 102,079,494	₩ 35,583,982	₩ 7,232,937	₩ 353,548,506
Off balance accounts:							
Financial guarantees	1,529,746	-	-	-	-	-	1,529,746
Commitment	106,857,118	-	-	-	-	-	106,857,118
Merchant banking account-commitment	1,199,000	-	-	-	-	-	1,199,000
	₩ 109,585,864	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 109,585,864

	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 year ~ but no later than 5 years	After 5 years	Total
On balance accounts:							
Financial liabilities held-for-trading	₩ 7,834,600	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 7,834,600
Financial liabilities designated at FVTPL	8,393,709	-	-	-	-	634,200	9,027,909
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	-	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
	₩ 131,076,704	₩ 42,569,067	₩ 32,683,459	₩ 84,172,313	₩ 33,825,537	₩ 6,634,402	₩ 330,961,482

	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 year ~ but no later than 5 years	After 5 years	Total
Off balance accounts:							
Financial guarantees	684,944	-	-	-	-	-	684,944
Commitment	89,491,516	-	-	-	-	-	89,491,516
Merchant banking account-commitment	1,021,000	-	-	-	-	-	1,021,000
	₩ 91,197,460	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 91,197,460

Derivative liabilities used for hedging are denominated based on the net cash flow because the accounts are paid in net amount. Available assets that exist in redeeming financial liabilities and unused loan commitments are cash and due from banks, debt securities, equity securities, loans, etc. 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, and exchange ratios 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 securities held-for-trading, foreign currency net positions, derivatives and other assets and liabilities with embedded market risks. Significant risks exposed to the Group as of the reporting date are interest rate risk, foreign exchange 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 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 position includes interest rate positions, equity price positions, commodity positions, and all foreign exchange positions:

- Financial instruments for the purpose of acquiring the differences incurred due to short-term trading or price fluctuations.
- Financial instruments for the purpose of hedging risks
- Financial instruments for the purpose of acquiring arbitrages
- Financial instruments for the purpose of acquisition, mediation and market creation

The Group regularly measures the degree of market risks and complies with the allowable limits set for the various areas of the trading position. In addition, the Group reviews the adequacy of the risk-reward ratio by evaluating risks and related profits and losses on a regular basis and complies with the established trading policy regulations.

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 of December 31, 2018 and December 31, 2017 are summarized as follows (Korean won in millions):

	December 31, 2018	Average	Min	Max	December 31, 2017
Interest rates risk	₩ 28,223	₩ 42,476	₩ 27,843	₩ 64,791	₩ 46,072
Foreign exchange rates risk	132,396	121,517	99,591	162,328	115,056
Stock price risk	32,441	40,638	19,166	81,005	16,377
Total risk (*)	₩ 146,809	₩ 137,038	₩ 104,708	₩ 175,423	₩ 111,718

(*) 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 of non-trading position is a risk of losses in financial assets and liabilities with interest rates due to adverse changes in interest rates and is incurred when maturity structure does not match interest rate setting cycle of the related assets and liabilities. The Group manages interest rate risks in order to maintain the stability of net interest income and net asset value.

To manage interest rate risk, the Group mainly monitors the interest rate gap and interest rate 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 of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018	Average	Min	Max	December 31, 2017
Interest rate VaR	₩ 8,996	₩ 294,375	₩ 8,996	₩ 527,725	₩ 683,891

The interest rate VaR is calculated by using the maturity bucket reprising gap, the interest maturity bucket on modified duration, and the expected gap due to the interest rate fluctuation in accordance with BIS standards. Assets below the substandard and amounts in checking accounts are excluded from the calculated amount.

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 of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018			
	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (105,461)	₩ (52,731)	₩ 52,731	₩ 105,461

	December 31, 2017			
	20% decline	10% decline	10% rise	20% rise
Equity price risk	₩ (56,972)	₩ (28,486)	₩ 28,486	₩ 56,972

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 of December 31, 2018 and 2017 are as follows (Korean won in millions or U.S. dollar in thousands):

	December 31, 2018						
	USD	JPY	EUR	CNY	IDR	Others	Total
Assets							
Cash and due from banks	₩ 4,834,913	₩ 396,323	₩ 497,160	₩ 1,613,401	₩ 180,140	₩ 971,341	₩ 8,493,278
Financial assets measured at FVTPL	2,032,247	82,447	55,976	19,913	-	146,972	2,337,555
Financial assets designated as measured at FVTPL	79,443	1,729	2,920	67,252	-	5,882	157,226
Financial assets measured at FVOCI	4,833,862	-	-	925,377	132,079	879,661	6,770,979
Securities measured at amortized cost	1,041,867	-	46,447	434,260	132,895	215,270	1,870,739
Loans measured at amortized cost	20,875,017	1,112,142	3,390,940	4,607,085	1,687,296	2,256,150	33,928,630
Derivative assets used for hedging	1,575	-	-	-	-	-	1,575
Others	2,857,887	190,425	101,436	528,969	40,261	634,498	4,353,476
	₩ 36,556,811	₩ 1,783,066	₩ 4,094,879	₩ 8,196,257	₩ 2,172,671	₩ 5,109,774	₩ 57,913,458
Liabilities							
Financial liabilities measured at FVTPL	₩ 542,610	₩ 81,074	₩ 67,141	₩ 3,530	₩ 335	₩ 91,016	₩ 785,706
Financial liabilities designated as measured at FVTPL	2,293,444	5,854	56,700	-	-	-	2,355,998
Deposits	18,904,868	1,824,174	2,487,924	5,956,783	1,330,346	3,423,418	33,927,513
Borrowings	9,049,342	54,243	475,139	128,949	201,954	360,545	10,270,172
Debentures	4,626,845	-	56,681	212,376	77,795	528,230	5,501,927
Derivative liabilities used for hedging	82,068	-	-	-	-	-	82,068
Others	3,847,049	236,733	285,424	730,549	29,562	277,809	5,407,126
	₩ 39,346,226	₩ 2,202,078	₩ 3,429,009	₩ 7,032,187	₩ 1,639,992	₩ 4,681,018	₩ 58,330,510

	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
			6,883,698	7,375,191

	December 31, 2017			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Financial assets held-for-trading	USD	1,369,905,954	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
			1,559,220	1,670,547
Financial assets designated At FVTPL	USD	302,610,341	302,610	324,217
Available-for-sale financial assets	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
Held-to-maturity investments	USD	901,432,790	901,433	965,795
	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
			1,553,101	1,663,993
Loans receivable	USD	18,879,858,978	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
			US\$ 29,665,714	₩ 31,783,845
Derivative assets used for hedging	USD	10,976,184	US\$ 10,976	₩ 11,760
Other assets	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
	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
			US\$ 51,390,198	₩ 55,059,454

	December 31, 2017			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
Liabilities:				
Financial liabilities held-for-trading	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
	CAD	7,704	6	7
	AUD	1,108,700	864	926
	Others		6,080	6,514
			662,122	709,398
Financial liabilities designated at FVTPL	USD	1,315,674,940	1,315,675	1,409,614
Deposits	USD	19,422,346,867	19,422,347	20,809,102
	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	3,239,539
Borrowings			32,788,900	35,130,025
	USD	6,747,894,032	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
Debentures			8,055,347	8,630,500
	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	127,296
Derivative liabilities used for hedging			3,861,285	4,136,982
	USD	41,391,510	41,392	44,347

	December 31, 2017			
	Currency	Amount in foreign currency in units	U.S. dollars (*)	Korean won equivalent
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

(*) 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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Common Equity Tier 1 capital	₩ 23,743,362	₩ 21,707,859
Additional Tier 1 capital	1,227,372	936,438
	24,970,734	22,644,297
Tier 2 capital	2,606,828	2,847,644
	₩ 27,577,562	₩ 25,491,941
Risk-weighted assets:		
Credit risk-weighted assets	₩ 162,658,578	₩ 149,520,293
Market risk-weighted assets	8,738,892	8,576,347
Operational risk-weighted assets	13,263,773	12,235,015
	₩ 184,661,243	₩ 170,331,655
BIS capital ratio:		
Common Equity Tier 1 ratio	12.86%	12.74%
Additional Tier 1 capital ratio	13.52%	13.29%
Total capital ratio	14.93%	14.97%

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 Alternative Asset Management, Hana TI, HIF, Hana Savings Bank, Hana Life Insurance, HIS and Hana professional investment type private equity real estate 28.

The net income of the operating segments for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Operating income(*):							
Net interest income	₩ 5,297,201	₩ 200,800	₩ (120,623)	₩ 268,885	₩ 5,646,263	₩ (9,058)	₩ 5,637,205
Interst income	9,378,701	429,506	9,382	548,314	10,365,903	(24,979)	10,340,924
Interest expense	(4,081,500)	(228,706)	(130,005)	(279,429)	(4,719,640)	15,921	(4,703,719)
Net fee and commission income	640,393	349,769	728,324	335,930	2,054,416	14,564	2,068,980
Fee and commission income	835,895	448,042	1,228,731	378,558	2,891,226	(104,216)	2,787,010
Fee and commission expense	(195,502)	(98,273)	(500,407)	(42,628)	(836,810)	118,780	(718,030)
Others	466,207	8,600	50,684	59,799	585,290	(4,058)	581,232
Gross operating income	6,403,801	559,169	658,385	664,614	8,285,969	1,448	8,287,417
Impairment loss of financial assets	(181,167)	(2,118)	(211,281)	(71,457)	(466,023)	(20)	(466,043)
Net operating income	6,222,634	557,051	447,104	593,157	7,819,946	1,428	7,821,374
General and administrative expenses	(3,025,472)	(386,708)	(287,486)	(226,505)	(3,926,171)	(20,689)	(3,946,860)
Net other operating income (loss)	(326,256)	27,052	(23,232)	(254,876)	(577,312)	(145,022)	(722,334)
Operating income	2,870,906	197,395	136,386	111,776	3,316,463	(164,283)	3,152,180
Net other non-operating income (loss)	(206)	10,191	4,301	1,161,191	1,175,477	(1,177,913)	(2,436)
Income tax expenses	(778,268)	(55,937)	(34,012)	(55,160)	(923,377)	48,785	(874,592)
Net income	₩ 2,092,432	₩ 151,649	₩ 106,675	₩ 1,217,807	₩ 3,568,563	₩ (1,293,411)	₩ 2,275,152
Total assets(*)	340,252,543	23,537,258	7,985,110	34,698,247	406,473,158	(21,464,538)	385,008,620
Total liabilities(*)	315,743,124	20,337,280	6,408,756	16,768,856	359,258,016	(1,357,857)	357,900,159

	December 31, 2017						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Operating income:							
Net interest income	₩ 4,814,172	₩ 165,745	₩ (107,133)	₩ 226,851	₩ 5,099,635	₩ (8,656)	₩ 5,090,979
Interst income	8,111,335	366,205	7,152	488,699	8,973,391	(40,995)	8,932,396
Interest expense	(3,297,163)	(200,460)	(114,285)	(261,848)	(3,873,756)	32,339	(3,841,417)
Net fee and commission income	636,313	274,142	706,000	248,451	1,864,906	11,700	1,876,606
Fee and commission income	835,420	337,280	1,512,749	274,872	2,960,321	(104,164)	2,856,157
Fee and commission expense	(199,107)	(63,138)	(806,749)	(26,421)	(1,095,415)	115,864	(979,551)
Others	1,360,424	39,097	76,864	51,573	1,527,958	(105,002)	1,422,956
Gross operating income	6,810,909	478,984	675,731	526,875	8,492,499	(101,958)	8,390,541

	December 31, 2017						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Impairment loss of financial assets	(669,129)	(2,875)	(183,458)	(80,906)	(936,368)	(11,128)	(947,496)
Net operating income	6,141,780	476,109	492,273	445,969	7,556,131	(113,086)	7,443,045
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)	37,124	(30,809)	(183,410)	(551,502)	(134,334)	(685,836)
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
Total assets(*)	320,894,409	18,821,552	7,565,090	33,446,885	380,727,936	(20,638,587)	360,089,349
Total liabilities(*)	297,655,253	16,824,857	6,048,554	16,485,862	337,014,526	(1,753,121)	335,261,405

(*) Profit or loss, assets and liabilities represent the amounts before the inter-segment elimination.

The operating income from external customers and internal transactions for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Revenue (expense) from external customers	₩ 6,319,347	₩ 563,549	₩ 734,351	₩ 670,170	₩ 8,287,417	₩ -	₩ 8,287,417
Revenue (expense) from internal transactions	84,454	(4,380)	(75,966)	(5,556)	(1,448)	1,448	-
	₩ 6,403,801	₩ 559,169	₩ 658,385	₩ 664,614	₩ 8,285,969	₩ 1,448	₩ 8,287,417

	December 31, 2017						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Revenue (expense) from external customers	₩ 6,766,489	₩ 445,256	₩ 751,448	₩ 427,348	₩ 8,390,541	₩ -	₩ 8,390,541
Revenue (expense) from internal transactions	44,420	33,728	(75,717)	99,527	101,958	(101,958)	-
	₩ 6,810,909	₩ 478,984	₩ 675,731	₩ 526,875	₩ 8,492,499	₩ (101,958)	₩ 8,390,541

Significant non-cash transactions included in income of operating segments for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018						
	KEB Hana Bank	HFI	KEB Hana Card	Others	Subtotal	Adjustments	Total
Gain (loss) on equity method	₩ 21,686	₩ 2,699	₩ 709	₩ 471	₩ 25,565	₩ (2,692)	₩ 22,873
Depreciation and amortization	(203,654)	(24,598)	(30,877)	(149,472)	(408,601)	(172,001)	(580,602)

	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)

Revenue from external customers for the years ended December 31, 2018 and 2017 and non-current assets as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	Revenue from external customers		Non-current assets	
	Year ended December 31, 2018	Year ended December 31, 2017	December 31, 2018	December 31, 2017
Domestic	₩ 7,635,358	₩ 7,908,095	₩ 4,184,346	4,020,839
Foreign:				
Hong Kong	64,372	67,162	485	498
Singapore	32,543	24,687	762	865
U.S	38,078	40,101	5,849	5,168
Japan	18,236	16,978	2,788	2,765
China	186,714	138,214	26,427	26,404
Indonesia	133,492	143,597	12,700	11,298
U.K	18,457	18,622	1,838	2,889
Canada	34,274	28,623	6,219	6,774
Others	124,445	106,420	3,081	8,828
	650,611	584,404	60,149	65,489
Adjustments	1,448	(101,958)	188,439	365,651
	₩ 8,287,417	₩ 8,390,541	₩ 4,432,934	₩ 4,451,979

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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

		Counterparty	December 31, 2018	December 31, 2017
Cash			₩ 2,121,331	₩ 2,224,789
Due from banks in Korean won	Reserve deposits with BOK, etc.	Bank of Korea (BOK), etc.	10,771,094	10,860,179
	Time deposits	Other banks	2,011,537	640,480
	Other deposits	Other financial institutions	1,533,923	1,333,660
			14,316,554	12,834,319
Due from banks in foreign currencies	Deposits in foreign currencies in other branches	BOK, etc.	4,890,744	3,075,845
	Time deposits	Bayern LB and others	1,044,583	1,496,025
	Other deposits	Other financial institutions	1,933,784	2,219,714
			7,869,111	6,791,584
			₩ 24,306,996	₩ 21,850,692

Restricted balances in due from banks as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018	December 31, 2017	Restrictions
Due from banks in Korean won:			
Reserve deposits with BOK, etc.	₩ 10,771,094	₩ 10,860,179	Reserve deposits from the Banking Act and the Bank of Korea Act, currency stabilization account
Reserve for futures trading	616	44	Margin for trading account
Reserve for claims of customers' deposits	398,478	187,000	Capital market law, regulation on brokerage business of securities company, etc.
Other deposits	204,005	276,494	For the right of pledge, etc.
	11,374,193	11,323,717	
Due from banks in foreign currencies:			
Deposits in foreign currencies in other branches	3,334,662	342,719	Reserve for payment of deposits from the Banking Act and the Bank of Korea Act
Other deposits	1,523,298	501,882	OTC derivative contracts, etc.
	4,857,960	844,601	
	₩ 16,232,153	₩ 12,168,318	

12. Financial assets measured at FVTPL and Financial assets held-for-trading

Financial assets measured at FVTPL as of December 31, 2018 are as follows (Korean won in millions):

	December 31, 2018
Stocks	₩ 257,240
Investments in partnerships	294,036
Government and public bonds	2,801,665
Finance bonds	4,940,034
Corporate bonds and others	5,531,989
Beneficiary certificates	3,567,733
Other securities denominated in Korean won	229,962
Securities denominated in foreign currencies	2,335,971
Derivative linked securities	444,619
Derivatives assets held for trading (*)	4,342,755
Loans	520,029
Other financial assets measured at FVTPL	883,079
	₩ 26,149,112

Financial assets held-for-trading as of December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Stocks	₩ 121,200
Government and public bonds	3,001,786
Finance bonds	5,894,136
Corporate bonds and others	3,761,222
Beneficiary certificates	348,482
Securities denominated in foreign currencies	1,263,821
Other securities	982,887
Derivatives assets held for trading (*)	7,330,570
	₩ 22,704,104

(*) Refer to Note 20.

13. Financial assets designated at FVTPL

Financial assets designated at fair value through profit or loss as of December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Derivative linked securities	₩ 392,571
Deferred day 1 profit or loss	6,096
Equity securities	362,044
Debt securities	532,047
	₩ 1,292,758

In regard to derivative linked securities, the Group did not separate embedded derivatives from host contracts but designates them as financial assets designated at fair value through profit or loss as of December 31, 2017. 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 of December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Equity securities	₩ 1,019,148
Investments in partnerships	189,858
Government and public bonds	14,595,744
Finance bonds	15,601,338
Corporate bonds and others	4,456,582
Beneficiary certificates	2,951,642
Securities denominated in foreign currencies	8,082,692
Others	24,425
	₩ 46,921,429

15. Financial assets measured at FVOCI

Financial assets measured at FVOCI as of December 31, 2018 consist of the following (Korean won in millions):

	December 31, 2018
Equity securities	₩ 934,506
Investments in partnerships	816
Government and public bonds	14,883,737
Finance bonds	9,536,099
Corporate bonds and others	4,391,535
Other securities denominated in Korean won	18,601
Securities denominated in foreign currencies	7,005,571
	₩ 36,770,865

Details of shares (including shares in foreign currencies) included in financial assets measured at FVOCI as of December 31, 2018 are as follows (Korean won in millions):

Counterparty	Book value (Fair value)	
Kumho Tire Co., Inc.	₩	12,890
Daewoo Shipbuilding & Marine Engineering Co., Ltd. etc.		307,881
Taihan Electric Wire Co., Ltd.		43,131
Dongbu Steel Co., Ltd.		15,028
ChinHung international, Inc.		12,678
Hyundai Merchant Marine Co., Ltd.		14,753
Consumer Credit Assistant Fund Co., Ltd.		121,313
BC Card Co., Ltd.		11,430
UAMCO., Ltd.		118,130
Koramco REITs Management and Trust Co., Ltd.		10,481
Korea Enterprise Data		10,461
Korea Asset Management Corporation		15,737
The Korea Securities Finance Corporation		71,697
CM International financing leasing Co., Ltd.		228,540
Korea Exchange		101,405
STX Engine Co., Ltd.		18,601
Others		74,359
	₩	1,188,515

Equity instruments that are held for strategic alliances, not for trading, converted from debt instruments and acquired for access rights of systems and facilities are designated as financial assets measured at FVOCI.

Details of disposals of shares (including shares in foreign currencies) included in financial assets measured at FVOCI during the three-month period ended December 31, 2018 are as follows (Korean won in millions):

Counterparty	Book value		Cumulative valuation gain (loss) (*)	Reason for disposal
STX Engine Co.,Ltd.	₩	15,349	₩ (22,925)	Decision of the Board of Shareholders
Taihan Electric Wire Co., Ltd.		2,479	(3,690)	Decision of the Board of Directors
Shinwon Co., Ltd		11	4	Receipt of dividends upon bankruptcy of business
Oriental Precision & Engineering Co., Ltd.		864	(8,571)	Decision of the Board of Directors
JY Solutec Co., Ltd.		755	593	Sale of shares after the end of workout
Placidwave Korea Inc.		16	16	Capital reduction on stocks resulting from debt-equity swap based on the approval of changes in corporate rehabilitation plan
Microfinance & Badbank Harmony Co., Ltd.		871	871	Decision of the Board of Shareholders
Hanil Hyundai Cement Co.,Ltd.		12,062	8,995	Decision of the Board of Directors
Others		5,498	327	-
	₩	37,905	₩ (24,380)	

(*) Cumulative gain or loss is replaced with retained earnings.

Dividends recognized from financial assets measured at FVOCI during the period ended December 31, 2018 are as follows (Korean won in millions):

	December 31, 2018	
Dividends recognized from equity instruments held as of December 31, 2018	₩	7,806
Dividends recognized from equity instruments derecognized		54
	₩	7,860

Changes in the loss allowance in relation to financial assets measured at FVOCI during the years ended December 31, 2018 are as follows (Korean won in millions):

Classification	Year ended December 31, 2018			
	12 month expected credit loss	Lifetime expected credit losses		Total
		Non credit-impaired debt securities	Credit-impaired debt securities	
Beginning balance	₩ 7,894	₩ 723	₩ -	₩ 8,617
Transfer to 12 month expected credit loss	361	(361)	-	-
Provision (reversal) for possible loan losses	255	-	-	255
New financial assets executed or purchased	273	-	-	273
Disposal financial assets	(2,027)	(362)	-	(2,389)
Exchange rate fluctuation and others	253	-	-	253
Ending balance	₩ 7,009	₩ -	₩ -	₩ 7,009

Changes in the book value in relation to financial assets measured at FVOCI during the year ended December 31, 2018 are as follows (Korean won in millions):

Classification	Year ended December 31, 2018			
	12 month expected credit loss	Lifetime expected credit losses		Total
		Non credit-impaired debt securities	Credit-impaired debt securities	
Beginning balance	₩ 41,832,536	₩ 7,738	₩ -	₩ 41,840,274
Transfer to 12 month expected credit loss	3,869	(3,869)	-	-
New financial assets executed or purchased	6,966,746	-	-	6,966,746
Disposal financial assets	(13,515,644)	(3,869)	-	(13,519,513)
Exchange rate fluctuation and others	294,843	-	-	294,843
Ending balance	₩ 35,582,350	₩ -	₩ -	₩ 35,582,350

16. Held-to-maturity investments

Held-to-maturity investments as of December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017	
Government and public bonds	₩	1,865,981
Financial bonds		972,622
Corporate bonds and others		2,889,505
Securities denominated in foreign currencies		1,663,992
	₩	7,392,100

The Group has reclassified available-for-sale financial assets of ₩519,583 million and ₩348,103 million to held-to-maturity investments as at December 31, 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.

17. Securities measured at amortized cost

Details of securities measured at amortized cost as of December 31, 2018 are as follows (Korean won in millions):

Classification	Book value	
Government and public bonds	₩	2,463,724
Financial bonds		3,163,884
Corporate bonds and others		7,239,163
Securities denominated in foreign currencies		1,871,511
Loaned securities		47,574
Allowance for credit losses		(3,190)
	₩	14,782,666

There is no profit or loss from disposal of securities measured at amortized cost during the year ended December 31, 2018.

Changes in provision for possible loan losses in relation to securities measured at amortized cost during the period ended December 31, 2018 are as follows (Korean won in millions):

Classification	December 31, 2018					
	12 month expected credit loss	Lifetime expected credit losses		Total		
		Non credit-impaired debt securities	Credit-impaired debt securities			
Beginning balance	₩	-	₩	-	₩	-
Effect of changes in accounting standards		1,790	-	-		1,790
Provision for possible loan losses		2,529	-	-		2,529
Disposed financial assets		(137)	-	-		(137)
Exchange rate fluctuation and others		(992)	-	-		(992)
Ending balance	₩	3,190	₩	-	₩	3,190

Changes in the book value in relation to securities measured at amortized cost during the year ended December 31, 2018 are as follows (Korean won in millions):

Classification	December 31, 2018					
	12 month expected credit loss	Lifetime expected credit losses		Total		
		Non credit-impaired debt securities	Credit-impaired debt securities			
Beginning balance	₩	7,438,808	₩	-	₩	7,438,808
New financial assets executed or purchased		8,359,571	-	-		8,359,571
Disposed financial assets		(976,850)	-	-		(976,850)
Exchange rate fluctuation and others		(35,673)	-	-		(35,673)
Ending balance	₩	14,785,856	₩	-	₩	14,785,856

18. Pledged asset

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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	Details	December 31, 2018
Financial assets measured at FVTPL	Borrowings	₩ 992
	Pledged securities	3,844,426
	Derivative instruments	1,717,667
	KRX, etc.	313,979
	Client RP	1,174,146
		7,051,210
Financial assets measured at FVOCI	Futures	186,219
	Daylight credit	600,064
	Client RP	634,623
	Foreign currency	118,219
	Pledged securities	1,859,927
	Borrowings	1,017,965
	BOK payment	1,688,711
	Others	468,066
		6,573,794
	Foreign currency borrowing	385,243
Securities measured at amortized cost	Establishment of a pledge right	6,198
	Futures	180,346
	BOK payment	1,058,662
	Daylight credit	55,690
	Borrowings	408,460
	Client RP	291
	Securities paid	4,938
	Others	74,628
		2,174,456
		₩ 15,799,460

	Details	December 31, 2017
Financial assets held-for-trading	Pledged securities	₩ 2,148,344
	Derivative instruments	1,660,527
	KRX, etc.	271,443
	Client RP	4,389,829
	Others	1,525
		8,471,668
Available-for-sale financial assets	Futures	66,955
	Daylight credit	566,317
	Client RP	392,284
	Foreign currency borrowing	290,586
	Pledged securities	599,777
	Borrowings	1,467,404
	BOK payment	2,554,249
	Others	979,720
		6,917,292
Held-to-maturity investments	Foreign currency borrowing	31,364
	Establishment of a pledge right	21,281
	Futures	257,233
	BOK payment	1,121,782
	Daylight credit	45,740
	Borrowings	275,370
	Securities paid	5,016
	Others	69,815
		1,827,601
Loans Receivable	Borrowings	10,212
		₩ 17,226,773

The fair value of collateral that is available-for-sale and re-pledge, irrespective of default, is as follows (Korean won in millions):

	December 31, 2018	
	Fair value of collateral	Fair value of collateral sold or re-pledged
Securities	₩ 11,417,964	₩ 1,002,971

	December 31, 2017	
	Fair value of collateral	Fair value of collateral sold or re-pledged
Securities	₩ 7,492,095	₩ 1,066,800

19. Loans and receivables

Details of loans and receivables as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Loans and receivables:		
Loans in Korean won	₩ 209,582,741	₩ 194,242,404
Loans in foreign currencies	20,461,046	19,878,908
Domestic import usance	3,616,403	3,450,087
Call loans	3,153,690	2,163,949
Bills purchased in Korean won	88,303	70,349
Bills purchased in foreign currencies	5,662,188	5,663,419
Advance payments on acceptances and guarantees	23,869	17,816
Credit card loans	7,459,574	7,029,120
Bonds purchased under resale agreement	8,021,732	4,552,229
Installment receivables purchased	762,765	591,721
Privately-placed corporate bonds	1,655,466	1,243,570
Lease receivables	1,573,476	1,452,496
	262,061,253	240,356,068
Plus (less):		
Deferred loan fees and expenses	336,746	300,172
Present value discount	(6,853)	-
Allowance for possible loan losses	(1,727,561)	(1,713,055)
	₩ 260,663,585	₩ 238,943,185

Allocations of loans in Korean won and in foreign currencies by customer as of December 31, 2018 and 2017 are listed as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Corporate loans:		
Large business	₩ 33,990,293	₩ 33,978,394
Small and medium business	87,861,495	79,783,258
Public sector and others	20,661,417	15,136,233
	142,513,205	128,897,885
Household loans	112,088,474	104,429,063
Credit card loans	7,459,574	7,029,120
	262,061,253	240,356,068
Plus (less):		
Deferred loan fees and expenses	336,746	300,172
Present value discount	(6,853)	-
Allowance for possible loan losses	(1,727,561)	(1,713,055)
	₩ 260,663,585	₩ 238,943,185

Changes in allowance for possible loan losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018									
	12 month expected credit loss	Lifetime expected credit losses		Credit impairment model	Total					
		Non credit-impaired loan	Credit-impaired loan							
As of January 1, 2018	₩	365,104	₩	462,776	₩	1,012,524	₩	12,081	₩	1,852,485
Transfer to 12 month expected credit loss		43,749		(41,474)		(2,275)		-		-
Transfer to non credit-impaired financial assets		(22,264)		89,475		(67,211)		-		-
Transfer to credit-impaired loan		(24,390)		(57,430)		81,820		-		-
Provisions of allowance of possible loan losses		39,709		50,905		364,775		3,609		458,998
Write-offs		(1,186)		(713)		(650,328)		(5,789)		(658,016)
Collection of loans written-off		-		-		174,575		-		174,575
Disposal of non performing loans		(53)		(5)		(47,392)		-		(47,450)
Changes in exchange rate, etc.		17,658		(18,446)		(52,203)		(40)		(53,031)
As of December 31, 2018	₩	418,327	₩	485,088	₩	814,285	₩	9,861	₩	1,727,561

	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 of 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 of December 31, 2017	₩ 1,177,237	₩ 230,510	₩ 3,801	₩ 57,611	₩ 207,791	₩ 36,105	₩ 1,713,055	

Changes in the carrying amounts of loans for the year ended December 31, 2018 are as follows (Korean won in millions):

Classification	Year ended December 31, 2018				
	12 month expected credit loss	Lifetime expected credit losses		Subject to the application of credit impairment model	Total
		Non credit-impaired loan	Credit-impaired loan		
As of January 1, 2018	₩ 171,845,190	₩ 65,666,480	₩ 2,122,112	₩ 498,900	₩ 240,132,682
Transfer to 12 month expected credit loss	9,225,191	(9,219,212)	(5,979)	-	-
Transfer to non credit-impaired financial assets	(5,085,986)	5,267,154	(181,168)	-	-
Transfer to credit-impaired loan	(563,676)	(487,702)	1,051,378	-	-
New financial assets executed or purchased	91,299,147	2,206,129	371,422	570,777	94,447,475
Write-offs	(1,007)	(229)	(650,991)	(5,789)	(658,016)
Collection of loans written-off in prior periods	(49,627,102)	(13,745,863)	(183,235)	(286,708)	(63,842,908)
Disposal of non-performing loans	(3,196)	(205)	(141,881)	-	(145,282)
Changes in exchange rate, etc.	(722,361)	(6,581,969)	(568,368)	-	(7,872,698)
As of December 31, 2018	₩ 216,366,200	₩ 43,104,583	₩ 1,813,290	₩ 777,180	₩ 262,061,253

Amortized cost before change and net gain or loss due to change from cash flows of contract of loans, whose allowance for possible loan losses were measured based on the life-time expected credit loss for the year ended December 31, 2018 are as follows (Korean won in millions):

	Amount	
Amortized cost before change	₩	66,898
Net gain or loss due to change		9,446

Among loan receivables, which contractual cash flows are changed, a loss allowance of loan receivables that once was measured based on lifetime expected credit losses but is measured based on 12-month expected credit losses since the initial recognition of financial assets amounts to ₩100 million as of December 31, 2018.

The uncollected contractual amount of loan receivables that was fully amortized during the current reporting period but is still in the process of collection amounts to ₩608,821 million as of December 31, 2018.

20. Derivative instruments

Unsettled derivative contracts held for trading purpose as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018										
	Notional Amounts		Net valuation gain		Net valuation loss		Assets		Liabilities		
Currency:											
Forwards	₩	227,237,986	₩	2,074,356	₩	1,926,784	₩	2,031,575	₩	1,954,523	
Swap		76,257,010		1,142,546		1,121,946		1,046,537		846,302	
Options purchased		234,609		3,654		-		4,710		-	
Options sold		215,109		-		2,100		-		3,684	
Futures		1,372,442		-		10		-		10	
		305,317,156		3,220,556		3,050,840		3,082,822		2,804,519	
Interest:											
Swap		125,487,706		397,246		312,102		623,005		674,186	
Options purchased		470,000		2,415		-		9,276		-	
Options sold		2,249,479		-		9,020		-		42,721	
Futures		4,985,417		39		14,863		39		14,863	
		133,192,602		399,700		335,985		632,320		731,770	
Stock:											
Swap		5,546,120		74,463		316,708		265,135		433,320	
Options purchased		3,254,671		25,479		73,340		73,417		-	
Options sold		4,045,280		14,403		19,644		-		186,370	
Futures		839,084		8,009		4,897		8,009		4,897	
		13,685,155		122,354		414,589		346,561		624,587	
Credit:											
Credit default swap		13,786,648		102,077		95,181		133,745		115,792	
Others:											
Credit risk assessment adjustments		-		2,053		141		(9,873)		-	
Day 1 profit or loss (unamortized)		-		-		-		37,293		38,403	
Other derivatives		2,980,381		113,254		104,997		119,887		127,931	
		2,980,381		115,307		105,138		147,307		166,334	
	₩	468,961,942	₩	3,959,994	₩	4,001,733	₩	4,342,755	₩	4,443,002	

	December 31, 2017				
	Notional Amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Currency:					
Forwards	₩ 203,470,369	₩ 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
	274,528,882	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	3,262,567	-	4,261	-	43,050
Futures	3,851,725	2,267	209	2,267	210
	111,184,635	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:					
Credit risk assessment adjustments	-	10,116	-	(11,268)	-
Day 1 profit or loss (unamortized)	-	-	-	14,290	20,552
Other derivatives	1,563,996	34,992	65,268	94,729	88,891
	1,563,996	45,108	65,268	97,751	109,443
	₩ 405,076,632	₩ 8,066,861	₩ 7,864,257	₩ 7,330,570	₩ 7,398,352

Unsettled derivative contracts held for hedging purpose as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Fair value hedge:					
Currency forwards	₩ 211,411	₩ 820	₩ 406	₩ 820	₩ 406
Currency swap	660,977	3,911	3,214	3,766	7,076
Interest swap	3,787,766	8,291	52,166	2,989	91,356
	4,660,154	13,022	55,786	7,575	98,838
Cash flow hedge:					
Interest swap	70,000	-	219	-	122
	₩ 4,730,154	₩ 13,022	₩ 56,005	₩ 7,575	₩ 98,960

	December 31, 2017				
	Notional amounts	Net valuation gain	Net valuation loss	Assets	Liabilities
Fair value hedge:					
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
Cash flow hedge:					
Interest swap	100,000	1,536	-	97	-
	₩ 4,103,838	₩ 57,288	₩ 29,605	₩ 23,724	₩ 71,797

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.

Non-derivative financial instruments designated as hedging instruments as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		December 31, 2017	
	Book value	Gain (loss) on valuation	Book value	Gain (loss) on valuation
Fair value hedge:				
Debentures denominated i foreign currencies	₩ 223,620	₩ (9,340)	₩ 214,280	₩ (27,420)
Hedge of a net investment:				
Debentures denominated in foreign currencies	631,239	(12,343)	618,896	42,427

Details of items subject to fair value hedge as of December 31, 2018 are as follows (Korean won in millions):

Risk	Hedged item	December 31, 2018			
		Book value of Hedged item		Accumulated fair value adjustments	Fair value fluctuation
		Asset	Liability		
Foreign currency risk	Securities measured at FVOCI	₩ 375,087	₩ -	₩ 4,447	₩ 9,167
Foreign currency risk	Securities measured at amortized cost	75,617	-	(289)	(289)
Interest rate risk	Depository liabilities in Korean won	-	481,658	7,976	(5,851)
Interest rate risk	Depository liabilities in foreign currency	-	532,658	37,573	25,314
Interest rate risk	Financial debentures in Korean won	-	100,102	(102)	(102)
Interest rate risk	Financial debentures in foreign currency	-	2,584,266	43,269	22,506
Interest rate and Foreign currency risk	Financial debentures in foreign currency	-	675,673	(14,696)	(7,930)
		₩ 450,704	₩ 4,374,357	₩ 78,178	₩ 42,815

Fair value hedged items and gain or loss on valuation of items subject to fair value hedge for the years ended December 31, 2018 are as follows (Korean won in millions):

Hedged item	Hedging instrument	December 31, 2018		
		Gain (loss) on valuation of hedged item	Gain (loss) on valuation of hedging instrument	Ineffective portion of hedge recognized in profit or loss
Securities measured at FVOCI	Financial debentures in foreign currency	₩ 9,340	₩ (9,340)	₩ -
Securities measured at FVOCI	Currency forwards	(173)	125	(48)
Securities measured at amortized cost	Currency forwards	(289)	289	-
Depository liabilities in Korean won	Interest swap	(5,851)	4,625	(1,226)
Depository liabilities in foreign currency	Interest swap	25,314	(25,314)	-
Financial debentures in Korean won	Interest swap	(102)	102	-
Financial debentures in foreign currency	Interest swap	22,506	(23,287)	(781)
Financial debentures in foreign currency	Currency swap	(7,930)	696	(7,234)
		₩ 42,815	₩ (52,104)	₩ (9,289)

Details of items subject to cash flow hedge as of December 31, 2018 are as follows (Korean won in millions):

Risk	Hedged item	December 31, 2018			
		Book value of Hedged item		Accumulated cash flow hedge adjustments	Cash flow hedging effect
		Asset	Liability		
Interest rate risk	Variable interest rate debentures denominated in Korean won	₩ -	₩ 70,000	₩ 122	₩ 219

Cash flow hedged items and gain or loss on valuation of items subject to cash flow hedge for the years ended December 31, 2018 are as follows (Korean won in millions):

Hedged item	Hedging instrument	December 31, 2018		
		Gain (loss) on valuation of hedged item	Gain (loss) on valuation of hedging instrument	Ineffective portion of hedge recognized in profit or loss
Variable interest rate debentures denominated in Korean won	Interest swap	₩ 219	₩ (219)	₩ -

Net investment hedged items and gain or loss on valuation of items subject to net investment hedge for the years ended December 31, 2018 are as follows (Korean won in millions):

Hedged item	Hedging instrument	December 31, 2018		
		Gain (loss) on valuation of hedged item	Gain (loss) on valuation of hedging instrument	Ineffective portion of hedge recognized in profit or loss
Net investment in foreign operation (Foreign currency risk)	Debentures denominated in foreign currencies	₩ 12,343	₩ (12,343)	₩ -

Average hedging ratios of future nominal cash flows by the type of risk hedge as of December 31, 2018 are as follows (Korean won in millions):

	December 31, 2018						
	1 year	2 years	3 years	4 years	5 years	Over 5 years	Total
Fair value hedge:							
Notional amount of hedged item	₩ 1,255,004	₩ 101,714	₩ 956,314	₩ 20,000	₩ 428,730	₩ 2,146,521	₩ 4,908,283
Notional amount of hedging instrument	1,230,496	101,714	956,314	20,000	428,730	2,146,521	4,883,775
Average hedging ratio	100.41%	99.92%	100.30%	100.00%	98.13%	100.51%	100.30%
Cash flow hedge:							
Notional amount of hedged item	₩ -	₩ 70,000	₩ -	₩ -	₩ -	₩ -	₩ 70,000
Notional amount of hedging instrument	-	70,000	-	-	-	-	70,000
Average hedging ratio	-	100.00%	-	-	-	-	100.00%
Hedge of a net investment							
Notional amount of hedged item	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 631,239	₩ 631,239
Notional amount of hedging instrument	-	-	-	-	-	631,239	631,239
Average hedging ratio	-	-	-	-	-	100.00%	100.00%

21. Investments in associates and joint ventures

Details of investments in associates and joint ventures as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018				
	Type	Country	Number of shares	Ownership (%)	Book value
Bank of Jilin (*1)	Associates	China	1,200,000,000	17.0	₩ 694,609
Korea Credit Bureau (*1)	Associates	Korea	180,000	9.0	6,606
CM International Financing Leases	Associates	China	1,125,000,000	25.0	202,173
Beijing Langa Asset Management Co., Ltd	Associates	China	250,000,000	17.7	46,258
Company KStartup Winwin Fund	Associates	Korea	10,000	23.8	6,931
PT. SINARMAS HANA FINANCE (*4)	Joint ventures	Indonesia	1,275	85.0	8,776
Our Crowd International Invest III (*3)	Associates	Virgin Islands	-	22.2	14,049
Hana UBS Asset Management	Associates	Korea	4,410,000	49.0	35,600
Hana Power Infra 1st Private Equity Fund (*1)(*3)	Associates	Korea	-	7.0	22,302
KOCREF REIT 30 (*1)	Associates	Korea	400,000	10.9	19,567
Lotte accelerator	Associates	Korea	999,800	20.0	5,368
Petra 6 Alpha private investment joint venture (*3)	Associates	Korea	-	96.5	76,825
Myoung Shin Industrial Co.,Ltd. (*1)(*2)	Associates	Korea	596,107	20.0	20,000
Hanon private investment joint venture (*3)	Associates	Korea	-	23.8	9,964
Mirae Credit Information Services Corp	Associates	Korea	186,000	31.0	9,372
Finnq Co., Ltd. (*4)	Joint ventures	Korea	5,100,000	51.0	7,533
Others					38,950
					₩ 1,224,883

	December 31, 2017				
	Type	Country	Number of shares	Ownership (%)	Book value
Bank of Jilin (*1)	Associates	China	1,200,000,000	17.0	₩ 644,252
CM International Financing Leases	Associates	China	1,125,000,000	25.0	201,064
Beijing Langa Asset Management Co., Ltd.	Associates	China	250,000,000	25.0	45,113
PT. SINARMAS HANA FINANCE (*4)	Joint ventures	Indonesia	1,275	85.0	8,703
Korea Credit Bureau (*1)	Associates	Korea	180,000	9.0	5,722
Company KStartup Winwin Fund	Associates	Korea	10,000	23.8	9,643
Darby Latin American Fund III (*2)(*3)	Associates	USA	-	25.0	6,770
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
KOCREF REIT 30 (*1)	Associates	Korea	400,000	10.9	20,000
Mirae Credit Information Services Corp	Associates	Korea	186,000	31.0	9,279
Finnq Co., Ltd. (*4)	Joint ventures	Korea	5,100,000	51.0	16,696
Others					24,793
					₩ 1,073,578

(*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, 2018	Unrecognized changes in equity for year ended December, 31, 2017
Somesevit Co., Ltd	165,000	1.9	₩ (5)	₩ (893)
Midan City Development	387,800	2.2	-	(523)
GMHB Co., Ltd (*)	199,000	46.0	(21,675)	-
Gunsan Bio Energy Co., Ltd	200,000	18.9	(916)	(1,286)
Odin 2 LLC	13,990,992	26.7	(6,979)	(44,469)

(*)The stake is 19.9% but the profit share is 46.0%.

The financial information of investments in associates and joint ventures as of December 31, 2018 and December 31, 2017 is as follows (Korean won in millions):

Classification	December 31, 2018						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
Bank of Jilin	₩ 56,868,945	₩ 52,861,480	₩ 4,007,465	₩ 1,348,642	₩ 186,925	₩ 222,743	₩ 409,668
Korea Credit Bureau	88,797	22,788	66,009	78,018	9,901	-	9,901
CM International Financing Leases	4,493,521	3,684,828	808,693	316,370	8,541	-	8,541
Beijing Langa Asset Management Co., Ltd	509,420	248,063	261,357	39,553	15,847	-	15,847
Company KStartup Winwin Fund	29,696	586	29,110	2,467	(131)	985	854
PT. SINARMAS HANA FINANCE	53,820	43,534	10,286	9,184	658	(851)	(193)
Our Crowd International Invest III	52,091	1,391	50,700	42	(429)	1,665	1,236
Hana UBS Asset Management	76,792	4,138	72,654	31,183	10,775	(90)	10,685
Hana Power Infra 1st Private Equity Fund	319,205	606	318,599	9,026	(11,051)	-	(11,051)
KOCREF REIT 30	434,571	254,556	180,015	24,475	8,375	-	8,375
Lotte accelerator	20,191	203	19,988	546	(1,101)	-	(1,101)
Petra 6 Alpha private investment joint venture	79,837	225	79,612	-	(388)	-	(388)
Myoung Shin Industrial Co.,Ltd.	209,295	114,693	94,602	-	-	-	-
Hanon private investment joint venture	42,000	153	41,847	-	(153)	-	(153)
Mirae Credit Information Services Corp	40,423	10,192	30,231	65,663	897	-	897
Finnq Co., Ltd.	27,420	12,649	14,771	232	(17,812)	(155)	(17,967)

Classification	December 31, 2017						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
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
PT. SINARMAS HANA FINANCE	39,421	29,511	9,910	6,249	(1,196)	(573)	(1,769)
Korea Credit Bureau	75,504	19,323	56,181	68,750	3,580	-	3,580
Company KStartup Winwin Fund	41,025	525	40,500	3,828	3,012	628	3,640
Darby Latin American Fund III	14,258	1,934	12,324	-	(1,871)	-	(1,871)
Hana UBS Asset Management	77,304	5,745	71,559	30,994	10,337	52	10,389
Maltani Development Co., Ltd.	66,197	21,085	45,112	101,613	3,448	(45)	3,403
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
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)

Changes in the investments in associates and joint ventures for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018						Year ended December 31, 2018					
	Ownership (%)	Beginning Balance	Addition	Replace	Dividend	Book value before valuation	Equity method valuation		Disposal	Impairment loss	Book value	
							Earnings (loss)	Other comprehensive income				
Bank of Jilin	17.0	₩ 644,252	₩ -	₩ -	₩ -	₩ 644,252	₩ 19,522	₩ 30,835	₩ -	₩ -	₩ 694,609	
Korea Credit Bureau	9.0	5,722	-	-	(113)	5,609	997	-	-	-	6,606	
CM International Financing Leases	25.0	201,064	-	-	-	201,064	2,135	(1,026)	-	-	202,173	
Beijing Langa Asset Management Co., Ltd	17.7	45,113	-	-	(1,690)	43,423	4,070	(42)	(1,193)	-	46,258	
Company KStartup Winwin Fund	23.8	9,643	-	-	-	9,643	(757)	235	(2,190)	-	6,931	
PT. SINARMAS HANA FINANCE	85.0	8,703	-	-	-	8,703	403	(330)	-	-	8,776	
Our Crowd International Invest III	22.2	-	14,049	-	-	14,049	-	-	-	-	14,049	
Hana UBS Asset Management	49.0	35,064	-	-	(4,714)	30,350	5,294	(44)	-	-	35,600	
Hana Power Infra 1st Private Equity Fund	7.0	23,075	-	-	-	23,075	(773)	-	-	-	22,302	
KOCREF REIT 30	10.9	20,000	-	-	(1,343)	18,657	910	-	-	-	19,567	
Lotte accelerator	20.0	-	-	5,588	-	5,588	(220)	-	-	-	5,368	
Petra 6 Alpha private investment joint venture	96.5	-	77,200	-	-	77,200	(375)	-	-	-	76,825	
Myoung Shin Industrial Co.,Ltd.	20.0	-	20,000	-	-	20,000	-	-	-	-	20,000	
Hanon private investment joint venture	23.8	-	10,000	-	-	10,000	(36)	-	-	-	9,964	
Mirae Credit Information Services Corp	31.0	9,279	-	-	(186)	9,093	279	-	-	-	9,372	
Finnq Co., Ltd.	51.0	16,696	-	-	-	16,696	(9,084)	(79)	-	-	7,533	
Others (*)	-	54,967	19,760	(1,000)	(782)	72,945	508	(4,304)	(30,199)	-	38,950	
		₩ 1,073,578	₩ 141,009	₩ 4,588	₩ (8,828)	₩ 1,210,347	₩ 22,873	₩ 25,245	₩ (33,582)	₩ -	₩ 1,224,883	

(*) The beginning balance includes the amount of the underlying book value of Darby Latin American Fund III and Maltani, which were excluded from the associates of the Group during the year.

	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	
							Earnings (loss)	Other comprehensive income				
Bank of Jilin	17.0	₩ 639,369	₩ -	₩ -	₩ (20,006)	₩ 619,363	₩ 82,241	₩ (57,352)	₩ -	₩ -	₩ 644,252	
CM International Financing Leases	25.0	211,928	-	-	(13,019)	198,909	14,459	(12,304)	-	-	201,064	
Beijing Langa Asset Management Co., Ltd	25.0	-	41,801	-	-	41,801	4,199	(887)	-	-	45,113	
PT. SINARMAS HANA FINANCE	85.0	10,726	-	-	-	10,726	(916)	(1,107)	-	-	8,703	
Korea Credit Bureau	9.0	5,519	-	-	(149)	5,370	352	-	-	-	5,722	
Company KStartup Winwin Fund	23.8	9,585	-	-	-	9,585	719	39	(700)	-	9,643	
Darby Latin American Fund III	25.0	-	7,621	-	-	7,621	(606)	(245)	-	-	6,770	
Hana UBS Asset Management	49.0	34,937	-	-	(4,964)	29,973	5,066	25	-	-	35,064	
Maltani Development Co., Ltd.	18.0	22,772	-	-	-	22,772	621	11	-	-	23,404	
Hana Power Infra 1st Private Equity Fund	7.0	22,481	-	-	-	22,481	-	594	-	-	23,075	
KOCREF REIT 30	10.9	20,346	-	-	(1,399)	18,947	1,053	-	-	-	20,000	
Mirae Credit Information Services Corp	31.0	9,359	-	-	(372)	8,987	222	70	-	-	9,279	
Finnq Co., Ltd.	51.0	24,710	-	-	-	24,710	(8,006)	(8)	-	-	16,696	
Others	-	25,428	4,585	(1,484)	(467)	28,062	488	(505)	(1,033)	(2,219)	24,793	
		₩ 1,037,160	₩ 54,007	₩ (1,484)	₩ (40,376)	₩ 1,049,307	₩ 99,892	₩ (71,669)	₩ (1,733)	₩ (2,219)	₩ 1,073,578	

The details of net assets of related companies as of December 31, 2018 and December 31, 2017 are as follows (Korean won in million) :

	December 31, 2018					
	Net assets	Ownership (%)	Interest in net assets	Good will and others	Book value	
Bank of Jilin	₩ 4,007,465	17.0	₩ 680,483	₩ 14,126	₩	694,609
Korea Credit Bureau	66,009	9.0	5,941	665		6,606
CM International Financing Leases	808,693	25.0	202,173	-		202,173
Beijing Langa Asset Management Co., Ltd	261,358	17.7	46,258	-		46,258
Company KStartup Winwin Fund	29,110	23.8	6,931	-		6,931
PT. SINARMAS HANA FINANCE	10,286	85.0	8,743	33		8,776
Our Crowd International Invest III	50,701	22.2	11,250	2,799		14,049
Hana UBS Asset Management	72,653	49.0	35,600	-		35,600
Hana Power Infra 1st Private Equity Fund	318,599	7.0	22,302	-		22,302
KOCREF REIT 30	180,015	10.9	19,567	-		19,567
Lotte accelerator	19,988	20.0	3,994	1,374		5,368
Petra 6 Alpha private investment joint venture	79,612	96.5	76,825	-		76,825
Myoung Shin Industrial Co.,Ltd.	94,601	20.0	18,920	1,080		20,000
Hanon private investment joint venture	41,847	23.8	9,964	-		9,964
Mirae Credit Information Services Corp	30,231	31.0	9,372	-		9,372
Finnq Co., Ltd.	14,771	51.0	7,533	-		7,533
Others						38,950
					₩	1,224,883

	December 31, 2017					
	Net assets	Ownership (%)	Interest in net assets	Good will and others	Book value	
Bank of Jilin	₩ 3,710,170	17.0	₩ 629,987	₩ 14,265	₩	644,252
CM International Financing Leases	804,257	25.0	201,064	-		201,064
Beijing Langa Asset Management Co., Ltd	180,454	25.0	45,113	-		45,113
PT. SINARMAS HANA FINANCE	9,910	85.0	8,423	280		8,703
Korea Credit Bureau	56,181	9.0	5,056	666		5,722
Company KStartup Winwin Fund	40,500	23.8	9,643	-		9,643
Darby Latin American Fund III	12,324	25.0	3,080	3,690		6,770
Hana UBS Asset Management	71,559	49.0	35,064	-		35,064
Maltani Development Co., Ltd.	45,112	18.0	8,120	15,284		23,404
Hana Power Infra 1st Private Equity Fund	329,649	7.0	23,075	-		23,075
KOCREF REIT 30	184,000	10.9	20,000	-		20,000
Mirae Credit Information Services Corp	29,934	31.0	9,279	-		9,279
Finnq Co., Ltd.	32,738	51.0	16,696	-		16,696
Others						24,793
					₩	1,073,578

22. Property and equipment

Details of property and equipment as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,120,583	₩ -	₩ 1,120,583
Buildings	1,076,486	(190,715)	885,771
Leasehold improvements	427,788	(331,853)	95,935
Vehicles, furniture and fixtures	1,172,608	(938,686)	233,922
Construction in progress	40,282	-	40,282
Operating lease assets	883,074	(223,496)	659,578
	₩ 4,720,821	₩ (1,684,750)	₩ 3,036,071

	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

Changes in property and equipment for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018							
	January 1	Due to business combination	Addition	Disposal	Depreciation	Transfer in (out)	Others	December 31
Land	₩ 1,049,311	₩ 2,377	₩ 1,757	₩ (31,869)	₩ -	₩ 98,966	₩ 41	₩ 1,120,583
Buildings	745,630	1,459	21,171	(10,706)	(23,797)	149,855	2,159	885,771
Leasehold improvements	86,770	2,124	43,566	(4,107)	(34,901)	1,316	1,167	95,935
Vehicles, furniture and fixtures	255,583	378	75,489	(4,739)	(93,742)	2,854	(1,901)	233,922
Construction in progress	28,088	-	17,694	-	-	(5,437)	(63)	40,282
Operating lease assets	486,169	-	341,884	(36,203)	(132,274)	-	2	659,578
	₩ 2,651,551	₩ 6,338	₩ 501,561	₩ (87,624)	₩ (284,714)	₩ 247,554	₩ 1,405	₩ 3,036,071

	2017							
	January 1	Addition	Disposal	Depreciation	Reversal of impairment loss	Transfer in (out)	Others	December 31
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	81,578	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)	₩ 12,197	₩ 2,651,551

23. Investment properties

Details of investment properties as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018				
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value	
Land	₩ 511,565	₩ -	₩ (2)	₩ 511,563	
Buildings	265,022	(64,792)	(645)	199,585	
	₩ 776,587	₩ (64,792)	₩ (647)	₩ 711,148	

	December 31, 2017				
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value	
Land	₩ 612,498	₩ -	₩ (2)	₩ 612,496	
Buildings	407,282	(42,561)	(645)	364,076	
	₩ 1,019,780	₩ (42,561)	₩ (647)	₩ 976,572	

Changes in investment properties for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018						
	January 1, 2018	Addition	Disposal	Depreci-ation	Transfer in (out)	Others	December 31, 2018
Land	₩ 612,496	₩ -	₩ (1,967)	₩ -	₩ (98,966)	₩ -	₩ 511,563
Buildings	364,076	1,234	(449)	(17,650)	(147,626)	-	199,585
	₩ 976,572	₩ 1,234	₩ (2,416)	₩ (17,650)	₩ (246,592)	₩ -	₩ 711,148

	Year ended December 31, 2017						
	January 1, 2017	Addition	Disposal	Depreci-ation	Transfer in (out)	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

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 as of December 31, 2018 and 2017 amount to ₩1,135,683 million and ₩1,152,491 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, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Rental income	₩ 11,251	₩ 12,881
Operating expenses	3,821	3,079

Details and fair value of investment properties are as follows (Korean won in millions):

	December 31, 2018		
	Fair value	Valuation method	Input variables
Land	₩ 556,789	Officially appraised land price	Officially appraised land price
Buildings	486,033	Estimated value by cost method	Re-procurement cost
	₩ 1,042,822		

	December 31, 2017		
	Fair value	Valuation method	Input variables
Land	₩ 575,713	Officially appraised land price	Officially appraised land price
Buildings	576,778	Estimated value by cost method	Re-procurement cost
	₩ 1,152,491		

24. Finance leases and operating leases

Gross and net investment in the finance leases as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018		
	Short-term	Long-term	Total
Present value of minimum lease payment	₩ 383,021	₩ 1,126,642	₩ 1,509,663
Initial direct cost	1,481	62,332	63,813
Net investment in the lease	384,502	1,188,974	1,573,476
Unearned finance income	74,874	94,676	169,550
Gross investment in the lease	₩ 459,376	₩ 1,283,650	₩ 1,743,026

	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

The maturities of gross and net investment in the finance leases as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	
	Gross investment	Net investment
Within 1 year	₩ 459,376	₩ 384,502
After 1 year but no later than 5 years	1,283,219	1,188,550
Later than 5 years	431	425
	₩ 1,743,026	₩ 1,573,477

	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

Amounts to be collected as operating lease revenues for each upcoming period as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Within 1 year	₩ 46,887	₩ 36,614
After 1 year but no later than 5 years	66,697	58,956
	₩ 113,584	₩ 95,570

25. Intangible assets

Details of intangible assets as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Goodwill	₩ 102,729	₩ -	₩ (18,722)	₩ 84,007
Industrial property	58,268	(57,461)	-	807
Core deposits	992,198	(974,154)	(3,116)	14,928
Client relationship	388,486	(237,692)	-	150,794
Software and system development	1,341,629	(1,058,430)	(366)	282,833
Membership	41,779	-	(7,429)	34,350
Others	229,491	(111,007)	(487)	117,997
	₩ 3,154,580	₩ (2,438,744)	₩ (30,120)	₩ 685,716

	December 31, 2017			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
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

Details of goodwill as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		
	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	5,123	-	5,123
	₩ 102,729	₩ (18,722)	₩ 84,007

	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

(*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 of December 31, 2018 is as follows (Korean won in millions):

	Hana Savings Bank	Hana Asset Trust	Hana Alternative Asset Management
Value in use (recoverable amount)	₩ 232,155	329,529	₩ 87,938
Carrying amount of net assets	204,262	274,077	46,839
Value in use which exceeds carrying amount of net assets	27,893	55,452	41,099
Discount rate (%)	10.10	9.27	9.69
Permanent growth rate (%)	1.00	0.50	0.50

The Group estimates future cash flows based on the assumption that cash flows will continue to grow at 0.5%~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, 2018 and 2017 are as follows (Korean won in millions):

	2018								
	January 1	Due to business combination	Additions	Disposal	Amortization	Impairment loss	Reclassifi-cation	Others (*)	December 31
Goodwill	₩ 79,776	₩ 4,231	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 84,007
Industrial property	711	-	344	-	(248)	-	-	-	807
Core deposits	152,842	-	-	-	(137,914)	-	-	-	14,928
Client relationship	185,528	-	-	-	(34,734)	-	-	-	150,794
Software and system development	295,096	-	77,544	(404)	(97,795)	-	8,345	47	282,833
Membership	35,702	-	86	(1,110)	-	(6)	(294)	(28)	34,350
Others	74,201	3,047	70,412	(458)	(18,782)	-	(9,249)	(1,174)	117,997
	₩ 823,856	₩ 7,278	₩ 148,386	₩ (1,972)	₩ (289,473)	₩ (6)	₩ (1,198)	₩ (1,155)	₩ 685,716

	2017							
	January 1	Additions	Disposal	Amortization	Impairment loss	Reclassifi-cation	Others (*)	December 31
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

(*) Includes the effect of exchange rate differences.

26. Non-current assets held for sale

Tangible assets for non-business purpose accounted as non-current assets held-for sale as of December 31, 2018, consist of , 23 secured properties (20 in 2017) 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 of December 31, 2018. Myung-dong office is under negotiation for sale with the buyer.

Details of non-current assets held for sale as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Acquisition cost	₩ 447,742	₩ 439,324
Accumulated impairment loss	-	-
Book value	₩ 447,742	₩ 439,324

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.

Fair value, valuation method, and input variables of non-current assets held for sale as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Fair value	Valuation method	Input variables
Buildings and Land	₩ 709,802	Estimated value by cost method	Officially appraised land price, Re-procurement cost

	December 31, 2017		
	Fair value	Valuation method	Input variables
Buildings and Land	₩ 712,219	Estimated value by cost method	Officially appraised land price, Re-procurement cost

27. Other assets

Other assets as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Guarantee deposits	₩ 887,915	₩ 1,009,594
Accounts receivable	6,606,955	6,963,892
Accrued income	1,226,451	1,098,248
Prepaid expenses	146,935	126,540
Advance payments	31,501	23,820
Reinsurance assets	2,855	2,643
Unamortized new contract	19,504	15,123
Separate account assets	730,766	851,775
Receivables from spot exchange	3,225,398	1,506,864
Others	3,205,285	3,220,683
Allowance for possible losses	(28,395)	(28,652)
	₩ 16,055,170	₩ 14,790,530

Changes in the allowance for possible losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 28,652	₩ 35,906
Cumulative effect of accounting change	1,669	-
Write-offs	(10,145)	(10,771)
Provision for possible losses	6,514	1,906
Interest income from impaired assets	6	(14)
Others	1,699	1,625
Ending balance	₩ 28,395	₩ 28,652

Changes in reinsurance assets and unamortized new contract fee for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	January 1, 2018	Increase	Decrease	December 31, 2018
Reinsurance assets	₩ 2,643	₩ 469	₩ (257)	₩ 2,855
Unamortized new contract fee	15,123	27,957	(23,576)	19,504
	₩ 17,766	₩ 28,426	₩ (23,833)	₩ 22,359

	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

28. Financial liabilities measured at FVTPL and held-for-trading

Financial liabilities measured at FVTPL and held-for-trading as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Derivative liabilities held for trading purpose (*)	₩ 4,443,002	₩ 7,398,352
Securities sold	250,616	436,248
	₩ 4,693,618	₩ 7,834,600

(*) Refer to Note 20.

29. Financial liabilities designated as measured at FVTPL and Financial liabilities designated at FVTPL

Financial liabilities designated as measured at FVTPL and Financial liabilities designated at FVTPL as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Derivatives linked securities sold	₩ 11,217,580	₩ 8,368,885
Deposits	500,693	425,627
Borrowings	212,633	-
Deferred day 1 profit or loss	40,896	24,824
	₩ 11,971,802	₩ 8,819,336

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.

The credit risk of financial liabilities designated as measured at FVTPL as of December 31, 2018 is as follows (Korean won in millions):

	December 31, 2018
Financial liabilities designated as measured at FVTPL – Other comprehensive income	
Changes in fair value from changes in credit risk	₩ 2,066
Cumulative changes in fair value from changes in credit risk	(23,631)

30. Deposits

Details of deposits as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Demand deposits:		
Demand deposits in Korean won	₩ 11,289,509	₩ 10,564,113
Demand deposits in foreign currency	19,606,125	22,351,509
	30,895,634	32,915,622
Time and saving deposits:		
Time and saving deposits in Korean won	197,307,954	183,088,127
Time and saving deposits in foreign currency	14,321,381	12,778,518
	211,629,335	195,866,645
Certificate of deposits	6,034,528	3,383,886
	₩ 248,559,497	₩ 232,166,153

Allocations of deposits by customer as of December 31, 2018 and 2017 are listed as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Individuals	₩ 87,960,118	₩ 86,555,089
Corporations	78,508,553	72,858,516
Other banks	15,248,359	14,094,662
Public institutions	7,356,481	6,491,303
Other financial institutions	36,237,053	29,402,246
Government	6,897,317	5,839,680
Non-profit corporations	9,961,789	9,703,880
Foreign corporations	1,807,199	2,094,367
Others	4,582,628	5,126,410
	₩ 248,559,497	₩ 232,166,153

31. Borrowings

Borrowings as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	Lender	Interest rate (%)	December 31, 2018	December 31, 2017
Borrowings in Korean won:				
BOK borrowings	BOK	0.5~0.8	₩ 1,315,139	₩ 1,606,722
Government borrowings	Korea Finance Corporation, etc.	0.5~2.5	1,376,437	1,456,174
Other borrowings	Korean Energy Management Corporation, etc.	0~8.0	2,671,391	2,403,660
			5,362,967	5,466,556

	Lender	Interest rate (%)	December 31, 2018	December 31, 2017
Borrowings in foreign currencies:				
Bank overdrafts	Foreign bank, etc.	0~16.3	308,312	586,941
Other borrowings	JP Morgan bank, etc.	-0.3~12.0	8,773,902	5,771,681
			9,082,214	6,358,622
Call money:				
Call money in Korean won		-	-	174,000
Call money in foreign currencies	The Export-Import Bank of Korea, etc.	-0.3~7.6	629,350	2,006,567
			629,350	2,180,567
Bonds sold under repurchase agreements:				
Bonds sold under repurchase agreements in Korean won	SUGAYAYOSHIKO, etc.	0~2.1	3,500,571	4,466,099
Bonds sold under repurchase agreements in foreign currencies	ING Bank	1.6~3.5	558,607	265,310
			4,059,178	4,731,409
Other borrowings				
Bills sold	General customers	0~1.6	48,564	54,741
			₩ 19,182,273	₩ 18,791,895

32. Debentures

Debentures as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	Lender	Interest rate (%)	December 31, 2018	December 31, 2017
Korean won:				
Debentures	Financial institutions	1.3~6.0	₩ 30,473,800	₩ 27,415,000
Subordinated bonds	Financial Institutions and general customers	2.5~8.0	5,080,500	4,940,697
Net loss on fair value hedges (before the previous term)			102	-
Present value discount			(38,308)	(48,227)
			35,516,094	32,307,470
Foreign currencies:				
Debentures	Financial institutions	1.8~4.8	4,551,084	3,281,291
Subordinated bonds	Financial institutions	4.3~10.0	991,019	884,215
Net gain on fair value hedges (this term)			(14,575)	624
Net loss on fair value hedges (before the previous term)			(13,997)	(15,331)
Present value discount			(11,604)	(13,818)
			5,501,927	4,136,981
			₩ 41,018,021	₩ 36,444,451

33. Net defined benefit liability

Actuarial assumptions as of December 31, 2018 and 2017 are as follows:

	Ratio (%)		Notes
	December 31, 2018	December 31, 2017	
Demographic assumptions:			
Mortality	0.0~0.1	0.0~0.1	Table from Korea insurance development institute, etc.
Rates of employee turnover	3.6~53.3	3.6~33.1	Table from Korea insurance development institute, etc.
Financial assumptions:			
Expected rate of salary increase	0.0~13.7	0.0~15.9	
Discount rate	2.2~5.0	2.7~3.0	Return on corporate bond with the same credit rating

Details of net defined benefit liability as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	₩ 1,809,070	₩ 1,484,575
Fair value of plan assets (-)	(1,638,808)	(1,503,547)
	₩ 170,262	₩ (18,972)
Net defined benefit asset	-	(44,545)
Net defined benefit liability	170,262	25,573

Changes in present value of defined benefit obligation for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 1,484,575	₩ 1,417,407
Acquired in business combination	827	-
Current service cost	151,613	154,734
Past service cost	81,283	4,154
Interest cost on benefit obligation	39,249	34,034
Remeasurements of the net defined benefit liability	128,306	(50,233)
Benefits paid	(76,194)	(73,898)
Others	(589)	(1,623)
Ending balance	₩ 1,809,070	₩ 1,484,575

Details of losses incurred from severance and retirement benefit plan for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Current service cost	₩ 151,613	₩ 154,734
Past service cost	81,283	4,154
Net interest on the net defined benefit liability	1,560	3,283
	234,456	162,171
Benefits paid for the defined contribution plan	2,370	2,266
Long-term employee payment and others	(689)	(850)
	₩ 236,137	₩ 163,587

Plan assets for severance benefit as of December 31, 2018 and 2017 consist of the followings (Korean won in millions):

	December 31, 2018 (*)
Time deposit	₩ 1,525,174
Others	113,634
	₩ 1,638,808

	December 31, 2017 (*)
Time deposit	₩ 1,380,960
Others	122,587
	₩ 1,503,547

(*) Plan assets consist of assets that are not quoted in an active market.

Changes in the fair value of plan assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance of fair value of plan assets	₩ 1,503,547	₩ 1,356,613
Employer contributions	179,000	195,977
Expected return on plan assets	37,689	30,751
Remeasurements of the plan assets	(13,516)	(10,199)
Benefits paid	(70,047)	(68,636)
Others	2,135	(959)
Ending balance of fair value of plan assets	₩ 1,638,808	₩ 1,503,547

Details of remeasurement accompanied by the application of actuarial assumptions for the years ended December 31, 2018 and 2017 are as follows (Korea won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Actual gains (losses):		
Changes in demographic assumptions	₩ (27,288)	₩ 6,457
Changes in financial assumptions	(78,002)	36,181
Experience adjustments	(23,016)	7,595
	(128,306)	50,233
Income on planned assets:		
Actual income on planned assets	26,298	22,562
Amounts included in net interest on the net defined benefit liability	39,814	32,761
	(13,516)	(10,199)
	₩ (141,822)	₩ 40,034

A quantitative sensitivity analysis for significant actuarial assumptions as of December 31, 2018 and 2017 is as follows (Korea won in millions):

(1) Discount rate

	December 31, 2018	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,809,070	₩ 1,611,194	₩ 1,959,406

	December 31, 2017	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,484,575	₩ 1,362,646	₩ 1,594,250

(2) Expected rate of salary increase

	December 31, 2018	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,809,070	₩ 1,952,648	₩ 1,613,408

	December 31, 2017	1% point increase	1% point decrease
Present value of defined benefit obligation	₩ 1,484,575	₩ 1,590,361	₩ 1,363,722

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, 2018 and 2017 are reasonably estimated to be ₩168,337 million and ₩149,259 million, respectively, and the average durations of the defined benefit plan obligation as of December 31, 2018 and 2017 are 6.8~10.2 years and 6.4~9.1 years, respectively.

34. Provisions

Details of provisions as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Allowance for possible losses on acceptances and guarantees:		
Financial acceptances and guarantees (*)	₩ 1,291	₩ 765
Non-financial acceptances and guarantees	66,720	84,294
Bills endorsed	75	165
	68,086	85,224
Allowances for unused commitments	111,979	94,568
Other allowance:		
Allowances for restoration cost	71,122	60,469
Allowances for reward points	55,747	56,002
Allowance for lawsuits	9,473	71,573
Others	36,091	16,266
	172,433	204,310
	₩ 352,498	₩ 384,102

(*) 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 ₩14,315 million and ₩13,867 million as of December 31, 2018 and 2017, respectively and is categorized as financial guarantee contract liability.

Changes in allowances for unused commitments for the year ended December 31, 2018 are as follows (Korean won in millions):

	Allowances for unused commitments			Total
	12 month expected credit loss	Lifetime expected credit losses		
		Non credit-impaired financial assets	Credit-impaired financial assets	
Beginning balance	₩ 66,829	₩ 38,256	₩ 17,824	₩ 122,909
Transfer to 12 month expected credit loss	7,782	(7,197)	(585)	-
Transfer to non credit-impaired financial assets	(2,584)	7,305	(4,721)	-
Transfer to credit-impaired financial assets	(360)	(282)	642	-
Provision (reversal)	(7,171)	(4,643)	881	(10,933)
Exchange rate fluctuation	15	(12)	-	3
Ending balance	₩ 64,511	₩ 33,427	₩ 14,041	₩ 111,979

Changes in provision for financial guarantees for the year ended December 31, 2018 are as follows (Korean won in millions):

	Provision for financial guarantees			Total
	12 month expected credit loss	Lifetime expected credit losses		
		Non credit-impaired financial assets	Credit-impaired financial assets	
Beginning balance	₩ 408	₩ 69	₩ -	₩ 477
Transfer to 12 month expected credit loss	2	(2)	-	-
Transfer to non credit-impaired financial assets	(9)	9	-	-
Transfer to credit-impaired financial assets	843	(56)	-	787
Provision (reversal)	23	4	-	27
Exchange rate fluctuation	₩ 1,267	₩ 24	₩ -	₩ 1,291

Changes in other provisions for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Other provisions				
	January 1, 2018	Provision (reversal)	Allowance used	Others	December 31, 2018
Non-financial acceptances and guarantees	₩ 79,595	₩ (14,942)	₩ -	₩ 2,142	₩ 66,795
Other allowance:					
Allowances for restoration cost	60,469	8,031	(4,617)	7,239	71,122
Allowances for reward points	56,002	43,972	(43,732)	(495)	55,747
Allowance for lawsuits	71,573	(62,124)	-	24	9,473
Others	16,266	28,497	(9,803)	1,131	36,091
	204,310	18,376	(58,152)	7,899	172,433
	₩ 283,905	₩ 3,434	₩ (58,152)	₩ 10,041	₩ 239,228

	Other provisions				
	January 1, 2017	Provision (reversal)	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

Details of guarantees as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Financial acceptances and guarantees in Korean won:		
Collateral for loans	₩ 97,079	₩ 99,940
Loans for purchase	328,152	488,563
Loan commitment	945,100	-
Security acquisition commitment	82,953	-
	1,453,284	588,503
Financial acceptances and guarantees in foreign currencies:		
Local financial acceptances and guarantees	76,462	96,441

	December 31, 2018	December 31, 2017
Confirmed acceptances and guarantees in Korean won	1,578,011	1,634,495
Confirmed acceptances and guarantees in foreign currencies:		
Acceptance on letter of credit	924,390	835,516
Acceptance on letter of guarantees	106,636	119,910
Others	9,106,502	9,926,698
	10,137,528	10,882,124
Contingent acceptances and guarantees:		
Letters of credit	3,495,006	3,281,199
Others	642,323	382,479
	4,137,329	3,663,678
Bills endorsed	24,879	47,169
	₩ 17,407,493	₩ 16,912,410

Details of unused commitments as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Commitments on loans in Korean won	₩ 82,787,294	₩ 66,609,887
Commitments on loans in foreign currencies	21,342,457	19,242,684
Commitments on credit lines on asset-backed securities	881,283	2,127,398
Commitments on purchase of securities	1,846,084	1,511,547
Merchant banking account-commitment	1,199,000	1,021,000
	₩ 108,056,118	₩ 90,512,516

As of December 31, 2018, the Group is involved in 1,422 lawsuits as a plaintiff and 307 lawsuits as a defendant. The aggregate amounts of claims as a plaintiff and a defendant are approximately ₩1,207,309 million and ₩1,922,847 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	₩ 1,570,148	In-progress	-	A claim for damages related to the purchase of KEB shares
KEB Hana Bank	Bankruptcy trustee (F*****)	37,560	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
HFI	**** Investment Co., Ltd.	4,918	Won	3 rd trial is in progress	Objection to litigation for finalization of reorganization claim
Hana Alternative Asset Management	The chairman *** and 14 others at **** Credit Cooperatives, Gwanghwamun branch	7,854	In-progress		A claim for damages related to the purchase of KEB shares

35. Other liabilities

Details of other liabilities as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Accounts payable	₩ 7,465,722	₩ 8,107,580
Accrued expense payables	2,196,841	1,594,589
Advances	178,766	160,915
Income in advance	352,007	306,001

	December 31, 2018	December 31, 2017
Policy reserve	3,432,829	3,198,467
Separate account liabilities	735,108	854,427
Borrowing from trust accounts	5,984,610	4,690,383
Foreign exchanges settlement credits	494,080	303,576
Domestic exchange settlement credits	3,719,241	4,307,181
Deposits for letter of guarantees and others	788,675	1,449,203
Taxes withheld	178,070	153,203
Security deposits received	207,312	123,108
Accounts for agency businesses	269,884	158,583
Agency	2,248,377	1,918,483
Others	3,049,064	2,593,283
Present value discount	(21,434)	(18,413)
	₩ 31,279,152	₩ 29,900,569

Details of policy reserve as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Premium reserve	₩ 3,383,293	₩ 3,158,516
Prepaid premium reserve	1,097	937
Guaranteed reserve	5,132	6,595
Outstanding claim	43,307	32,419
	₩ 3,432,829	₩ 3,198,467

Changes in the policy reserve for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	January 1, 2018	Changes	December 31, 2018
Premium reserve	₩ 3,158,516	₩ 224,777	₩ 3,383,293
Prepaid premium reserve	937	160	1,097
Guaranteed reserve	6,595	(1,463)	5,132
Outstanding claim	32,419	10,888	43,307
	₩ 3,198,467	₩ 234,362	₩ 3,432,829

	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

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.

Assumptions	Calculation methodology
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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018		
	Reserve for test	LAT base	Premium surplus(loss)(*)
Non- participating:			
Interest rate-linked	₩ 2,885,370	₩ 2,885,082	₩ 288
Interest rate-fixed	361,926	323,597	38,329
Variable life insurance	(7,319)	(28,984)	21,665
	₩ 3,239,977	₩ 3,179,695	₩ 60,282

	December 31, 2017		
	Reserve for test	LAT base	Premium surplus(loss)(*)
Non- participating:			
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

(*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 of December 31, 2018.
(*3) The Group did not record additional reserve since the surplus exceeded the deficit based on the result of LAT.

36. Capital stock and capital surplus

Details of capital stock as of December 31, 2018 and December 31, 2017 are as follows:

	December 31, 2018	December 31, 2017
Number of shares authorized	800,000,000 shares	800,000,000 shares
Par value per share	₩ 5,000	₩ 5,000
Number of shares issued	300,242,062 shares	296,003,062 shares

Changes in capital stock and capital surplus from December 1, 2005 (inception) to December 31, 2018 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
Paid-in capital increase	Mar. 9, 2018	4,239,000	21,195	178,688
		300,242,062	₩ 1,501,210	₩ 8,299,516

(*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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	Issuance date	Maturity	Interest rate (%)	Amount	
				December 31, 2018	December 31, 2017
The 1-1 st hybrid debentures (*1)	May. 29, 2015	May. 29, 2045	3.95	80,000	80,000
The 1-2 nd hybrid debentures (*2)	May. 29, 2015	May. 29, 2045	4.45	190,000	190,000
The 2-1 st hybrid debentures (*1)	Nov. 6, 2015	Nov. 6, 2045	4.24	155,000	155,000
The 2-2 nd hybrid debentures (*2)	Nov. 6, 2015	Nov. 6, 2045	4.61	20,000	20,000
The 3-1 st hybrid debentures (*1)	Mar. 9, 2018	-	4.23	192,000	-
The 3-2 nd hybrid debentures (*2)	Mar. 9, 2018	-	4.68	50,000	-
The 4 st hybrid debentures (*1)	Nov. 8, 2018	-	4.04	296,000	-
				983,000	445,000
Issuance cost				(2,696)	(1,231)
				₩ 980,304	₩ 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 of December 31, 2018 and 2017 consists of the followings (Korean won in millions):

	December 31, 2018	December 31, 2017
Paid-in capital in excess of par value	₩ 8,299,516	₩ 8,120,828
Gain on disposal of treasury stock	76,372	76,372
Other capital surplus	2,226,706	2,265,833
	₩ 10,602,594	₩ 10,463,033

37. Capital adjustment

Details of capital adjustment as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Other capital adjustment	₩ (15,049)	₩ (15,049)

38. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018					2018				
	Gain (loss) on valuation of Financial assets measured at FVOCI	Changes in equities of investments in associates	Loss on valuation of fair value hedges	Loss on valuation of net investment hedges of foreign operations	Loss on cash flow hedge	Credit risk fluctuation effect of financial liabilities designated at FVTPL	Loss on Exchange differences on translation of foreign operations	Remeasurement of the net defined benefit plan	Total	
January 1, 2018	₩ (431,356)	₩ (82,694)	₩ -	₩ 12,712	₩ 1,524	₩ (20,602)	₩ (322,847)	₩ (268,599)	₩ (1,111,862)	
Changes in gain (loss) on valuation of financial assets measured at FVOCI	470,457	-	-	-	-	-	-	-	470,457	
Reclassified from financial debt security measured at FVOCI to financial assets measured at FVTPL	315	-	-	-	-	-	-	-	315	
Reclassified from financial debt security measured at FVOCI to retained gain	24,387	-	-	-	-	-	-	-	24,387	
Credit risk fluctuation of financial debt security measured at FVOCI	95	-	-	-	-	-	-	-	95	
Changes in unrealized gain on valuation of equity method investments	-	29,116	-	-	-	-	-	-	29,116	
Changes in loss on valuation of fair value hedges	-	-	(9,340)	-	-	-	-	-	(9,340)	
Changes in loss on valuation of net investment hedges of foreign operations	-	-	-	(12,343)	-	-	-	-	(12,343)	
Changes in loss on cash flow hedge	-	-	-	-	(195)	-	-	-	(195)	
Changes in credit risk fluctuation effect of financial liabilities designated at FVTPL	-	-	-	-	-	1,034	-	-	1,034	
Changes in exchange differences on translation of foreign operations	-	-	-	-	-	-	(7,810)	-	(7,810)	
Remeasurements of the net defined benefit liabilities (assets)	-	-	-	-	-	-	-	(141,093)	(141,093)	
Tax effect	(137,240)	(8,053)	2,568	3,394	54	(285)	(5,513)	38,424	(106,651)	
December 31, 2018	₩ (73,342)	₩ (61,631)	₩ (6,772)	₩ 3,763	₩ 1,383	₩ (19,853)	₩ (336,170)	₩ (371,268)	₩ (863,890)	
	2017				2017					
	January 1	Changes (except for reclassification adjustment)			Reclassification adjustment	Tax effect		December 31		
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)		

39. Retained earnings

Retained earnings as of December 31, 2018 and 2017 consist of the following (Korean won in millions):

	December 31, 2018	December 31, 2017
Legal reserve (*)	₩ 564,930	₩ 513,590
Voluntary reserve	3,653,649	3,650,764
Unappropriated retained earnings	10,005,424	8,103,211
	₩ 14,224,003	₩ 12,267,565

(*) 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, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance (before adjustment)	₩ 12,267,565	₩ 10,575,395
Cumulative effect of accounting change	260,435	-
Beginning balance (after adjustment)	12,528,000	10,575,395
Net income attributable to equity holders of the parent	2,233,325	2,036,839
Dividends	(490,101)	(325,603)
Dividends on hybrid equity securities	(29,319)	(19,098)
Others	(17,902)	32
Ending balance	₩ 14,224,003	₩ 12,267,565

40. 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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Beginning balance (before adjustment)	₩ 2,311,580	₩ 2,222,793
Cumulative effect of accounting change	(51,238)	-
Beginning balance (after adjustment)	2,260,342	2,222,793
Planned regulatory reserve for bad debts	218,163	88,787
Ending balance:	₩ 2,478,505	₩ 2,311,580
Attributable to equity holders of the parent	2,429,285	2,256,421
Attributable to non-controlling interests	49,220	55,159

Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Net income attributable to equity holders of the parent before deducting provisions for bad debt	₩ 2,233,325	₩ 2,036,839
Provisions for bad debt reserve	214,540	80,558
Adjusted income after deducting provisions for bad debt	₩ 2,018,785	₩ 1,956,281
Basic earnings per share on adjustment	₩ 6,643	₩ 6,544
Diluted earnings per share on adjustment	₩ 6,612	₩ 6,504

41. Operating income and expense

Total operating income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income	₩ 10,340,924	₩ 8,932,396
Fee and commission income	2,787,010	2,856,157
Gain on financial assets and liabilities held-for-trading	-	20,970,988
Gains on financial instruments measured at FVTPL	13,861,856	-
Gains on financial instruments designated as measured at FVTPL	479,814	-
Gains on financial instruments designated at FVTPL	-	476,038
Gains on financial instruments measured at FVOCI	24,832	-
Gains on disposal on securities measured at amortized cost	68,744	-
Gain on derivative instruments used for hedging purpose	70,744	92,802
Gain on financial instruments	-	697,994
Gain on foreign currency transactions	3,961,599	4,285,020
Recovery of impairment loss on financial assets	1,861	2,248
Other operating income	918,563	857,490
	₩ 32,515,947	₩ 39,171,133

Total operating expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense	₩ 4,703,719	₩ 3,841,417
Fee and commission expense	718,030	979,551
Loss on financial assets and liabilities held-for-trading	-	20,559,449
Loss on financial instruments at FVTPL	13,601,928	-
Loss on financial instruments designated as measured at FVTPL	455,957	-
Loss on financial instruments designated FVTPL	-	858,278
Loss on financial instruments measured at FVOCI	3,877	-
Loss on disposal on securities measured at amortized cost	913	-
Loss on derivative instruments used for hedging purpose	95,574	56,562
Loss on financial instruments	-	35,396
Loss on foreign currency transactions	3,728,108	3,590,201
Impairment loss of financial assets	467,904	949,744
General and administrative expense	3,946,860	4,039,072
Other operating expense	1,640,897	1,543,326
	₩ 29,363,767	₩ 36,452,996

42. Net interest income

Interest income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income on due from banks	₩ 188,611	₩ 167,188
Interest income on financial assets measured at FVOCI	742,904	-
Interest income on available-for-sale financial assets	-	697,754
Interest income on financial assets measured at amortized cost	285,610	-
Interest income on held-to-maturity investments	-	177,090
Interest income on loans receivable	8,690,523	7,510,480
	9,907,648	8,552,512
Interest income on financial assets designated at fair value through profit or loss	-	19,990
Interest income on financial assets measured at FVTPL	351,244	-
Interest income on financial assets held-for-trading	-	281,766
Others	82,032	78,128
	₩ 10,340,924	₩ 8,932,396

Interest expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense on deposit liabilities	₩ 3,088,811	₩ 2,479,343
Interest expense on borrowings	335,878	270,556
Interest expense on debentures	1,000,323	854,178
Others	278,707	237,340
	₩ 4,703,719	₩ 3,814,417

43. Net fee and commission income

Fee and commission income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Fee and commission received from loans and others	₩ 1,259,656	₩ 1,051,217
Fee and commission received on credit card	1,228,286	1,511,206
Fee and commission received on guarantee	71,405	68,542
Fee and commission received from redemption before maturity	1,209	389
Fee and commission related foreign exchange	226,454	224,803
	₩ 2,787,010	₩ 2,856,157

Fee and commission expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Commission paid borrowings and others	₩ 279,350	₩ 237,408
Commission paid on credit card	398,176	704,938
Commission related foreign exchange	40,433	37,134
Commission paid trust	71	71
	₩ 718,030	₩ 979,551

44. Gain (loss) on financial instruments measured at FVTPL and held-for-trading

Gain (loss) on financial instruments measured at FVTPL and held-for-trading for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018
Gain on financial instruments measured at FVTPL:	
Securities measured at FVTPL:	
Gain on valuation	₩ 175,017
Gain on disposal	283,849
Gain on redemption	12,861
Dividend income	-
Others	111,903
	583,630
Loans measured at FVTPL:	13,134
Derivatives-linked securities	13,663
Derivatives held for trading:	
Gain on valuation of derivatives:	
Currency related derivatives	3,220,556
Interest related derivatives	399,700
Stock related derivatives	122,354
Credit related derivatives	102,077
Others related derivatives	115,307
	3,959,994
Gain on transactions of derivatives:	
Currency related derivatives	7,098,709
Interest related derivatives	1,571,653
Stock related derivatives	345,170
Credit related derivatives	49,419
Others related derivatives	177,291
	9,242,242
Gain on securities sold	32,677
Gain on other financial instruments measured at FVTPL	16,516
	₩ 13,861,856
Loss on financial instruments measured at FVTPL:	
Securities measured at FVTPL:	
Loss on valuation	₩ 165,522
Loss on disposal	323,571
Loss on redemption	14,344
Transaction cost	665
	504,102
Loans measured at FVTPL:	22,156
Derivatives-linked securities	2,741
Derivatives held for trading:	
Loss on valuation of derivatives:	
Currency related derivatives	3,050,840
Interest related derivatives	335,985

	Year ended December 31, 2018
Stock related derivatives	414,589
Credit related derivatives	95,181
Others related derivatives	105,138
	4,001,733
Loss on transactions of derivatives:	
Currency related derivatives	6,971,591
Interest related derivatives	1,579,067
Stock related derivatives	204,115
Credit related derivatives	73,837
Others related derivatives	227,486
	9,056,096
Loss on securities sold	15,100
	₩ 13,601,928
	₩ 259,928

	Year ended December 31, 2017
Gain on financial assets and liabilities held-for-trading:	
Trading securities:	
Gain on valuation	₩ 26,410
Gain on disposal	192,158
Gain on redemption	456
Dividend income	5,373
	224,397
Derivatives held for trading purpose:	
Gain on valuation of derivatives:	
Currency related derivatives	7,459,995
Interest related derivatives	367,158
Stock related derivatives	94,294
Credit related derivatives	100,306
Others related derivatives	45,108
	8,066,861
Gain on settlement of derivatives:	
Currency related derivatives	10,700,620
Interest related derivatives	1,184,193
Stock related derivatives	444,401
Credit related derivatives	43,436
Others related derivatives	280,940
	12,653,590
Gain on securities sold	13,796
Gain on others	12,344
	₩ 20,970,988

	Year ended December 31, 2017
Loss on financial assets and liabilities held-for-trading:	
Trading securities:	
Loss on valuation	₩ 68,881
Loss on disposal	146,810
Loss on redemption	24,363
	240,054
Derivatives held for trading purpose:	
Loss on valuation of derivatives:	
Currency related derivatives	7,354,545
Interest related derivatives	318,889
Stock related derivatives	69,173
Credit related derivatives	56,382
Others related derivatives	65,268
	7,864,257
Loss on settlement of derivatives:	
Currency related derivatives	10,887,407
Interest related derivatives	1,157,209
Stock related derivatives	209,779
Credit related derivatives	32,433
Others related derivatives	144,872
	12,431,700
Loss on securities sold	23,437
Others	1
	₩ 20,559,449
	₩ 411,539

45. Gain (loss) on financial instruments designated as measured at FVTPL and designated at FVTPL

Gain (loss) on financial instruments designated as measured at FVTPL and designated at FVTPL for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018
Gain on financial instruments designated as measured at FVTPL:	
Deposits:	
Gain on valuation	₩ 128
Borrowings:	
Gain on valuation	102
Derivatives linked securities sold:	
Gain on valuation	437,741
Gain on redemption	41,843
	₩ 479,814

	Year ended December 31, 2018
Loss on financial instruments designated as measured at FVTPL:	
Deposits:	
Loss on valuation	₩ 15,194
Borrowings:	
Loss on valuation	296
Derivatives linked securities sold:	
Loss on valuation	204,336
Loss on redemption	236,131
	₩ 455,957
	₩ 23,857

	Year ended December 31, 2017
Gain on financial instruments designated at FVTPL:	
Securities designated at FVTPL:	
Gain on valuation	₩ 21,538
Dividend income	7,523
Gain on disposal	18,787
	₩ 47,848
Derivatives linked securities purchased:	
Gain on valuation	16,859
Gain on redemption	164,807
	181,666
Deposits:	
Gain(loss) on valuation	13,051
	13,051
Derivatives linked securities sold:	
Gain on valuation	219,423
Gain on redemption	14,050
	233,473
	476,038
Loss on financial instruments designated FVTPL:	
Securities designated at FVTPL:	
Loss on valuation	₩ 18,946
Loss on disposal	3,997
	22,943
Deposits:	
Loss on valuation	391
	391
Derivative linked securities purchased:	
Loss on valuation	24,750
Loss on disposal	174
	24,924

	Year ended December 31, 2017
Derivative linked securities sold:	
Loss on valuation	135,998
Loss on redemption	674,022
	810,020
	₩ 858,278
	₩ (382,240)

46. Gain (loss) on financial assets measured at FVOCI

Gain (loss) on financial assets measured at FVOCI for the years ended December 31, 2018 is as follows (Korean won in millions):

	Year ended December 31, 2018
Gain on financial assets measured at FVOCI	
Gain on disposal	₩ 16,972
Dividend income	7,860
	24,832
Loss on financial assets measured at FVOCI	
Loss(gain) on disposal	3,831
Loss on redemption	46
	3,877
	₩ 20,955

47. Gain(loss) on disposal of financial assets measured at amortized cost

Gain(loss) on disposal of financial assets measured at amortized cost for the year ended December 31, 2018 is as follows (Korean won in millions):

	Year ended December 31, 2018
Gain(loss) on disposal of financial assets measured at amortized cost :	
Loans measured at amortized cost:	
Gain on disposal	₩ 68,744
	68,744
Loans:	
Loss on disposal	913
	913
	₩ 67,831

48. Gain(loss) on derivative instruments used for hedging purpose

Gain (loss) on derivative instruments used for hedging purpose for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Gain on derivative instruments used for hedging purposes:		
Hedged item:		
Gain on valuation of hedged item:		
Debentures	₩ 23,423	₩ 12,581
Deposits	26,761	17,821
	50,184	30,402
Gain on disposal of hedged item:		
Debentures	464	1,466
Deposits	-	2,658
	464	4,124
Derivative instruments used for hedging purposes:		
Gain on valuation of derivatives:		
Currency related derivatives	4,731	43,868
Interest related derivatives	8,291	11,884
	13,022	55,752
Gain on settlement of derivatives:		
Currency related derivatives	5,754	-
Interest related derivatives	1,320	2,524
	7,074	2,524
	70,744	92,802
Loss on derivative instruments used for hedging purposes:		
Hedged item:		
Loss on valuation of hedged item:		
Debentures	8,949	13,205
Deposits	7,298	7,125
	₩ 16,247	₩ 20,330
Loss on disposal of hedged item:		
Debentures	₩ 1,174	₩ 1,833
Deposits	624	697
	1,798	2,530
Derivative instruments used for hedging purposes:		
Loss on valuation of derivatives:		
Currency related derivatives	3,620	-
Interest related derivatives	52,166	29,605
	55,786	29,605
Loss on settlement of derivatives:		
Currency related derivatives	21,743	-
Interest related derivatives	-	4,097
	21,743	4,097
	95,574	56,562
	₩ (24,830)	₩ 36,240

49. Net other income on financial instruments

Net other income on financial instruments for the years ended December 31, 2017 are as follows (Korean won in millions):

	Year ended December 31, 2017
Other income on financial instruments:	
Available-for-sale financial assets:	
Gain on disposal	₩ 473,953
Dividend income	82,266
	556,219
Loans receivable:	
Gain on disposal	141,775
	697,994
Other loss on financial instruments:	
Available-for-sale financial assets:	
Loss on disposal	25,335
	25,335
Loans receivable:	
Loss on disposal	10,061
	35,396
	₩ 662,598

50. Impairment loss of financial instruments

Impairment loss on financial instruments for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Available-for-sale financial assets:		
Impairment loss	₩ -	₩ 157,961
Reversal of impairment loss	-	(2,248)
Reversal of credit loss on debt securities measured at FVOCI	(1,861)	-
Provision for loan losses on debt securities measured at amortized cost	2,392	-
Provision of allowances for possible loan losses for loans	458,998	789,877
Provision(reversal) of allowances for possible loan losses for other assets	6,514	1,906
	₩ 466,043	₩ 947,496

51. General and administrative expenses

General and administrative expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries	₩ 1,915,705	₩ 2,019,640
Provision for severance and retirement benefits	232,662	160,543
Provision for severance (defined benefits)	230,088	158,277
Provision for severance (defined contributions)	2,574	2,266
Termination benefits	114,311	134,787
Employee benefits	112,569	110,588
Rental expenses	266,600	315,668
Entertainment expenses	29,099	29,015
Depreciation on property and equipment	148,803	153,482
Depreciation on investment property	11,436	9,952
Amortization	288,089	286,841
Taxes and dues	141,802	136,092
Advertising expenses	129,482	152,454
Servicing expenses	274,015	267,439
Supplies expense	9,445	9,715
Others	272,842	252,856
	₩ 3,946,860	₩ 4,039,072

52. Other operating income

Other operating income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Reversal of allowance for unused commitments	₩ 10,993	₩ 14,630
Reversal of allowance for possible losses on financial guarantee	14,154	-
Reversal of provisions for lawsuits	62,124	-
Reversal of other provisions	-	21,772
Trust commissions	287,384	230,912
Adjustment for offered price	-	6,159
Insurance profit	438,415	494,373
Non-controlling interest	17,841	18,529
Others	87,712	71,115
	₩ 918,563	₩ 857,490

53. Other operating expense

Other operating expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Provision of allowances for possible losses on acceptances and guarantees	₩ -	₩ 9,405
Provision of allowance for restoration cost	8,031	6,402
Provision for reward points	43,972	44,782
Provision of allowance for other losses	28,497	15,437
Contribution to guarantee fund	178,011	189,541
Insurance fee on deposit	341,007	318,728
Contribution to housing credit guarantee fund	84,701	75,884
Insurance cost	344,806	263,137
Provision for policy reserves	234,362	339,568
Others	377,510	280,442
	₩ 1,640,897	₩ 1,543,326

54. Other non-operating income

Other non-operating income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Rental fee income	₩ 11,902	₩ 13,875
Gains on disposal of property and equipment	14,668	28,362
Gains on disposal of investment property	-	30,997
Gains on disposal of investment in subsidiaries and associates	1,067	775
Others	61,194	52,718
	₩ 88,831	₩ 126,727

55. Other non-operating expense

Other non-operating expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Disposal of property and equipment	₩ 4,172	₩ 7,777
Disposal of investment in associates	2,910	261
Contribution	67,289	23,041
Impairment loss on tangible and intangible assets	412	2,089
Impairment loss on investments in associates	-	2,219
Commissions received on collection of special bond	5,657	6,373
Others	33,700	104,331
	₩ 114,140	₩ 146,091

56. Income taxes

The major components of income tax expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018		Year ended December 31, 2017	
Tax burden				
Current income taxes	₩	809,361	₩	941,148
Additional refund of prior year's income tax		(84,375)		(23,650)
Changes of deferred income taxes due to the tax effect of temporary differences		103,506		(306,717)
Current and deferred income taxes recognized directly to equity		46,100		71,262
Income tax expense	₩	874,592	₩	682,043

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, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018		Year ended December 31, 2017	
Income before income tax	₩	3,149,744	₩	2,798,665
Tax at domestic statutory income tax rate of 27.5% (2017 : 24.2%)		833,293		671,659
Tax exempt income		(17,607)		(15,739)
Expenses not deductible for tax purposes		8,845		10,240
Tax deduction		(7,692)		(14,027)
Deduction of tax loss carryforwards		42		(1,673)
Income tax expense of foreign branches and subsidiaries		31,188		34,058
Tax effect of consolidated tax return		9,104		1,971
Additional refund of prior year's income tax		(84,712)		(23,650)
Effect of tax rates change		-		6,883
Others		102,131		12,321
Income tax expense	₩	874,592	₩	682,043
Effective income tax rate (%)		27.8		24.4

Temporary differences and deferred income tax assets (liabilities) as of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Loss on valuation of securities	₩ 406,459	₩ 111,776
Impairment loss on securities	78,365	20,280
Gain on valuation of investments in subsidiaries	(492,418)	(135,457)
Gain on valuation of derivatives	(388,765)	(106,915)
Deemed dividends	157,347	43,270
Deferred loan fees and expenses	(448,126)	(119,026)
Accrued income	(430,828)	(118,478)
Accrued expenses	261,095	70,722
Allowance for acceptance guarantees	58,047	15,963
Plan assets for severance benefit	(1,634,644)	(446,674)
Defined benefit obligation	1,667,006	455,041
Allowance for other losses	178,095	47,011
Bad debt expenses	697,483	190,858
Depreciation	(6,254)	(1,920)

	December 31, 2018	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
Fair value valuation resulting from merger	32	9
Dormant deposits	17,621	4,846
Advanced depreciation provision	(180,315)	(49,587)
Deemed cost for property and equipment	(915,748)	(251,831)
Securities measured at FVOCI	45,967	12,897
Tax loss carryforwards	111,818	25,494
Investment in kind	18,479	5,082
Financial acceptances and guarantees	1,775	488
Deferred point income	176,553	42,740
Fair value differences due to the business combination	(136,272)	(37,475)
Others	531,545	141,109
	₩ (225,683)	₩ (79,777)
Domestic deferred income tax assets		98,648
Domestic deferred income tax liabilities		(178,425)
Foreign deferred income tax assets (*)		56,278
Foreign deferred income tax liabilities (*)		(85,967)
Deferred income tax assets		₩ (109,466)

(*) The Group did not recognize deductible(add up) temporary differences of ₩(-)34,492 million as deferred income tax assets(liability) as of December 31, 2018 due to uncertainty in realizability.

	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)
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

	December 31, 2017	
	Deductible (taxable) temporary differences	Deferred income tax assets (liabilities)
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

(*) 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 of December 31, 2018 and 2017 are as follows (Korean won in millions):

	December 31, 2018	
	Before tax amounts	Deferred income tax assets (liabilities)
Gain (loss) on valuation of financial assets measured at FVOCI	₩ 383,191	₩ (100,322)
Gain (loss) on valuation of cash flow hedges	(122)	30
Changes in valuation of equity method investments	(85,218)	23,210
Changes in credit risk of financial liabilities designated as measured at FVTPL	(1,316)	362
Exchange differences on translation of foreign operations	(45,666)	12,558
Remeasurements of the net defined benefit liability (asset)	(19,337)	4,672
Others	(1,090)	264
	₩ 230,442	₩ (59,226)

	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)

57. Dividends

Details of the Group's dividend including interim dividend for the years ended December 31, 2018 and 2017 are as follows (Korean won):

	Year ended December 31, 2018			
	Number of shares	Dividend per share	Share ratio (%)	Dividends (Korea won in millions)
Cash dividend (interim)	300,242,062	₩ 400	8.0	₩ 120,097
Cash dividend (annual)	300,242,062	1,500	30.0	450,363
				₩ 570,460

	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

Details of the Group's dividend payout ratio and dividend yield ratio for the years ended December 31, 2018 and 2017 are as follows:

	Calculating formula	Year ended December 31, 2018	Year ended December 31, 2017
Dividend payout ratio (%)	Cash dividends / net income	25.54	22.53
Dividend yield ratio (%)	Cash dividends per share / market value per share at reporting date	5.24	3.11

Details of dividends on hybrid equity securities for the years ended December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Average balance of hybrid equity securities	₩ 686,370	₩ 445,000
Weighted-average interest rate	4.28%	4.29%
Total dividends	₩ 29,319	₩ 19,098

58. Earnings per share

Weighted-average numbers of common shares for the years ended December 31, 2018 and 2017 are calculated as follows (shares in units):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning	296,003,062	296,003,062
Paid-in capital increase	3,460,882	-
Acquisition of treasury shares	-	(41)
Disposal of treasury shares	-	40
Weighted-average number of shares of common stocks outstanding	299,463,944	296,003,061

The Group's basic earnings per share for the years ended December 31, 2018 and 2017 are calculated as follows (Korean won in millions and per share amounts in units):

	Year ended December 31, 2018	Year ended December 31, 2017
Net income attributable to equity holders of the parent	₩ 2,233,325	₩ 2,036,839
Dividends on hybrid equity securities	(29,319)	(19,098)
Net income attributable to common stock	₩ 2,204,006	2,017,741
Weighted-average number of shares of common stocks outstanding	299,463,944 shares	296,003,061 shares
Basic earnings per share (Korean won in units)	₩ 7,360	₩ 6,817

Weighted-average numbers of common shares adjusted for the effect of dilution for the years ended December 31, 2018 and 2017 are calculated as follows (shares in units):

	Year ended December 31, 2018	Year ended December 31, 2017
Weighted-average number of common shares of outstanding for basic earnings per share	299,463,944	296,003,061
Dilution effect due to:		
Stock grants	1,410,180	1,841,390
Weighted-average number of common shares (diluted)	300,874,124	297,844,451

The Group's diluted earnings per share for the years ended December 31, 2018 and 2017 are computed as follows (Korean won in millions and number of shares in units):

	Year ended December 31, 2018	Year ended December 31, 2017
Net income attributable to common stock holders	₩ 2,204,006	₩ 2,017,741
Weighted-average number of shares of common stocks outstanding (Diluted)	300,874,124 shares	297,844,451 shares
Diluted earnings per share (Korean won in units)	₩ 7,325	₩ 6,774

59. 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 of December 31, 2018 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	(*1)	9,100	2015.08.11~2019.08.10	2019-08-10	Black-Scholes	1.07	8.01	25.91	1,550	8,060	52
2011.08.26	(*1)	8,500	2015.08.27~2019.08.26	2019-08-26	Black-Scholes	1.14	8.01	25.37	1,550	7,720	107
2011.09.02	(*1)	8,400	2015.09.03~2019.09.02	2019-09-02	Black-Scholes	1.18	8.01	25.20	1,550	7,930	122

(*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, 2018 are summarized as follows (number of shares in units):

<KEB Hana Bank>

Grant date	Company	Beginning	Forfeited	Exercised	Exercisable
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
		386,540	-	-	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 ₩23 million and ₩329 million as of December 31, 2018 and 2017, respectively.

The details of stock grants as of December 31, 2018 are summarized as follows:

	Grant date	Settlement method	Exercisable period (appraisal period)	Payment date	Estimated vested shares as of December 31, 2018
<HFG>					
Grant in 2015 (*2)	2015.01.01	(*1)	2015. 01. 01 ~ 2017. 12. 31	2017.12.31	615,280
Grant in 2016 (*2)	2016.01.01	(*1)	2016. 01. 01 ~ 2018. 12. 31	2018.12.31	794,900
Grant in 2017 (*2)	2017.01.01	Cash settlement	2017. 01. 01 ~ 2019. 12. 31	2019.12.31	394,171
Grant in 2018 (*2)	2018.01.01	Cash settlement	2018. 01. 01 ~ 2020. 12. 31	2020.12.31	110,656

(*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 based on the performance measures. The performance assessment consists of the group performance assessment (a relative shareholder return) constituting 40% and the business unit performance assessment stocks granted in 2015 and 2016 are based on the Group's ROE and the rate of goal (net income achieved) constituting 60% of the total performance scorecard. The stocks granted in 2017 and 2018 are based on the group performance assessment (relative shareholder return) constituting 40%, the business unit performance assessment (based on the Group's ROE and the rate of goal net income achieved) constituting 55% and soundness evaluation constituting 5%.

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 ₩78,246 million and ₩81,556 million as of December 31, 2018 and 2017, respectively.

60. Cash flow information

Cash and cash equivalents as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Cash	₩ 2,121,331	₩ 2,224,789
Due from banks in Korean won	14,316,554	12,834,319
Due from banks in foreign currencies	7,869,111	6,791,584
	24,306,996	21,850,692
Restricted balances	16,232,153	12,168,318
Due from banks with original maturities exceeding three months from the date of acquisition	2,818,111	1,310,607
	19,050,264	13,478,925
	₩ 5,256,732	₩ 8,371,767

Significant non-cash transactions for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2017
Changes in gain on valuation of financial assets measured at FVOCI, net	₩ 495,254	₩ -
Changes in gain on valuation of available-for-sale financial assets, net	-	(144,448)
Debt-to-equity swap	20,475	11,014
Replacement from current assets to non-current assets held for sale	-	399,522
Replacement from current assets to investment properties	-	239,268
Replacement from investment properties to current assets	246,592	-

Cash flows from interest and dividend for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Year ended December 31, 2018	Year ended December 31, 2018
Interest receipts	₩ 10,863,030	₩ 9,351,146
Interest payments	(5,231,144)	(3,810,598)
Dividend receipts	129,264	107,151

Changes in liabilities arising from financing activities are as follows (Korean won in millions):

	January 1, 2018	Cash flows	Foreign exchange movement	Changes in fair values	Other	December 31, 2018
Borrowings	₩ 18,791,895	₩ 247,856	₩ 131,361	₩ -	₩ 11,161	₩ 19,182,273
Debentures	36,444,451	3,421,992	79,957	7,209	1,064,412	41,018,021
	₩ 55,236,346	₩ 3,669,848	₩ 211,318	₩ 7,209	₩ 1,075,573	₩ 60,200,294

	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
Debentures	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

61. Related party transactions

Details of transactions with related parties for the years ended December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

Related party	Year ended December 31, 2018									
	Type	Income			Expense					
		Interest income	Fee and commission income	Other income	Provision (reversal) of allowance for impairment	Interest expense	Fee and commission expense	Other expense		
Bank of Jilin	Associate	₩ 44	₩ -	₩ 33	₩ -	₩ -	₩ -	₩ -	₩ 47	
CM International Financing Leases	Associate	6,964	-	-	424	-	-	-	-	
Beijing Langa Asset Management Co., Ltd	Associate	900	292	6	116	-	-	-	-	
PT. Sinarmas Hana Finance	Joint ventures	1,625	2	71	(29)	57	-	-	2	
Masan Marine New Town Co., Ltd.	Associate	126	-	-	2	2	-	-	-	
MIDAN City Development Co., Ltd.	Associate	-	-	-	-	-	-	-	-	
Somesevit Co., Ltd.	Associate	-	-	-	-	-	-	-	-	
Darby-Hana Infrastructure Fund Management	Associate	-	-	1	-	210	-	-	-	
Korea Credit Bureau	Associate	-	34	-	-	122	735	-	2,301	

Related party	Year ended December 31, 2018							
	Type	Income			Expense			
		Interest income	Fee and commission income	Other income	Provision (reversal) of allowance for impairment	Interest expense	Fee and commission expense	Other expense
Company KStartup Winwin fund	Associate	-	-	-	-	36	-	-
BSK-6 Patent Technology Investment Association	Associate	-	-	-	-	-	-	-
Fidelis-2 private equity joint venture	Associate	-	-	342	-	-	-	-
KORAMCO Professional Investment Type Private Real Estate Investment 73	Associate	-	-	-	-	-	-	-
KEB Hana-KVIC Unicorn Fund of Funds	Associate	-	-	-	-	5	-	-
KORAMCO Professional Investment Type Private Real Estate Investment 87	Associate	-	-	-	-	-	-	-
Our Crowd International Invest III	Associate	-	-	-	-	-	-	-
Hana UBS Asset Management	Associate	-	11,250	532	-	-	-	-
Gunsan BIO Energy Co., Ltd.	Associate	-	-	-	-	15	-	-
Hana Lantern Energy Factory PEF	Associate	-	125	-	-	-	-	-
Hana Power Infra 1st Private Equity Fund	Associate	-	2,372	-	-	-	-	-
B&P Asset Development (formerly, HN housing Co., Ltd.)	Associate	216	3	-	23	-	-	-
Odin 2 LLC	Associate	1,794	1	-	-	-	-	-
KOCREF REIT 30	Associate	-	-	-	-	-	-	11,636
Kiwoom Securities - Friend 1 New Technology Business Investment Fund	Associate	-	-	-	-	-	-	-
Synergy-Incus Venture Business Fund No.1	Associate	-	-	-	-	-	-	-
Tigris-Aurim Fund 1	Associate	-	-	-	-	-	-	-
IBKC-History 2018-2 Bio Fund	Associate	-	-	-	-	-	-	-
GMHB Co., Ltd	Associate	94	24,538	12	-	-	-	-
Lotte Accelerator	Associate	-	-	-	-	57	-	-
Axis Bio Fund	Associate	-	-	-	-	-	-	-
DA Value-up Fund No. 2	Associate	-	-	-	-	-	-	-
Smartscore Co., Ltd.	Associate	2	-	-	-	2	-	-
2018 HANA-MAGNA start-up fund	Associate	-	100	-	-	-	-	-
Petra 6 Alpha private investment joint venture	Associate	-	2,316	-	-	-	-	-
Gwacheon jisan octa PFV	Associate	-	-	-	-	-	-	-
Myoung Shin Industrial Co.,Ltd.	Associate	27	1	-	-	-	-	-
Hanon private investment joint venture	Associate	-	-	-	-	-	-	-
HFI Strategy 1 private investment company	Associate	-	33	-	-	-	-	-
F&U Credit Information	Associate	-	4	645	-	6	6,821	13,397
A&D credit information Co., Ltd.	Associate	-	-	-	-	-	-	-

Related party	Year ended December 31, 2018							
	Type	Income			Expense			
		Interest income	Fee and commission income	Other income	Provision (reversal) of allowance for impairment	Interest expense	Fee and commission expense	Other expense
Hana Qualified Investor Private Real Estate Investment Trust No.41-2	Associate	-	7	-	-	-	-	-
Finnq Co., Ltd.	Joint ventures	-	127	13	(2)	5	50	-
Mirae Credit Information Services Corp.	Associate	120	10	79	(2)	55	7,710	456
2010 KIF-Tube IT Professional Investment Partnership	Associate	-	-	-	-	-	-	-
KEB Mirae Asset Second Securitization Specialty Co.,Ltd. (*)	Associate	-	-	-	-	-	-	-
KEB Mirae Asset First Securitization Specialty Co., Ltd. (*)	Associate	-	-	-	-	-	-	-
Hana AIM a global reit AMC (*)	Associate	-	-	-	-	-	-	-
The hue Company, Ltd. (*)	Associate	-	1	-	(88)	-	-	-
Maltani Development Co., Ltd. (*)	Associate	-	-	-	-	-	-	-
Axis Hi-tech New Technology Investment Fund (*)	Associate	-	-	-	-	-	-	-
Darby Latin American Fund III (*)	Associate	-	-	-	-	-	-	-
Darby Latin American Fund IIIA (*)	Associate	-	-	-	-	-	-	-
Key management personnel		250	31	157	-	131	1	-
		₩ 12,162	₩ 41,247	₩ 1,891	₩ 444	₩ 703	₩ 15,317	₩ 27,839

(*) Excluded from the related parties of the consolidated entities during the year.

Related party	Year ended December 31, 2017 (*)							
	Type	Income			Expense			
		Interest income	Fee and commission income	Other income	Provision (reversal) of allowance for impairment	Interest expense	Fee and commission expense	Other expense
Bank of Jilin	Associate	₩ 2,075	₩ -	₩ -	₩ 12	₩ -	₩ -	₩ -
CM International Financing Leases	Associate	6,531	19	-	(267)	25	-	-
Beijing Langa Asset Management Co., Ltd	Associate	463	168	-	94	256	-	-
PT. Sinarmas Hana Finance	Joint ventures	1,236	-	-	38	152	-	-
KEB Mirae Asset Second Securitization Specialty Co.,Ltd.	Associate	-	2	-	-	2	-	-
Masan Marine New Town Co., Ltd.	Associate	108	-	-	-	2	-	-
MIDAN City Development Co., Ltd.	Associate	-	-	-	-	33	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	-	505	(1)	159	-	-
Korea Credit Bureau	Associate	-	-	-	-	56	63	2
Company KStartup Winwin Fund	Associate	-	-	-	-	31	-	-
Hana UBS Asset Management	Associate	-	7,219	-	-	-	1	-
Gunsan BIO Energy Co., Ltd.	Associate	-	-	-	-	16	-	-
Hana Lantern Energy Factory PEF	Associate	-	162	-	-	-	-	-
The hue Company, Ltd.	Associate	232	3	4	48	-	-	-

Related party	Year ended December 31, 2017 (*)							
	Type	Income			Expense			
		Interest income	Fee and commission income	Other income	Provision (reversal) of allowance for impairment	Interest expense	Fee and commission expense	Other expense
Hana Power Infra 1st Private Equity Fund	Associate	-	2,372	-	-	-	-	-
B&P Asset Development (formerly, HN housing Co., Ltd.)	Associate	100	-	-	26	-	-	-
Odin 2 LLC	Associate	-	-	-	2,126	-	-	-
KOCREF REIT 30	Associate	-	-	-	-	-	-	10,440
GMHB Co., Ltd	Associate	-	1,825	-	-	-	-	-
Hana AIM a global reit AMC	Associate	-	-	-	-	10	-	-
F&U Credit Information	Associate	-	4	1,150	-	-	2,206	12,928
A&D credit information.	Associate	-	-	-	-	3	-	-
Finnq Co., Ltd.	Joint ventures	-	67	-	2	1	-	-
Mirae Credit Information Services Corp.	Associate	89	-	-	5	54	223	-
Key management personnel		180	24	149	-	82	1	-
		₩ 11,014	₩ 11,865	₩ 1,808	₩ 2,083	₩ 882	₩ 2,494	₩ 23,370

(*) Significant transactions with related parties for the year ended December 31, 2017 have been restated due to correction of an error on transactions between the Group and the overseas affiliated companies. As a result of the restatement, the revenue, transfer (reversal) of allowance for doubtful account, and expense increased(decreased) by ₩10,498 million, ₩(58) million, and ₩439 million, respectively.

Outstanding balances with related parties arising from the below transactions as of December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

Related party	December 31, 2018						
	Type	Assets		Allowance for possible loan losses	Liabilities		
		Loans receivables	Other receivables		Deposits	Borrowings	Other payables
Bank of Jilin	Associate	₩ 1,200	₩ -	₩ -	₩ 7	₩ -	₩ -
CM International Financing Leases	Associate	127,982	-	559	15	-	-
Beijing Langa Asset Management Co., Ltd	Associate	14,630	-	211	1	-	-
PT. Sinarmas Hana Finance	Joint ventures	17,627	30	25	815	-	-
Masan Marine New Town Co., Ltd.	Associate	1,513	-	2	811	-	-
MIDAN City Development Co., Ltd.	Associate	-	-	-	5	-	-
Somesevit Co., Ltd.	Associate	-	-	-	-	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	-	-	14,309	-	-
Korea Credit Bureau	Associate	3	-	-	11,147	-	176
Company KStartup Winwin fund	Associate	-	-	-	-	-	-
BSK-6 Patent Technology Investment Association	Associate	-	-	-	-	-	-
Fidelis-2 private equity joint venture	Associate	-	-	-	35	-	-
KORAMCO Professional Investment Type Private Real Estate Investment 73	Associate	-	-	-	-	-	-
KEB Hana-KVIC Unicorn Fund of Funds	Associate	-	-	-	1,104	-	-
KORAMCO Professional Investment Type Private Real Estate Investment 87	Associate	-	-	-	-	-	-
Our Crowd International Invest III	Associate	-	-	-	-	-	-

Related party	December 31, 2018						
	Type	Assets		Allowance for possible loan losses	Liabilities		
		Loans receivables	Other receivables		Deposits	Borrowings	Other payables
Hana UBS Asset Management	Associate	21	2,232	-	312	-	-
Gunsan BIO Energy Co., Ltd.	Associate	6	2,617	-	3,844	-	-
Hana Lantern Energy Factory PEF	Associate	-	31	-	3	-	-
Hana Power Infra 1st Private Equity Fund	Associate	-	598	-	-	-	-
B&P Asset Development (formerly, HN housing Co., Ltd.)	Associate	4,906	-	41	335	-	-
Odin 2 LLC	Associate	2,237	-	2,237	-	-	-
KOCREF REIT 30	Associate	-	10,204	-	-	-	1,225
Kiwoom Securities - Friend 1 New Technology Business Investment Fund	Associate	-	-	-	-	-	-
Synergy-Incus Venture Business Fund No.1	Associate	-	-	-	-	-	-
Tigris-Aurim Fund 1	Associate	-	-	-	-	-	-
IBKC-History 2018-2 Bio Fund	Associate	-	-	-	-	-	-
GMHB Co., Ltd	Associate	-	39	3	-	-	2,098
Lotte Accelerator	Associate	-	-	-	3,043	-	-
Axis Bio Fund	Associate	-	-	-	-	-	-
DA Value-up Fund No. 2	Associate	-	-	-	-	-	-
Smartscore Co., Ltd.	Associate	-	-	-	351	-	-
2018 HANA-MAGNA start-up fund	Associate	-	-	-	-	-	-
Petra 6 Alpha private investment joint venture	Associate	-	-	-	-	-	-
Gwacheon jisan octa PFV	Associate	-	-	-	-	-	-
Myoung Shin Industrial Co.,Ltd.	Associate	184	20,023	1	3	-	-
Hanon private investment joint venture	Associate	-	-	-	-	-	-
HFI Strategy 1 private investment company	Associate	-	33	-	-	-	-
F&U Credit Information	Associate	329	-	2	529	-	965
A&D credit information Co., Ltd.	Associate	-	-	-	-	-	-
Hana Qualified Investor Private Real Estate Investment Trust No.41-2	Associate	-	1	-	-	-	-
Finnq Co., Ltd.	Joint ventures	48	7	-	9,748	-	28
Mirae Credit Information Services Corp.	Associate	2,171	5	1	1,903	-	-
2010 KIF-Tube IT Professional Investment Partnership	Associate	-	-	-	-	-	-
Key management personnel		7,626	-	-	13,862	-	-
		₩ 180,483	₩ 35,820	₩ 3,082	₩ 62,182	₩ -	₩ 4,492

Related party	December 31, 2017 (*)						
	Type	Assets		Allowance for possible loan losses	Liabilities		
		Loans receivables	Other receivables		Deposits	Borrowings	Other payables
Bank of Jilin	Associate	₩ 194,333	₩ 273	₩ 12	₩ -	₩ -	₩ -
CM International Financing Leases	Associate	137,205	413	135	21	-	5
Beijing Langa Asset Management Co., Ltd	Associate	16,399	-	94	1	-	-
PT. Sinarmas Hana Finance	Joint ventures	16,195	-	81	1,001	-	-
Masan Marine New Town Co., Ltd.	Associate	1,513	-	-	787	-	-
MIDAN City Development Co., Ltd.	Associate	1	-	-	327	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	11,734	-	12,121	-	-
Korea Credit Bureau	Associate	15	-	-	6,015	-	912
Company KStartup Winwin Fund	Associate	-	-	-	4,020	-	-
KEB Mirae Asset Second Securitization Specialty Co.,Ltd.	Associate	-	-	-	744	-	-
KEB Mirae Asset First Securitization Specialty Co., Ltd.	Associate	-	-	-	620	-	-
Hana UBS Asset Management	Associate	17	1,928	-	408	-	-
Gunsan BIO Energy Co., Ltd.	Associate	4	2,617	-	5,194	-	-
Hana Lantern Energy Factory PEF	Associate	-	38	-	74	-	-
The hue Company, Ltd.	Associate	5,323	-	1,461	74	-	-
Hana Power Infra 1st Private Equity Fund	Associate	-	598	-	-	-	-
B&P Asset Development (formerly, HN housing Co., Ltd.)	Associate	4,908	-	33	107	-	-
Odin 2 LLC	Associate	2,237	-	2,237	-	-	-
KOCREF REIT 30	Associate	-	9,395	-	-	-	-
GMHB Co., Ltd	Associate	-	-	-	858	-	-
Maltani Developmnet Co., Ltd.	Associate	2	-	-	-	-	-
Hana AIM Investment Management Co., Ltd.	Associate	7	-	-	2,117	-	-
F&U Credit Information	Associate	383	-	-	1	-	1,023
Finnq Co., Ltd.	Joint ventures	61	-	2	4,597	-	-
Mirae Credit Information Services Corp.	Associate	7,287	-	6	10,734	-	20
Key management personnel		5,945	-	-	10,552	-	-
		₩ 391,835	₩ 26,996	₩ 4,061	₩ 60,373	₩ -	₩ 1,960

(*) Receivables and payables from transactions with related parties for the year ended December 31, 2017 have been restated due to correction of an error between the Group and overseas affiliated companies. As a result of the restatement, the bonds, allowance for doubtful account, and payables increased by ₩364,991 million, ₩1,700 million, and ₩1,906 million, respectively, due to the restatement of the notes.

The Group engages in financing activities and transactions with related parties as part of normal business activities. Money transactions between related parties for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions).

Related Party	Type	Year ended December 31, 2018						Year ended December 31, 2018					
		Loans (*1)			Deposits and borrowings (*1)			Capital contribution			Increase	Decrease	Net
		Increase	Decrease	Net	Increase	Decrease	Net	Increase	Decrease	Net			
Bank of Jilin	Associate	₩ 355,651	₩ (547,655)	₩ (192,004)	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	-	-	-
CM International Financing Leases	Associate	82,901	(93,725)	(10,824)	-	-	-	-	-	-	-	-	-
Beijing Langa Asset Management Co., Ltd	Associate	-	(1,626)	(1,626)	-	-	-	-	-	-	-	-	-
PT. Sinarmas Hana Finance	Joint ventures	4,187	(2,304)	1,883	38	-	38	-	-	-	-	-	-
Masan Marine New Town Co., Ltd.	Associate	-	-	-	-	-	-	-	-	-	-	-	-
MIDAN City Development Co., Ltd.	Associate	3	(4)	(1)	-	-	-	-	-	-	-	-	-
Somesevit Co., Ltd.	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Darby-Hana Infrastructure Fund Management	Associate	-	-	-	14,164	(11,264)	2,900	-	-	-	-	-	-
Korea Credit Bureau	Associate	102	(114)	(12)	11,080	(6,080)	5,000	-	-	-	-	-	-
Company KStartup Winwin fund	Associate	-	-	-	26,543	(30,563)	(4,020)	-	(2,190)	(2,190)	-	-	-
BSK-6 Patent Technology Investment Association	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Fidelis-2 private equity joint venture	Associate	-	-	-	-	-	-	3,000	-	3,000	-	-	-
KORAMCO Professional Investment Type Private Real Estate Investment 73	Associate	-	-	-	-	-	-	1,700	-	1,700	-	-	-
KEB Hana-KVIC Unicorn Fund of Funds	Associate	-	-	-	-	-	-	1,000	-	1,000	-	-	-
KORAMCO Professional Investment Type Private Real Estate Investment 87	Associate	-	-	-	-	-	-	1,500	-	1,500	-	-	-
Our Crowd International Invest III	Associate	-	-	-	-	-	-	14,049	-	14,049	-	-	-
Hana UBS Asset Management	Associate	352	(349)	3	-	-	-	-	-	-	-	-	-
Gunsan BIO Energy Co., Ltd.	Associate	85	(84)	1	-	-	-	-	-	-	-	-	-
Hana Lantern Energy Factory PEF	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Hana Power Infra 1st Private Equity Fund	Associate	-	-	-	-	-	-	-	-	-	-	-	-
B&P Asset Development (formerly, HN housing Co., Ltd.)	Associate	172	(174)	(2)	10	-	10	-	-	-	-	-	-
Odin 2 LLC	Associate	-	-	-	-	-	-	-	-	-	-	-	-
KOCREF REIT 30	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Kiwoom Securities - Friend 1 New Technology Business Investment Fund	Associate	-	-	-	-	-	-	3,000	-	3,000	-	-	-
Synergy-Incus Venture Business Fund No.1	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Tigris-Aurim Fund 1	Associate	-	-	-	-	-	-	-	-	-	-	-	-
IBKC-History 2018-2 Bio Fund	Associate	-	-	-	-	-	-	1,000	-	1,000	-	-	-
GMHB Co., Ltd	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Lotte Accelerator	Associate	-	-	-	3,000	-	3,000	4,999	-	4,999	-	-	-
Axis Bio Fund	Associate	-	-	-	-	-	-	1,000	-	1,000	-	-	-
DA Value-up Fund No. 2	Associate	-	-	-	-	-	-	1,000	-	1,000	-	-	-
Smartscore Co., Ltd.	Associate	2	(2)	-	-	-	-	1,500	-	1,500	-	-	-
2018 HANA-MAGNA start-up fund	Associate	-	-	-	-	-	-	2,100	-	2,100	-	-	-
Petra 6 Alpha private investment joint venture	Associate	-	-	-	-	-	-	77,200	-	77,200	-	-	-
Gwacheon jisan octa PFV	Associate	-	-	-	-	-	-	960	-	960	-	-	-
Myoung Shin Industrial Co.,Ltd.	Associate	885	(1,084)	(199)	-	-	-	20,000	-	20,000	-	-	-
Hanon private investment joint venture	Associate	-	-	-	-	-	-	10,000	-	10,000	-	-	-
HFI Strategy 1 private investment company	Associate	-	-	-	-	-	-	1,000	-	1,000	-	-	-
F&U Credit Information	Associate	1,915	(1,969)	(54)	500	-	500	-	-	-	-	-	-
A&D credit information Co., Ltd.	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Hana Qualified Investor Private Real Estate Investment Trust No.41-2	Associate	-	-	-	-	-	-	-	-	-	-	-	-
Finnq Co., Ltd.	Joint ventures	935	(948)	(13)	-	-	-	-	-	-	-	-	-
Mirae Credit Information Services Corp.	Associate	4,347	(9,463)	(5,116)	94	-	94	-	-	-	-	-	-

Related Party	Year ended December 31, 2018																	
	Type	Loans (*1)			Deposits and borrowings (*1)			Capital contribution										
		Increase	Decrease	Net	Increase	Decrease	Net	Increase	Decrease	Net								
2010 KIF-Tube IT Professional Investment Partnership	Associate	-	-	-	-	-	-	-	(1,756)	(1,756)								
KEB Mirae Asset Second Securitization Specialty Co.,Ltd.(*2)	Associate	-	-	-	-	-	-	-	-	-								
KEB Mirae Asset First Securitization Specialty Co., Ltd. (*2)	Associate	-	-	-	-	-	-	-	-	-								
Hana AIM a global reit AMC (*2)	Associate	70	(77)	(7)	-	-	-	-	-	-								
The hue Company, Ltd. (*2)	Associate	-	(233)	(233)	-	-	-	-	-	-								
Maltani Development Co., Ltd. (*2)	Associate	52	(53)	(1)	-	-	-	-	-	-								
Axis Hi-tech New Technology Investment Fund (*2)	Associate	-	-	-	-	-	-	-	-	-								
Darby Latin American Fund III (*2)	Associate	-	-	-	-	-	-	-	-	-								
Darby Latin American Fund IIIA (*2)	Associate	-	-	-	-	-	-	-	-	-								
Key management personnel		1,681	-	1,681	3,307	-	3,307	-	-	-								
	₩	453,340	₩	(659,864)	₩	(206,524)	₩	58,736	₩	(47,907)	₩	10,829	₩	145,008	₩	(3,946)	₩	141,062

(*1) Commitment line is excluded in the amount of borrowings and withdrawals of loans, except for transactions such as day-to-day overdue loans that are repaid during the day and the amounts of savings account are excluded from the amounts related to the time deposit and withdrawal deposits.

(*2) Excluded from the related parties of the consolidated entities during the year.

Related Party	Year ended December 31, 2017 (*1)									
	Type	Loans (*2)			Deposits and borrowings (*2)			Capital contribution		
		Increase	Decrease	Net	Increase	Decrease	Net	Increase	Decrease	Net
Bank of Jilin	Associate	₩ 688,911	₩ (494,578)	₩ 194,333	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
CM International Financing Leases	Associate	-	(11,833)	(11,833)	-	-	-	-	-	-
Beijing Langa Asset Management Co., Ltd	Associate	58,923	(42,524)	16,399	-	-	-	41,801	-	41,801
PT. Sinarmas Hana Finance	Joint ventures	6,607	(1,682)	4,925	4,648	(3,858)	790	-	-	-
MIDAN City Development Co., Ltd.	Associate	76	(83)	(7)	-	(6)	(6)	-	-	-
Darby-Hana Infrastructure Fund Management	Associate	48	(67)	(19)	12,700	(10,100)	2,600	-	-	-
Korea Credit Bureau	Associate	27	(12)	15	6,000	(1,000)	5,000	-	-	-
Company KStartup Winwin Fund	Associate	-	-	-	27,560	(24,440)	3,120	-	-	-
BSK-6 Patent Technology Investment Association	Associate	-	-	-	-	-	-	900	-	900
Darby Latin American Fund III	Associate	-	-	-	-	-	-	7,621	-	7,621
Darby Latin American Fund IIIA	Associate	-	-	-	-	-	-	1,190	-	1,190
Hana UBS Asset Management	Associate	385	(412)	(27)	-	-	-	-	-	-
Gunsan BIO Energy Co., Ltd.	Associate	117	(119)	(2)	-	-	-	-	-	-
The hue Company, Ltd.	Associate	380	(1,370)	(990)	-	-	-	-	-	-
B&P Asset Development (formerly, HN housing Co., Ltd.)	Associate	3,284	(85)	3,199	-	-	-	-	-	-
GMHB Co., Ltd	Associate	-	-	-	-	-	-	995	-	995
Maltani Development Co., Ltd.	Associate	35	(35)	-	-	-	-	-	-	-
Hana AIM a global reit AMC	Associate	54	(51)	3	4,006	(2,000)	2,006	-	-	-
F&U Credit Information	Associate	2,525	(2,551)	(26)	-	-	-	-	-	-
A&D credit information Co., Ltd.	Associate	-	-	-	-	(1,000)	(1,000)	-	-	-
Hana Qualified Investor Private Real Estate Investment Trust No.41-2	Associate	-	-	-	-	-	-	1,500	-	1,500
Finnq Co., Ltd.	Joint ventures	764	(743)	21	-	-	-	-	-	-
Mirae Credit Information Services Corp.	Associate	10,572	(3,542)	7,030	1,000	(9,100)	(8,100)	-	-	-
Key management personnel		1,005	-	1,005	-	(1,484)	(1,484)	-	-	-
		₩ 773,713	₩ (559,687)	₩ 214,026	₩ 55,914	₩ (52,988)	₩ 2,926	₩ 54,007	₩ -	₩ 54,007

(*1) Transactions with related parties for the year ended December 31, 2017 have been restated due to correction of an error on transactions between the Group and overseas affiliated companies. The loans, deposits and borrowings, and cash contribution increased by ₩203,884 million, ₩11,843 million and ₩1,500 million, respectively.

(*2) Commitment line is excluded in the amount of borrowings and withdrawals of loans, except for credit card receivables and the amounts of savings account are excluded from the amounts related to the time deposit and withdrawal deposits.

Significant guarantee contracts, Commitment and collateral provided between related parties as of December 31, 2018 and December 31, 2017 are summarized as follows (Korean won in millions):

December 31, 2018			
Related parties		Transactions	Amounts
Benefactor	Beneficiary		
KEB Hana Bank	Masan Marine New Town Co., Ltd.	Unused limit	₩ 327
KEB Hana Bank	BSK-6 Patent Technology Investment Association	Commitments to purchase securities	2,100
KEB Hana Bank	Myoung Shin Industrial Co.,Ltd.	Unused limit	151
KEB Hana Bank	KEB Hana-KVIC Unicorn Fund of Funds	Commitments to purchase securities	99,000
KEB Hana Bank	Beijing Langa Asset Management Co., Ltd	Payment Guarantee	21,132
PT Bank KEB Hana	PT. SINARMAS HANA FINANCE	Unused limit	3,908
HFI	GMHB Co., Ltd	Commitments to purchase private equity	250,000
KEB Hana Card	Korea Credit Bureau	Unused limit(Credit card)	197
KEB Hana Card	Finnq Co., Ltd.	Unused limit(Credit card)	152
KEB Hana Card	Mirae Credit Information Services Corp.	Unused limit(Credit card)	379
KEB Hana Card	Hana UBS Asset Management	Unused limit(Credit card)	479
KEB Hana Card	F&U Credit Information	Unused limit(Credit card)	661
KEB Hana Card	Gunsan BIO Energy Co., Ltd.	Unused limit(Credit card)	24
KEB Hana Card	B&P Asset Development (formerly, HN housing Co., Ltd.)	Unused limit(Credit card)	64
KEB Hana Card	Smartscore Co., Ltd.	Unused limit(Credit card)	7
Hana Capital	PT. SINARMAS HANA FINANCE	Payment Guarantee	15,360
			₩ 393,941

December 31, 2017 (*)			
Related parties		Transactions	Amounts
Benefactor	Beneficiary		
KEB Hana Bank	BSK 6 Patent Technology Investment Partnership	Unused limit	₩ 2,100
KEB Hana Bank	Masan Marine New Town Co., Ltd.	Unused limit	5,000
KEB Hana Bank	B&P Asset Development (formerly, HN housing Co., Ltd.)	Unused limit	100
KEB Hana Bank	Beijing Langa Asset Management Co., Ltd	Payment Guarantee	21,319
PT. Bank KEB Hana	PT. SINARMAS HANA FINANCE	Unused limit	5,925
KEB Hana Card	Korea Credit Bureau	Unused limit(Credit card)	185
KEB Hana Card	MIDAN City Development Co., Ltd.	Unused limit(Credit card)	49
KEB Hana Card	F&U Credit Information	Unused limit(Credit card)	607
KEB Hana Card	Hana UBS Asset Management	Unused limit(Credit card)	983
KEB Hana Card	Maltani Development Co., Ltd.	Unused limit(Credit card)	8
KEB Hana Card	Gunsan BIO Energy Co., Ltd.	Unused limit(Credit card)	26
KEB Hana Card	Hana AIM Investment Management Co., Ltd.	Unused limit(Credit card)	43
KEB Hana Card	HN Housing Management Co., Ltd.	Unused limit(Credit card)	62

December 31, 2017 (*)			
Related parties		Transactions	Amounts
Benefactor	Beneficiary		
KEB Hana Card	Mirae Credit Information Services Corp.	Unused limit(Credit card)	263
KEB Hana Card	Finnq Co., Ltd.	Unused limit(Credit card)	89
			₩ 36,759

(*) Significant payment guarantees, arrangements, and collateral provision with related parties for the year ended December 31, 2017 have been restated due to correction of an error in unused limit (including credit card) and payment guarantees between the Group and overseas affiliated companies. As a result of the restatement, the unused limit and payment guarantees increased by ₩15,440 million and ₩21,319 million, respectively.

Details of compensation paid to key management personnel for the years ended December 31, 2018 and 2017 are summarized as follows (Korean won in millions):

	December 31, 2018	December 31, 2017
Short-term employee payment	₩ 29,928	₩ 28,781
Severance payment	2,390	1,547
Share-based compensation expenses	8,171	22,511
	₩ 40,489	₩ 52,839

62. Business Combination

62.1 Business transfer deal of HIF

HIF made a resolution to transfer all of its business to KEB Hana Bank at its extraordinary general meeting of shareholders on July 10, 2017. As a result, HIF is no longer a subsidiary of the Company as of July 10, 2017. The liquidation registration was completed on December 14, 2017.

63. Confirmation date of financial statements and approval authority

The Group’s consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors on March 5, 2019, and will be finally approved at the shareholders' meeting to be held on March 22, 2019.

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FORMING the future of finance

Hana Financial Group will continue its transformative journey towards a digital enterprise. As we go through this transformation, we become more agile, smarter and stronger, based on which we will form the future of finance in order to achieve sustainable growth for all of our stakeholders.

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.



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