KDB Bank Anniversary 60th

FINANCIAL ENGINE OF KOREA'S GROWTH, GLOBAL KDB

ANNUAL REPORT 2013

KDB Bank

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During the past 60 years, The Korea Development Bank(hereinafter KDB Bank) has been the driving force of Korea's remarkable economic growth. In 2013, the Bank reaffirmed its status as an indispensable policy finance bank in Korea, being ready to start its race of another 60 years as the financial engine of Korea's growth. In this Annual Report, KDB Bank invites you to its detailed footprints and paths ahead.

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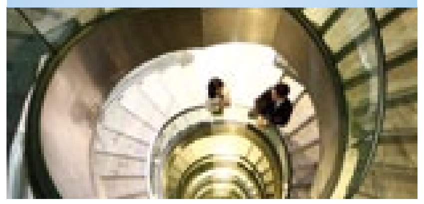

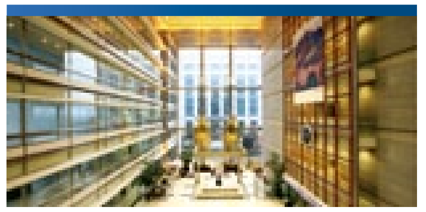

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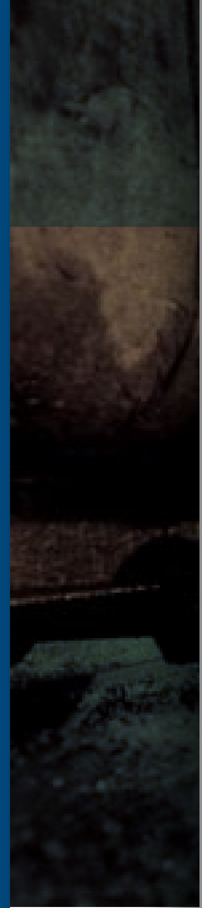
HISTORY AT A GLANCE

Since its establishment in 1954, KDB Bank has taken on a leading role at every stage of Korea's development history as the country's top policy lender. After the Korean War, KDB Bank was mandated by the government to help the nation recover from the ravages of the Korean War and to foster the development of Korea's major industries such as the heavy chemical industry, in line with the government's five-year economic development plans. Subsequently, the Bank pursued to develop into a global investment bank in increasingly globalizing financial markets. In the late 1990s, KDB Bank led the nation out of the Asian financial crisis while spearheading the restructuring process of financially distressed corporations. In 2008, the government announced its plan to privatize the Bank and trigger the advancement of the financial industry. However, the global financial crisis highlighted the importance of the Bank's role as a policy lender and the Bank has since played a seminal role in putting the nation's economy back on track. With all of these efforts, the Bank has propelled Korea to transform itself from one of the poorest countries in the world to one that boasts the world's tenth-largest economy. With the withdrawal of the government's privatization plan, the Bank is now at the starting point of another 60 years race as the financial engine for the "quantum leap" of the Korean economy.



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ESTABLISHMENT OF THE DEVELOPMENT FINANCING ARCHITECTURE

1954 ~ 1961

KDB Bank was founded on April 1, 1954 to support the nation's economic rehabilitation after South and North Korea signed an armistice agreement in 1953. For the reconstruction of the post-war economy, KDB Bank focused on supplying policy financing to key industries and provided domestic enterprises with large-scale facility loans. As a result of these activities, KDB Bank was able to fine-tune its architecture for providing long-term development financing. Based on this architecture, KDB Bank boosted the economic restoration and industrialization of Korea by providing not only policy-driven loans to basic industries but working capital loans as well.

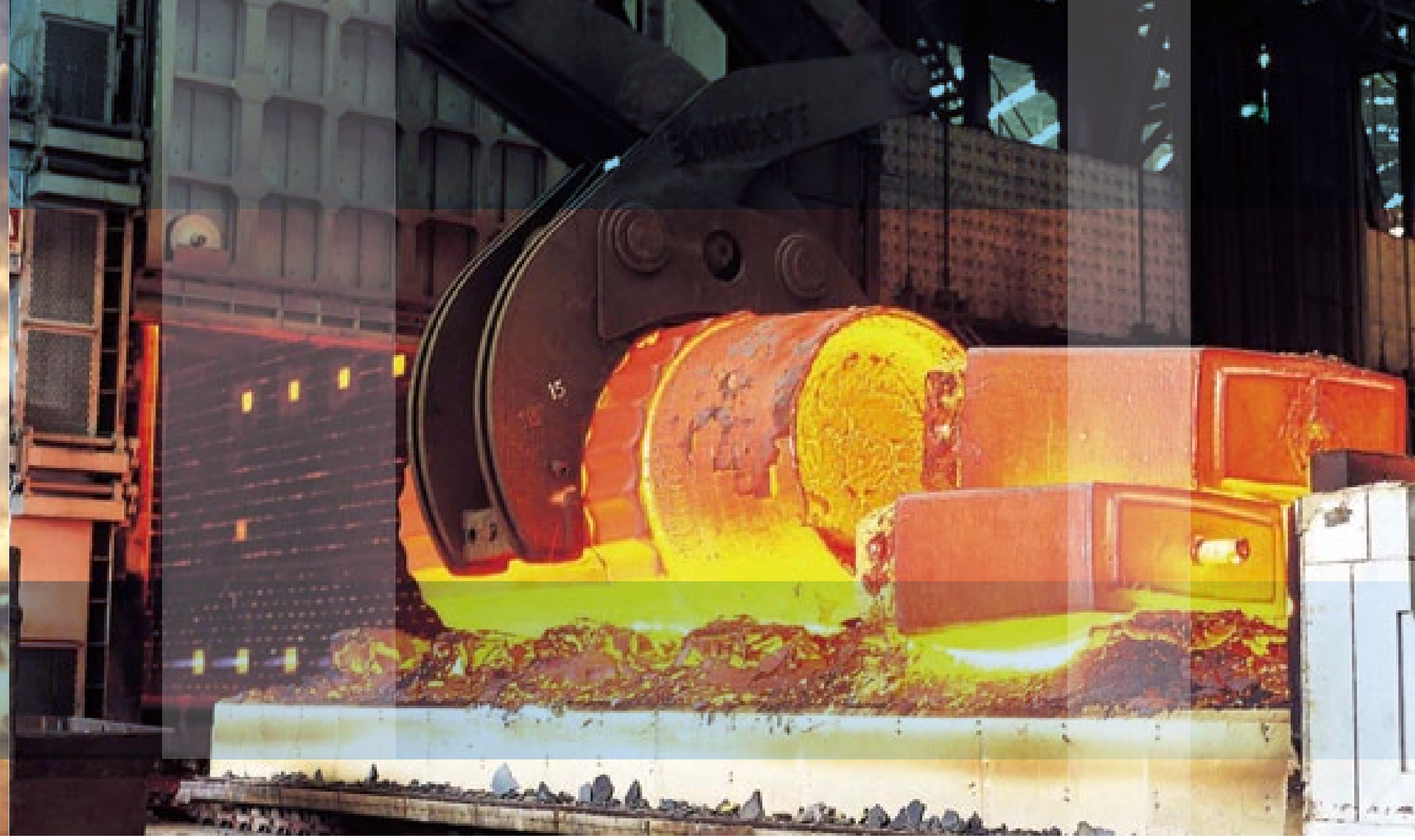
KDB Bank Anniversary 60th

2011	Launched KDB Direct
2010	Introduction of Techno-Banking
2006	Commenced retirement pension business
2005	Established Private Equity Fund
2003	Commenced consulting business and Bancassurance business
2001	Relocated the Head office (Yeouido-dong, Seoul)
1999	Commenced equity investment to high-tech firms and SMEs.
	Lead managed the issuance of Korea's first SOC Bond
1994	Issued the first Global Bond
1993	Authorized by the government to approve corporate clients' applications
	for overseas direct investment
1989	Commenced trust business
1985	Relocated the Head office (Samil Building, Gwanchelo-dong, Seoul)
1978	Issued the first Samurai Bond
1974	Issued the first IFB in foreign currency to induce investments from Middle Eastern nations
1969	Initiated IFB over-the-counter sales
	Changed the English name to "Korea Development Bank"
1962	Initiated guarantees to the Bank of Korea on the repayment of foreign commercial borrowings
1961	Initiated stock underwriting, bond guarantee and foreign capital funding businesses
1955	Issued the first Industrial Finance Bonds (IFB)
1954	Established as "Korea Reconstruction Bank"

DEVELOPMENT OF KOREA'S INFRASTRUCTURE AND INDUSTRIES

1962 ~ 1971

Since 1962, the government encouraged investments in large-scale industrial facilities through the implementation of five-year economic development plans. Compliant with this policy, KDB Bank strived to nurture the nation's industries. The Bank concentrated on the growth of key industries that would contribute to the improvement of Korea's balance of payments, and basic necessities industries to improve people's quality of life. In addition to supplying funds for base industries including power generation, coal mining, and shipbuilding, the Bank provided mid to long-term facility loans for housing, telephone network and water infrastructure projects in rural areas. The financial guarantee business was initiated in response to an increasing demand for corporate investment in this period of rapid economic growth. The Bank also took steps to diversify its funding sources by issuing Industrial Finance Bonds, also known as KDB bonds and inducing foreign capital.



LEADER IN LONG-TERM FACILITY FINANCING

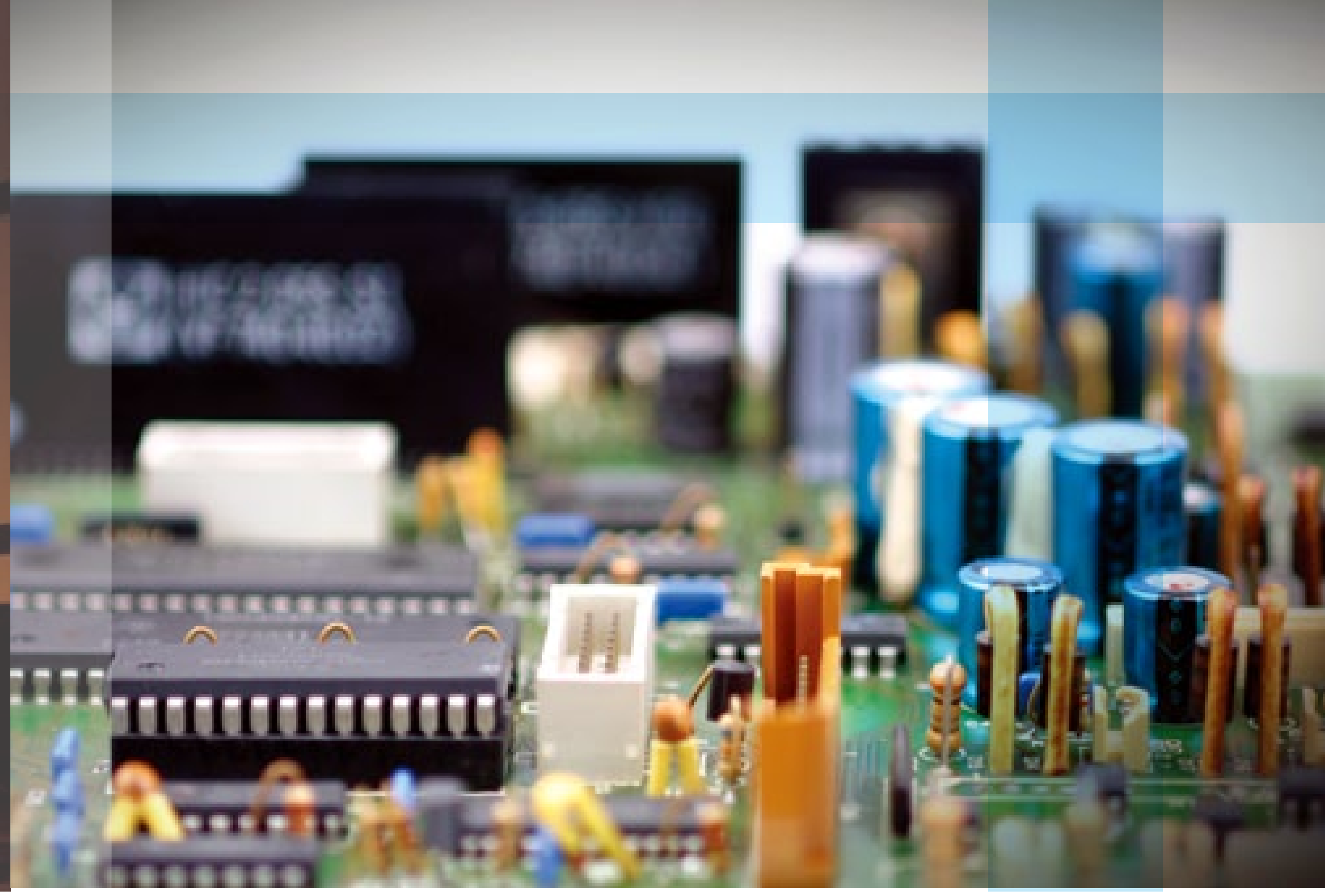
1972 ~ 1979

Stepping into the 1970s, the government promulgated its third five-year economic development plan, which focused on the nurturing of the heavy chemical industry to advance the nation's industrial structure. In response, KDB Bank augmented its lending resources and strengthened its role as a long-term financing institution. In order to respond to increasing funding demands, the Bank increased its level of statutory capital to KRW 600 billion and became the first in Korea to issue foreign currency bonds, thereby diversifying its funding sources and lessening the country's dependence on foreign currency loans. KDB Bank took advantage of its growing expertise in the fields of investment, lending, and funding, to contribute to the development of heavy chemical industries, major industries, and the expansion of the nation's infrastructure. In addition, financial guarantee and foreign exchange businesses were actively expanded in this period.

DIVERSIFICATION AND ENHANCEMENT OF INDUSTRIAL FINANCING ACTIVITIES

1980 ~ 1989

In the 1980s, the government initiated industrial restructuring, as a means of reducing imbalances among economic sectors and preventing potential bankruptcies. KDB Bank increased its level of financing for high-tech industries to promote technological development. It also concentrated its financial efforts on parts and materials companies, enterprises with cutting-edge technologies, and SMEs. From 1986 onwards, with the booming economy backed by weak US dollar, cheap oil prices, and low interest rates, KDB Bank exerted a leading role in controlling the investment traffic in the heavy chemical industry and rationalizing the shipping industry. It also played a major role in sorting out unhealthy corporations, strengthening the economy as a whole. As financial markets grew rapidly, the Bank entered the Euro-Yen market in 1985 and continued diversifying its funding sources. In 1988, KDB Bank first introduced financial derivatives to Korea and commenced to serve as a representative domestic derivatives house.



PURSUIT TO BE AN INTERNATIONALLY COMPETITIVE INVESTMENT BANK

1990 ~ 1996

KDB Bank started to expand its international and investment banking businesses dramatically, laying the foundation for becoming a globally competitive investment bank. In order to meet increasing corporate demands of foreign currency investments and to secure the stable foreign currency funding environment, the Bank made relentless efforts to obtain its international credit rating, which led to the assignment of AA- from S&P. As a growing number of Korean companies began advancing into the overseas marketplace, KDB Bank combined its accumulated expertise in the field of corporate banking with its healthy international credit ratings to expand its presence in the international banking business. KDB Bank is the first Korean financial institution to enter the Eastern European market, establishing an office in Budapest in 1990. KDB Bank made remarkable progress in serving as a prominent underwriter for syndicated loans and various international project finance deals. In 1990, the Bank started the underwriting business of public bonds which drastically invigorated the domestic bond market. Gradually, KDB Bank widened its business scope by not only giving conventional loans, but also underwriting various corporate bonds such as long term convertible bonds. In 1996, the Bank established a task force undertaking M&A projects to solidify the foundation as an investment bank. Covering broad fields of PF, equity investments, derivatives and more, KDB Bank bolstered itself as the nation's preeminent investment bank.

PIONEERING THE KOREAN FINANCIAL MARKET AFTER THE ASIAN FINANCIAL CRISIS

1997 ~ 2007

As the credit crunch worsened in the aftermath of the Asian foreign exchange crisis, KDB Bank took a series of steps to stabilize the country's financial market and dispel market anxiety. This entailed drastic corporate restructurings and assistance to the government's efforts to foster the growth industries. In 1997, the Bank raised foreign capital of KRW 12.5 trillion, the largest amount ever since its establishment. KDB Bank expanded its measures for a market safety net, and took proactive measures to rehabilitate companies that were still commercially viable. As the corporate bond market began to stagnate from 2000, KDB Bank took a series of steps to stabilize the capital market. They included the underwriting of corporate bonds, the arrangement of securitization of non-performing loans, and underwriting Primary CBOs to help corporations in securing liquidity. In 2003, KDB Bank became the first bank in Korea to launch a consulting business, and began managing private equity funds in 2005.

LEADER IN CORPORATE BANKING AND POLICY FINANCING

2008 ~ Present

In line with the government's mandate to lead the advancement of the country's financial industry, KDB Bank entered into a transitional process towards privatization. However, the global market turbulence and the financial crisis highlighted the need for the Bank's policy financing expertise and experience. The privatization plan was thus withdrawn and KDB Bank acted as a market safety net by providing necessary liquidity to safeguard the market. The Bank participated in the government's "Fast-Track" program to provide the liquidity to SMEs and played a key role in the government-led bond market stabilization fund to ease a growing uncertainty in the financial market. As market conditions continued to deteriorate due to the on-going global financial crisis, the government announced a plan to re-establish the role of policy-banks in August 2013. KDB Bank is now a leading ambassador of the creative economy initiative and an indispensable policy bank in Korea.

KDB Bank was founded in 1954 in accordance with The Korea Development Bank Act for the purpose of supplying and managing major industrial capital to help develop the national economy. For more than a half century since then, KDB Bank has faithfully fulfilled its role as a government-owned bank, anticipating and coping with changes in the economic and financial environment.

CEO MESSAGE

KDB Bank will further solidify its financial stability by improving its profitability and asset quality through profit-oriented qualitative growth.

Dear valued customers,

Thank you for the invaluable support during the past year for Korea Development Bank.

KDB Bank takes on a key role as the nation's top policy finance institution to respond to rapidly changing economic conditions in Korea and abroad.

The privatization plan of KDB Bank was withdrawn following the government's "Plan to Reshape Roles of Policy Banks" in August 2013. Since then, KDB Bank has played a pivotal role in policy finance with a strong commitment to developing new economic growth drivers and leading the advancement of the financial industry. With this regard, the National Assembly passed the revision bill of the KDB Act.

As the nation's leading policy finance institution, KDB Bank is at the forefront of the efforts to build a "creative economy".

In spite of tough market conditions in Korea and abroad in 2013, KDB Bank made every effort to proactively promote a "creative economy" by providing KRW 47 trillion to Korean Businesses with its stable funding capability. Being a vanguard of "the creative economy initiative", KDB Bank has raised KRW 3 trillion in funds specially earmarked for the initiative. To promote the creative economy ecosystem, we also invested KRW 200 billion in the "Growth Ladder Fund" - a dedicated fund created by the government to meet the funding needs of small and medium-sized enterprises (hereinafter "SMEs") and ventures - and about KRW 180 billion to help foster SMEs, ventures, and mid-market companies. In addition to stimulating Korea's corporate bond market, KDB Bank has led preemptive restructuring projects for corporate clients in financial distress by applying its know-how gained over 60 years of corporate banking experience.

KDB Bank leads the "creative economy" drive with continuous innovation and an entrepreneurial spirit while expanding its reach into new markets.

As the most advanced institution in creative finance, KDB Bank focuses its efforts in financing innovative ventures, SMEs and mid-market companies. For example, KDB Bank has pioneered the value of technology of corporate clients for banking purposes and contributed significantly to the IP financing market by establishing "Intellectual Property Funds" for companies with promising technologies and being the first in Korea to introduce "IP collateralized loans".

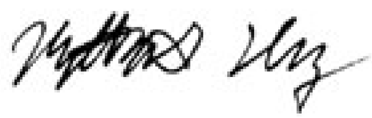
We are continuing with our work of developing new growth engines for the Korean economy and promoting the growth of the country's creative economy by working with Korean companies making inroads into overseas markets. As we strengthen our position in the domestic market, we have reaffirmed our status as Korea's representative bank by actively expanding our global presence focusing on our core competencies, notably project finance, private equity and syndicated loan. We have 82 branches in Korea and 8 branches, 5 subsidiaries and 6 representative offices worldwide.

KDB Bank will further solidify its financial stability by improving its profitability and asset quality through profit-oriented qualitative growth.

Due to a significant amount of non-performing loans resulting from a recession in the shipbuilding, shipping and construction industries in 2013, KDB Bank saw a temporary loss for the first time in 13 years. However, its capital soundness remains more solid than any other Korean financial institution with a tier 1 capital ratio of 12.32% as of the end of 2013. We will continue to grow in 2014 with our valued customers, building a management foundation for sustainable profitability by minimizing loan-loss costs through active risk management and preemptive restructuring of distressed companies and with prudent asset management in a market-friendly manner.

In closing, I would like to say that as we celebrate the 60th anniversary of KDB Bank in 2014, we will continue to serve as the financial engine of Korea's growth driving the creative economy initiative, leading overseas market expansion, and playing a critical role as a market safety net with sustained profitability and excellent manpower. We believe that in the process we will develop as one of the most trusted banks in the global marketplace.

Thank you for your unwavering support and encouragement.



Kyttack Hong
Chairman & CEO
Korea Development Bank

MANAGEMENT & BOARD OF DIRECTORS


Chairman&CEO
Hong, Kyttack


Vice Chairman&COO
Ryu, Heuikyoung


Auditor
Shin, Hyungchul


Independent Director
Kim, Taejoon


Independent Director
Kim, Sangheon


Independent Director
Kang, Cheoljoon


Executive Director
Kim, Sangloh


Executive Director
Sung, Kiyoung


Executive Director
Kim, Youljung


Executive Director
Kim, Sujae


Executive Director
Lee, Haeyong


Executive Director
Min, Kyungjin


Executive Director
Kim, Youngmo


Executive Director
Song, Moonsun


Executive Director
Lee, Daihyun


Executive Director
Jung, Yongho

VISION & STRATEGY

MANAGEMENT STRATEGIES

VISION AND CORE VALUES

The vast array of problems that beset economies worldwide since the global financial crisis made the importance of policy finance strikingly clear. In line with a growing need for redefining the role of KDB Bank, the government announced in August 2013 the "Plan to Reshape Roles of Policy Banks" to ensure that KDB Bank plays a prominent role in providing policy finance.
Accordingly, KDB Bank has set its new vision as "Financial Engine of Korea's Growth, Global KDB". The Bank will contribute to the development of Korea's financial industry and economy by carrying out advanced policy financing activities in a market-friendly manner. The vision also underscores its commitment to further the growth of the national economy and play a leading role in the advancement of Korea's financial industry by taking the fullest possible advantage of its core competence in the fields of corporate and investment banking as it expands its global presence and enhances its international competitiveness.

In order to bring this vision to fruition, the Bank selected five core values - "Trust", "Passion", "Collaboration", "Client Orientation" and "Market Leadership". The original values of KDB Bank - "Trust", "Collaboration" and "Client Orientation" - were kept as they speak to the need for going beyond social responsibility and building a trusting relationship with its clients, carrying out policy financing activities on the most highly advanced level possible through collaboration among colleagues and departments, and understanding the constantly-changing needs of its customers. "Passion" and "Market Leadership" are the newly added values reflecting strong commitment to play a leading role in advancing the country's financial industry with the passion for its clients, organization and the nation's economic development and to pioneer new financial territory with its unique competitiveness.

FIVE MID TO LONG-TERM MANAGEMENT STRATEGIES

The Bank also established five mid to long-term business strategies taking into account market conditions, policy finance demand and private financing conditions, to accomplish its vision. The first strategy is to foster a creative economy by promoting the growth of innovative high-risk businesses such as venture firms and start-ups. The second one is to lead in the advancement of financial services as a breakthrough in the saturated financial market. The third strategy is to reinforce its role as a market safety net in times of financial crisis to constantly cope with financial turbulence going forward. The fourth one is to solidify the foundation for sustainable policy finance by enhancing its profitability. The final strategy is to prepare for the reunification of the two Koreas, and use it as a springboard for even greater economic opportunities.

Mission	CONTRIBUTE TO THE DEVELOPMENT OF KOREA'S FINANCIAL INDUSTRY AND ECONOMY				
Vision	Financial Engine of Korea's Growth, Global KDB				
Management Directive	Advanced policy finance services with a self-sustaining model				
Strategies	1 Promote the creative economy	2 Lead the enhancement of financial services	3 Reinforce the Bank's function as a market safety net	4 Solidify the foundation for sustainable policy finance	5 Prepare for the reunification era
Core values	Trust	Passion	Collaboration	Client Orientation	Market Leadership
Management Policies	Substantial Management	On-Site Management	Transparency	Responsibility	

MANAGEMENT GOAL FOR 2014

A STEP TOWARDS KOREA'S LEADING POLICY FINANCE INSTITUTION

Another step that the Bank has taken to successfully accomplish the five mid to long-term business strategies mentioned previously was to name its management goal for 2014 as reinforcing its status as Korea's leading policy finance institution. Since this will necessarily involve reaffirming its role and creating stable sources of revenue, the Bank is currently building a new policy financing model and developing a sustainable foundation needed to ensure its profitability well into the future.

PLANS FOR 2014

In order to promote the growth of a creative economy, the Bank will add to its level of technology financing and provide comprehensive financial services targeting small and medium-sized venture firms. In addition, it will explore overseas markets to penetrate into new markets with its worldwide franchise by expanding the focus of operations from loan-based financing to comprehensive financial services including consulting and equity investment services. The Bank will also enhance its profitability in the global marketplace and seek out greater opportunities for expanding the usage of the "Korea Won" in international trading.

The Bank will strengthen its function as the country's market safety net by undertaking preemptive corporate restructuring activities. In addition, it will faithfully adhere to its responsibility for providing the market with necessary liquidity and acting as a market stabilizer. The Bank will also work to create a healthy business ecosystem.

The Bank will concentrate on the competence of its employees in solidifying profitable operations and enhancing asset quality through thorough risk management practices.

Another step will be to foster the development of highly-trained and fully professional employees. This will include targeted training and programs with overseas networks, which will add to its competencies in the area of creative economy. Other value-enhancing programs will address such topics as leadership in the field of creative finance and practical business training. These programs will be carried out with voluntary participation of employees to raise their satisfaction.

Last but not least, KDB Bank will start preparing for the reunification of the two Koreas. This will include conducting research on how best to propel the economic development of North Korea in a phased and gradual manner as well as working with overseas institutions to share their experience with the Bank in financing the unification.

Management goal	REINFORCE THE STATUS AS KOREA'S LEADING POLICY FINANCE INSTITUTION
Plans	1 Promote the growth of a creative economy
	2 Explore overseas markets
	3 Serve as a market safety net
	4 Solidify the foundation for profitable operations
	5 Cultivate professional human resources
	6 Prepare for the reunification of the two Koreas

10 YEAR FINANCIAL HIGHLIGHTS

STATEMENT OF FINANCIAL POSITION

(Unit: KRW 100 million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL ASSETS	892,637	922,272	965,107	1,045,233	1,226,159	1,576,127	1,223,334	1,132,055	1,278,744	1,429,976	1,436,075
Cash	17,789	11,923	18,662	14,484	28,938	44,371	29,654	43,626	19,658	26,958	57,103
Securities	280,224	335,302	394,348	461,816	539,886	534,030	316,642	282,009	341,071	328,369	319,587
Loans	474,536	458,488	498,299	507,399	570,319	760,658	747,855	698,929	804,148	910,344	963,084
Other assets	120,088	116,559	53,798	61,534	87,018	237,068	129,183	107,491	113,867	164,305	96,301
TOTAL LIABILITIES	818,608	819,642	817,657	880,171	1,040,292	1,418,974	1,072,227	969,772	1,102,164	1,247,790	1,272,614
Deposits	107,163	89,330	113,220	99,250	96,213	167,685	139,359	189,298	252,223	386,523	377,273
Borrowings	225,036	215,459	208,181	241,636	280,379	316,242	287,480	226,834	258,424	219,775	232,208
Debentures	368,759	401,035	431,639	470,696	562,953	688,608	519,441	441,306	471,967	469,017	559,249
Other liabilities	117,650	113,818	64,617	68,589	100,745	246,439	125,947	112,334	119,550	172,475	103,884
EQUITY	74,029	102,630	147,450	165,062	185,867	157,153	151,107	162,283	176,580	182,186	163,461
Issued Capital	72,419	82,419	82,419	82,419	82,419	87,419	92,419	92,519	92,519	92,519	92,619
Capital Surplus	444	444	444	444	444	444	522	469	444	444	444
Retained Earnings	2,933	12,908	40,277	57,329	70,967	71,780	50,709	61,279	77,961	84,006	67,074
Capital Adjustments	(1,767)	6,859	24,310	24,870	0	0	(13)	(101)	0	0	(1)
Accumulated other comprehensive income	-	-	-	-	32,037	(2,490)	7,470	8,117	5,656	5,217	3,325

INCOME STATEMENT

(Unit: KRW 100 million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Interest Income	28,214	28,471	30,292	36,505	44,790	58,009	53,745	44,091	45,744	50,304	47,666
Interest Expense	26,848	25,289	25,982	32,943	42,384	49,971	44,769	28,040	29,967	32,842	30,361
Net interest income	1,366	3,182	4,310	3,562	2,406	8,038	8,976	16,051	15,777	17,462	17,305
Non interest income	2,524	5,820	2,363	2,339	14,807	8,466	4,423	12,884	9,430	5,686	(4,302)
Fees and commissions	2,442	3,267	2,967	2,286	2,765	2,837	3,714	4,648	5,182	5,407	4,246
Dividend	272	660	513	974	1,445	2,921	4,317	551	1,806	2,503	1,379
Gain on FX/Derivatives	(5,239)	7,492	5,393	2,974	(1,359)	(12,264)	2,068	620	5,146	3,854	2,513
Other income	5,049	(5,599)	(6,510)	(3,895)	11,956	14,972	(5,676)	7,065	(2,704)	(6,078)	(12,440)
Provision for loan loss	6,139	3,151	838	131	1,711	3,281	9,186	11,844	2,081	4,554	16,115
G&A expenses	2,950	3,242	3,568	3,828	4,085	4,322	4,155	4,195	4,994	5,190	5,469
Operating income	(5,199)	2,609	2,267	1,942	11,417	8,901	58	12,896	18,132	13,404	(8,581)
Non operating income	6,943	8,798	22,015	17,704	14,645	(5,175)	7,930	1,648	(270)	(1,451)	(11,052)
Profit before income taxes	1,744	11,407	24,282	19,646	26,062	3,726	7,988	14,544	17,862	11,953	(19,633)
Income tax expense	75	1,432	65	(1,362)	5,586	223	377	4,087	3,738	2,431	(5,159)
Net profit	1,669	9,975	24,217	21,008	20,476	3,503	7,611	10,457	14,124	9,522	(14,474)
Other comprehensive income	-	-	-	-	–	–	–	–	(1,895)	(438)	(1,892)
Total comprehensive income	-	-	-	-					12,229	9,084	(16,366)

Financial data is on separate and non-consolidated basis.

2013 NEWS HIGHLIGHTS

1

Reinforced policy financing role

In accordance with the Financial Services Commission's plan announced on August 27 to reshape roles of policy banks, KDB Bank will re-merge with Korea Finance Corporation (KoFC). At a press conference held on August 28, the bank pledged its commitment to comply fully with the government's policy and carry out a smooth integration in collaboration with KDB Financial Group and KoFC. The government's plan was designed to consolidate redundant and overlapping domestic policy functions of the country's policy finance institutions, resulting in a much more efficient financial support system.

In its role as the nation's leading policy finance institution, KDB Bank will actively provide financing for Korea's creative economy, play a leading role in corporate restructurings, make up for market failures, and maximize any and all synergies resulting from the integration. It will also take whatever steps are necessary to ensure that there is no vacuum during the integration process.

2

Spearheading the "creative economy"

In line with the government's creative economy initiative, KDB Bank formed the"creative economy financing scheme" worth of KRW 3 trillion through which it provided comprehensive financial and free-of-charge consulting services for high tech industries, knowledge service industries and enterprises with outstanding R&D capabilities. In the third quarter, the Bank invested in the government's "Growth Ladder Fund" intended to create an ecosystem that promotes the creation of startups and the growth of SMEs. Other funds were also established for ventures and SMEs attracting foreign investments and making inroads into overseas markets.

3

Korea's first IP collateralized loans

KDB Bank began offering Korea's very first IP backed loans for SMEs. In September, the Bank provided loans worth KRW 6.7 billion that were secured by the intellectual properties of five SMEs. The Bank and the Korean Intellectual Property Office (KIPO) are working together to provide IP valuation services and offer financial instruments using intellectual property rights as collateral. These new loan programs also have features to help protect against losses. For example, when the borrower fails to repay the loans that are secured by its patents, the Bank would sell the borrower's patents to a separately created patent management company, which would recover losses by re-selling or licensing the patents.

4

First Korean bank to invest in IPs

KDB Bank formed an IP fund named "KDB Pioneer IP Fund" in January with funding of KRW 100 billion to invest in IPs owned by small and medium-sized enterprises. The Bank became the first financial institution in Korea to directly invest in IP assets such as brands and trademarks. The targets of the first investment amounting to KRW 10 billion were the eighty-eight domestic and foreign trademarks owned by Codes Combine, a medium-sized Korean clothing company. Codes Combine, which was established in 1995, is a specialty retailer of private label apparel (SPA), which owns a number of famous brands such as Codes Combine, Maru, ONG and Noten. The Bank's investment was done in the form of the "sale and license back" model where the company sold its IPs to the Bank's IP fund and licensed them back, paying licensing fees to the fund.

5

Established Korea's first-ever global infrastructure fund of funds

On November 26, KDB Bank entered into an agreement with Samsung Life Insurance, Kyobo Life Insurance, and NongHyup Life Insurance for joint investment in overseas infrastructure projects through a fund of funds. The USD 500 million global infrastructure fund was created to promote overseas construction and plants exports to invigorate Korea's construction industry. The targets of investments are "brown field" projects (i.e. projects on existing facilities). Investments are made on a project basis, and KDB Bank leads the steering committee of the fund of funds.

6

Raising of Korea's largest power energy infrastructure fund

On June 14, KDB Bank, KDB Infrastructure Investments Asset Management Company (KIAMCO), and a number of major domestic institutional investors entered into a KRW 2.45 trillion investment agreement for the KIAMCO Power Energy Fund III. As the largest infrastructure fund ever established in Korea, it invests in key power generation projects both in Korea and abroad, including coal thermal power generation, LNG combined-cycle thermal power generation, renewable energy power generation, and cogeneration. KDB Bank is in charge of financial consulting and arrangements for all power generation projects, while KDB Infrastructure Investments Asset Management Company acts as a financial investor.

7

Launching of KDB Bank Uzbekistan

On March 25, KDB Bank successfully completed the integration of UzKDB, its subsidiary in Uzbekistan, with RBS Uz, which it had acquired in 2011, giving start to KDB Bank Uzbekistan (KDB Bank Uz), the seventh-largest lender and the biggest foreign-owned bank in Uzbekistan in terms of assets. KDB Bank Uz boasted assets worth USD 940 million and capital stood at USD 67 million as of end-February 2013. It is expected to serve as a major springboard for KDB Bank's future operations in Central Asia.

8

Development financing know-how successfully exported to the Development Bank of Mongolia

On July 30, KDB Bank signed an advisory contract with the Development Bank of Mongolia (DBM). The Bank previously entered into a management agreement with DBM in August 2011, to provide it with comprehensive managerial services. After two years of successful management, DBM's fundraising, fund operations, and IT system had improved to such an extent that it was deemed able to manage its development financing activities by itself. As a result of this success, the contract between the two banks changed to an advisory contract. This breakthrough is meaningful as it demonstrates the Bank's prowess in development financing and allows the Bank to participate in development projects with DBM, which the Bank had not been able to do previously due to a perceived conflict of interest.

9

Issuance of Dual-Tranche 3 and 5-year global bonds worth USD 1 billion

Even though the confidence levels of international investors had been subdued due to the negative effects of a credit crunch, KDB Bank still proved successful in its issuance of USD 1 billion in global bonds on January 10, reaffirming the credibility of KDB Bank to the world market. This move was especially significant in that the Bank made further inroads into foreign capital markets at a time when Asian financial institutions had been experiencing difficulty attracting foreign currency investments.

10

Opening of KDB Financial University, the very first internal corporate university in the Korean financial sector

The opening and entrance ceremony of KDB Financial University, the very first internal corporate university in the country's financial sector, was held on February 23. KDB Financial Group, the Minister of Education and Science Technology, and the Vice President of Korea National Open University were among those who were invited to the ceremony. Some of the goals of the new university are to offer innovative vocational education, produce brilliant graduates with excellent financial knowledge who would contribute to the advancement of Korea's financial market as well as the national employment growth, and maximize employee welfare.

As the nation's leading policy finance bank, KDB Bank is at the forefront of the efforts to lay the foundation for the "creative economy". The Bank will lead the advancement of Korea's financial industry with an accumulated expertise in corporate and investment banking.

AREAS OF EXPERTISE

POLICY ROLE

As the nation's leading policy finance institution,
KDB Bank has played a key role in promoting the nation's creative economy.

Solidifying the foundation for the creative economy

In its role as the nation's leading policy finance institution, KDB Bank is building a comprehensive system for fostering a creative economy in line with the government's overall economic policy. This includes investing KRW 600 billion in the government's Growth Ladder Fund and launching a KRW 3 trillion creative economy financing scheme for industries and enterprises related to the creative economy such as the convergence industry, the knowledge service industry, and enterprises with a proven record of excellence in R&D. Moreover, the Bank is consistently promoting the creation of an ecosystem for the growth of venture firms and SMEs through various funds as well as direct and indirect investments. In addition to that, Techno-banking activities are used to provide customized funding for technologies with a special focus on intellectual properties.

SIZE OF KDB BANK FUND EARMARKED FOR THE CREATIVE ECONOMY
(Unit: KRW billion)

4,150

Credit Extended by KDB Bank for the Creative Economy as of Year-End 2013

1. KDB Bank Funds

(Unit: KRW billion)

Title	Size of Fund	Used Amount
Creative Economy Financing Scheme (launched in June 2013)	3,000	1,133
Techno-Banking	150	150
Pioneer Program	1,000	674
Total	4,150	1,957

- Creative Economy Financing Scheme: provides investments and loans for SMEs and MEs that can promote a creative economy
- Techno-Banking: provides customized funding for technologies at different stages of their commercial development, with a special focus on intellectual properties
- Pioneer Program: offers investments and loans to future-oriented start-ups, SMEs and MEs

2. External funds for policy finance

(Unit: KRW billion)

Title	Size	KDB Committed
Growth Ladder Fund (based on amount raised in 2013)	2,000	200
Overseas Expansion Investment Fund	195	19
Creative Service Industry Investment Fund	45.5	6.5
ME M&A Support Fund, etc.	368	38.5
Total	2,608.5	264

Serving the funding needs of ventures

KDB Bank has been continually active in expanding the size of Korea's venture investment market and creating a healthy ecosystem for ventures. It began investing in ventures in 1998 to respond to their demand for direct financing and has fostered their development with proven financing expertise via diverse investment vehicles including direct equity investments, VC funds and equity-linked bonds. Despite its late commencement in the field, KDB Bank's abilities to promote the startup of venture companies based on the experience of business review and technology analysis significantly contributed to touching off an investment boom.

Enhancing the competitiveness of Techno-banking

KDB Bank established the Technology Banking Department in September 2012 in order to deal with the rapidly changing corporate and financial environment more effectively and efficiently. Services provided by the department include evaluation, transfer brokerage and commercialization of technologies. Techno-banking helps create an ecosystem where technologically innovative startups can grow into SMEs and mid-sized companies.

In 2013, the Bank launched a series of IP-based financial products, including IP Funds and IP-backed loans. It also established a Creative Business Incubation Program with technology-related agencies such as Technopark and the INNOPOLIS Foundation. It provided a total of KRW 150.4 billion in Techno-banking, firmly establishing itself as a vanguard of the creative finance initiative in Korea. In 2014, the Bank plans to provide about KRW 200 billion for companies commercializing their IPs. The Bank will also extend its operations beyond Korea to carry out Techno-banking services in cooperation with leading overseas financial institutions.

NEW INVESTMENTS AMOUNT TO VENTURES
(Unit: KRW 100 million)

1,366

New investments in small and medium-sized ventures by growth stage

(Unit: KRW 100 million)

	2013		2012	
	Number of companies	Amount	Number of companies	Amount
3 years or less	4	55	20	795
More than 3 years	17	330	11	204
More than 7 years	37	981	36	817
Total	58	1,366	67	1,816

CORPORATE BANKING & RESTRUCTURING

As Korea's most reliable market safety net and corporate banking provider, KDB Bank has been the driving force of Korea's economic growth through customized financial services and preemptive corporate restructurings.

KDB Bank contributes to the strengthening of corporate banking in Korea by developing new financial instruments and providing its clients with a wide array of customized services. The Bank plays a significant role as a market safety net by promoting the creative economy, managing non-performing loans, and guiding enterprises undergoing restructuring and normalization programs. It also seeks to boost the economy by financing SMEs and MEs, which are the major sources for future growth. The Bank's endeavors include supplying them with a wide range of financial programs, including the Creative Economy Financing Scheme, the Pioneer Program, Shared Growth Loans, the Facilities Investment Fund, and Techno-banking.

LOAN AMOUNTS TO SMEs
(Unit: KRW billion)

18,849

Supporting the growth of the national economy

KDB Bank supplied to the market KRW 42.6 trillion in 2012 and KRW 46.9 trillion in 2013 of which KRW 23.8 trillion was made available to SMEs and MEs. This was a result of the Bank's ongoing efforts to strengthen its relationship with corporate clients via a comprehensive portfolio of products. The Bank also launched a matching fund called 'Shared Growth Loans' in partnership with a number of large enterprises to provide small businesses with greater access to low-cost capital and foster shared growth between big and small firms. As of the end of 2013, fourteen large corporations had signed a shared growth agreement with the Bank. A fund totaling KRW 1,405 billion was then established, and a total of KRW 843.7 billion was provided to 444 of their small-business suppliers.

Fostering the growth of SMEs in the global market

KDB Bank works with SMEs that have high growth potential, nurturing them into strong global enterprises through such programs as the Promising SME Selection Program and the Global Star 200 Project. In 2013, the Bank concentrated its efforts on a selection of special funds, namely the Pioneer Program, the Facilities Investment Fund, and Plant Site Procurement Loans to develop a more systematic financing mechanism for fostering small businesses. In addition, it used its Management Stabilization Support Fund and Fast Track Program to provide timely liquidity for companies to get back on track and avoid bankruptcy.

Funds supplied to SMEs and MEs

(Unit: KRW trillion)

	2010	2011	2012	2013
Total amount (A)	33.8	36.2	42.6	**46.9**
Financing amount to SMEs and MEs (B)	18.5	19.9	21.5	**23.8**
Proportion (B/A)	54.7%	55.0%	50.5%	**50.7%**

Preventing financial crises by means of restructuring

KDB Bank has been focusing on the importance of preemptive corporate restructuring in order to prevent potential financial distress. In order to normalize the corporate bond market, the Bank is taking a significant role in the refinancing of corporate bonds offered by companies that are suffering from a temporary shortage of liquidity. In addition to that, credit exposures on some cyclical industries, which are expected to experience a recession for an extended period of time, were closely reviewed and recently transferred to a special task force within the Corporate Banking Department for more intensive management.

Stronger role as a market safety net

KDB Bank acts as the financial market safety net by managing non-performing loans and normalizing the operations of enterprises undergoing early-stage restructuring. In the case of small and medium-sized companies that are still suffering from the ongoing recession and are in urgent need of restructuring, the Bank's remediation endeavors take into consideration the unique management conditions of each enterprise and the implication to the economy as a whole. Based on strict market standards, every effort is made to minimize any damage to the industry and economy as well as to normalize the company's operations.

NUMBER OF CORPORATE CLIENTS
(Unit: company)

6,198

NUMBER OF SMEs
(Unit: company)

4,013

Special Funds

(Unit: KRW billion)

Product Title	2012	2013
Creative Economy Financing Scheme	(Established in June 2013)	**1,133.1**
Pioneer Program	1,299.8	**674.1**
Techno-Banking	47.0	**150.4**
Shared Growth Loans *	398.2	**843.7**
Loans for Blue-Chip Companies	2,993.6	**6,822.3**
Facilities Investment Fund	500.0	**991.8**
Loans for Procurement of Plant Site	791.4	**447.6**
Special Facilities Fund for Strategic Areas	2,587.4	**2,918.2**
Operating Fund for Preferential SMEs	1,406.2	**1,253.1**
Operating Fund for Preferential MEs	(Established in March 2013)	**514.3**
Management Stabilization Support Fund	74.9	**112.1**
Total	10,098.5	**15,860.7**

* This refers to the total value of shared growth loans from the date of inception in May 2011.

INVESTMENT BANKING

KDB Bank is the only bank in Korea that possesses a license in securities arrangement and underwriting.

Carrying out the government's 'Corporate Bond Market Normalization' Policy

The reluctance of investors in subprime bonds after the financial crisis of 2008 gradually extended to A credit rated bonds following a series of credit events at some large corporations at the end of 2012, aggravating the bipolarization of the corporate bond market. KDB Bank played a leading role in normalizing the corporate bond market by settling with related agencies and supervising the operating procedures of the Refinancing Review Committee. In 2013, the Bank refinanced KRW 396 billion worth of maturing corporate bonds.

In 2013, the Bank also took advantage of its expertise in the area of structured finance to supply a total of KRW 2.6 trillion to fourteen companies that were vulnerable to deteriorating economic conditions. This initiative permitted to alleviate the burden of companies suffering from a temporary shortage of liquidity and thus enabled KDB Bank to safeguard the market.

THE REFINANCED AMOUNT OF CORPORATE BONDS
(Unit: KRW billion)

396

Diversifying the Bank's revenue sources through new product development

Despite unfavorable market conditions worldwide, KDB Bank moved to meet the varied needs of its customers by developing a series of new financial products. It also assisted in the export of domestic capital by becoming the first financial player in Korea to arrange for the issuance of securitized Arirang Bonds amounting to KRW 110 billion for the Singaporean subsidiary of E-land. It also helped cyclically vulnerable industries to regain credibility in the financial market by arranging for the issuance of public offering Bonds with Warrants. The Bank laid the foundation for expanding its business scope in the equity capital market by successfully arranging for the issuance of various mezzanine products.

Corporate restructuring activities and overseas M&As

In 1996, KDB Bank became the first Korean bank to take part in M&A activities. Since then, it has led the country's M&A advisory market by providing a wide range of services, from consulting to acquisition arrangements. In 2013, for example, KDB Bank assisted in remediating the financial structure of Dongbu Farm Hannong, worth a grand total of KRW 350 billion., It also provided advisory services for the sale of STX Energy to Orix at KRW 270 billion as part of the normalization process of the STX Group, and carried out the KRW 230 million refinancing of Kumho Bus Lines.

The Bank also excelled in cross-border M&As by participating in the sales advisory process of Steinway's stocks owned by Samick Music Corporation and the purchase of GNS BHC by Citi Venture Capital International. In addition, KDB Bank increased the number of M&As involving SMEs by arranging Hahn and Company's KRW 81.6 billion worth acquisition of COAVIS, and collaborated with leading overseas financial institutions such as Nomura and Permira to expand its global footprint in the M&A business.

In 2014, KDB Bank predicts a rise in M&A deals for business reorganization and corporate restructuring. The Bank will focus on M&A deals that can help safeguard the market and assist the growth of ventures and SMEs.

With unrivaled competencies in areas such as M&A, Project Finance and Private Equity, KDB Bank plays a leading role in the market and spearheads the advancement of the Korean financial industry.

In particular, the Bank aims to prevent the spillover of insolvency by proactively restructuring marginal enterprises. It also seeks to invigorate the M&A market by attracting investors and by arranging cross-border M&As for venture firms and SMEs. The Bank works to reduce the debts of public corporations by helping their assets sales and recover public funds by way of selling its invested companies.

Playing a leading role in the global project finance market

KDB Bank played a pivotal role in introducing project financing to Korea by successfully arranging the first PF deal for the Incheon International Airport Highway construction project in 1995. Since then, it has become the leader of Korea's PF market, with a special focus on large-scale social overhead capital (or SOC) projects. KDB Bank has also been instrumental in pioneering private development and regional development PFs by arranging over 355 deals amounting to KRW 68.9 trillion.

In 2013 the Bank carried out financial arrangements worth KRW 10.4 trillion for a total of forty-six PF deals. This best-ever performance put the Bank at the ninth place in Dealogic's Global PF ranking and top place in the Global PPP/PFI PF category.

1ST
IN GLOBAL PPP/PFI PF LOANS

KDB's Project Finance League Table

Classification	2010	2011	2012	2013
Global PF Loans	11	18	6	9
Global PPP/PFI PF Loans	1	2	2	1
Asian PF Loans	6	6	2	2

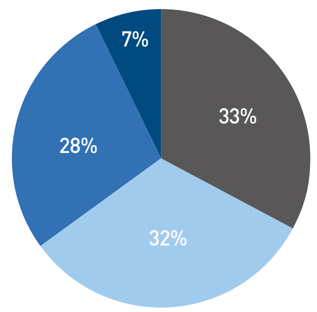
Source: Dealogic

2013 Global PPP/PFI Project Finance Loans Market Share

Rank	Mandated Lead Arranger	% Share
1	Korea Development Bank	4.9
2	Mitsubishi UFJ Financial Group	4.5
3	Sumitomo Mitsui Financial Group	4.3
4	National Australia Bank	2.9
5	Commonwealth Bank of Australia	2.6

* PPP: Public Private Partnership / PFI: Private Finance Initiative
Source: Dealogic

Arranged PF Deals by segment in 2013

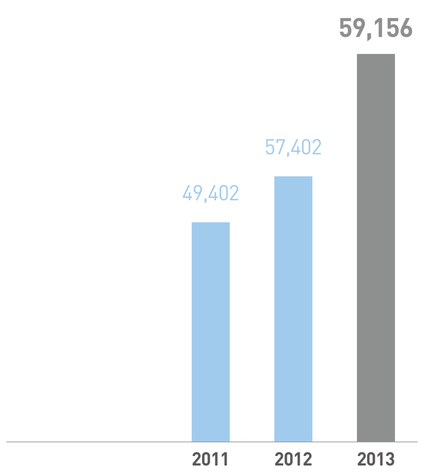


SOC	KRW3.4 trillion
Power generation/energy	KRW3.3 trillion
Regional development	KRW2.9 trillion
Overseas	KRW0.8 trillion

Providing One-stop PF services

KDB Bank provides its clients with a wide range of financial services as a financial advisor, arranger or agency bank according to the development stage of the project finance. Its expertise is focused on SOC projects such as construction of roads, railroads, ports or educational and environmental facilities, and extends to private development projects such as combined-cycle power plants, coal-fired power plants and renewable energy projects. It also participates in overseas PF projects for plant and resource development and regional development projects such as industrial complexes and new town development. KDB Bank offers one-stop financial services including mezzanine financing, debt financing, derivatives, and consulting.

Asset Under Management
(Unit: KRW 100 million)



Korea's Leading PE House

KDB Bank began managing private equity funds in 2005. After launching a full-fledged PE Center in 2012, the Bank now manages eleven funds with a combined value of KRW 5.9 trillion accounting for 13.4% of the total domestic market (Year-end 2013), reaffirming its position as a top-tier PE House in Korea.

The Bank established a KRW 300 billion private equity fund, to discover overseas investment opportunities in cooperation with Hanwha Group. Moreover, the Bank was selected as the fiduciary asset manager of the KRW 500 billion National Pension's Corporate Partnership Program (CPP) looking for global investment potential with Lotte Group. With Dongwon and SK Group funds under its management as well, KDB Bank is the only institution selected as the asset manager of three National Pension CPPs.

In 2013, KDB Bank's total investment volume was down to KRW 127 billion due to a widespread economic recession, but KDB Bank was able to invest KRW 102 billion in overseas markets. The Bank was also able to diversify its investment portfolio, ranging from resource development projects overseas including the one in Canada to various projects in emerging markets, such as Indonesia and China.

In addition, it fostered the development of new growth industries including software development which helped improve the R&D and financial structures of SMEs and venture firms.

Going forward, KDB Bank will continue to support the creative economy by investing in new growth industries and innovative SMEs. Expanding its businesses worldwide, the Bank will strengthen the foundation for a healthy corporate ecosystem through market-friendly policy financing and investments.

INTERNATIONAL BANKING

Expanding its presence worldwide, KDB Bank endeavors to pave the way for sustainable development and aspires to be an international market player both nominally and virtually.

Global network expansion

With decades of accumulated experience and a vast global network, KDB Bank provides its customers with a wide range of financial services encompassing cross border financing arrangements, foreign currency transactions, derivatives trading and import & export financing.

As such, KDB Bank is taking various steps to add to its presence in the overseas marketplace as a means of laying the foundation for sustainable development.

In 2013, the Bank proactively expanded its global network with a primary focus on regions having great potential for growth and flourishing Korean businesses. More specifically, KDB Bank opened the Osaka office (January), Shenyang branch (April), Yangon office (June), and Bangkok office (November) in Asia; KDB Bank Uzbekistan (March) in Central Asia; the Abu Dhabi office (January) in the Middle East; and the Moscow office (July) in Eastern Europe. In September 2013, KDB Bank Europe, a subsidiary of KDB Bank opened a branch in Bratislava, Slovakia.

In 2014, KDB Bank will continue supporting Korean businesses with their overseas expansion efforts, taking the lead in advancing into areas less known to domestic banks and collaborating closely with global financial institutions through strategic alliances.

GLOBAL NETWORK

BRANCHES	8
SUBSIDIARIES	5
OFFICES	6

Assisting in the development of the derivatives market

KDB Bank is the only indigenous bank among the top 10 derivatives trading houses in Korea (Year-end 2013). Its derivatives transaction volume climbed by 18% from KRW 318 trillion in 2012 to KRW 374 trillion in 2013 and accounted for 6% of the total domestic market share, ranking number five amid forty-six competing market participants. As a result, KDB Bank was awarded the 'Derivatives House of the Year' for two consecutive years by Asia Risk.

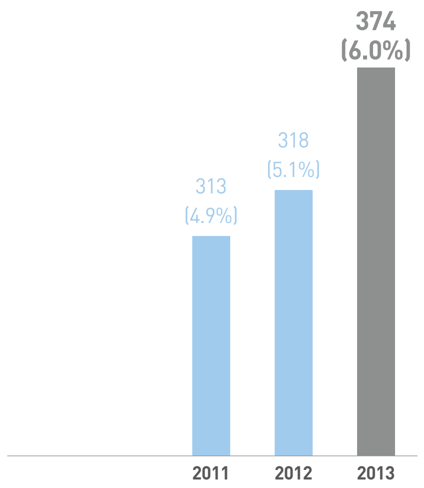
Surge in foreign currency securities transactions

Beginning with the management of Bank of Korea's entrusted funds in 1988, KDB Bank's transaction amount in foreign currency securities went up dramatically from USD 1 million in 1986 to USD 886 million in 1990 and USD 7,276 million in 2006.

In 2009, the Bank obtained the Qualified Foreign Institutional Investor license in China and in 2010, it established a 24-hour short-term foreign currency securities trading system to strengthen its security transaction platform.

KDB Bank contributes to the stabilization of the domestic foreign currency bond market by proactively underwriting Korean issuance of foreign bonds.

Derivatives transaction volume
(Units: KRW trillion, market share %)



Augmented money market transactions and foreign currency liquidity

KDB Bank helps maintain the stability of foreign currency funding by securing sufficient money market lines, while it generates revenues from investing in monetary stabilization bonds and foreign currency commercial papers.

In response to such changes in the financial regulatory environment as the imposition of the Basel III regulations and the Korean government' macroprudential stability levy, KDB Bank is making every effort to attain greater stability in money market transactions and its foreign currency liquidity level to safeguard the market in case of crisis.

As a result, its foreign currency money market transactions rose from USD 4.4 billion in 1984 to USD 103 billion in 2000 and USD 309.8 billion in 2003.

Stable medium to long-term foreign currency funding

Despite the global market turbulence caused by the Asian emerging market uncertainty and US moves toward tapering quantitative easing, KDB Bank has established itself as a representative bond issuer in Korea by making successful public offerings at competitive price levels. In 2013, the Bank diversified its funding sources by entering the EUR denominated bond market for the first time in seven years, and attracted high credit quality investors including international organizations, central banks and pension funds.
In order to promote overseas business expansion, KDB Bank will continuously provide the necessary foreign currency capital from adequate funding activities and play a leading role in the domestic public offering market.

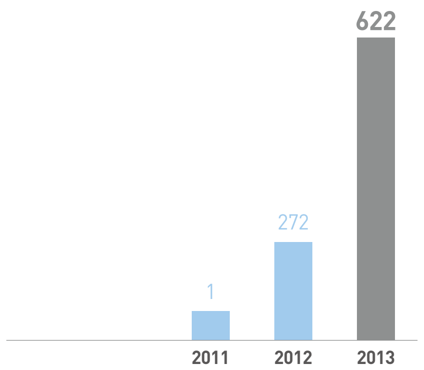
Moving into trade financing markets in emerging economies

In 2013, KDB Bank became the first Korean bank to sign trade finance agreements with the International Finance Corporation and Asia Development Bank for its continuing advance into overseas trade finance markets. Based on such strategic international partnerships, KDB Bank provided credit guarantees to three South American banks, and RMB trade financing worth USD 500 million to Chinese banks on a risk-sharing basis.

In 2012, KDB Bank adhered to Risk Participation Programs with major global banks to expand its trade finance business in emerging markets such as China and India. Consequently, the Bank's purchases of trade finance assets in the developing world jumped by 230% over the previous year. KDB Bank will continue to strengthen its cooperation with global financial institutions and diversify its revenue sources in the international market.

AWARDS
- Received the 2013 Deal of the Year Award (RMB Trade Finance Deal)from Trade Finance Magazine
- Received the 2013 Best New Partner Award from the International Finance Corporation

Amount of trade finance under the Risk Participation Program
(Unit: USD million)



Foreign currency securities transactions

(Unit: USD million, number of transactions)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Amount	1,236	2,344	3,942	3,891	2,345	1,304	2,343	3,484	3,514	4,769
Transactions	428	656	1,019	1,081	663	401	675	992	1,019	1,719
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Amount	9,204	6,593	7,276	4,826	899	2,399	3,103	2,095	2,101	2,185
Transactions	2,582	2,098	2,305	1,236	851	742	1,260	1,320	1,037	585

Short-term foreign currency money market transactions

(Unit: USD 100 million, number of transactions)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Amount	291.7	598.0	845.4	1,255.2	1,169.4	1,436.4	1,030.0	1,051.6	915.3	1,271.4
Transactions	2,573	4,611	5,516	6,676	3,854	3,024	2,517	2,676	2,406	3,283
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Amount	1,108.8	1,328.8	1,996.2	2,168.7	2,353.2	1,986.3	1,646.6	1,000.2	1,803.0	3,097.6
Transactions	3,323	3,307	4,104	4,112	4,299	4,001	3,128	2,183	2,802	3,297.

PENSIONS AND TRUSTS

With a strong commitment to promote the sound growth of Korea's pensions and trusts, KDB Bank has constantly polished up its asset management capabilities.

One of Korea's Top Ten Players in Retirement Pensions

KDB Bank kicked off its retirement pension business in 2006 with the goal to contribute to the development of Korea's retirement pension industry. By using its know-how on long-term asset management from its sixty years of corporate banking experience, the Bank was ranked tenth out of forty-seven domestic retirement pension operators and seventh among the country's banks in 2013.

As one of the most trusted banks in Korea with 60 years of experience, KDB Bank is committed to contribute to the sound growth of Korea's retirement pension market. To this end, it will continue to strengthen its efforts in protecting workers' rights to receive adequate severance pay and securing the stable management of retirement pension assets.

RESERVES FOR RETIREMENT ALLOWANCES
(Unit: KRW 100 million)

28,447

The Bank's Reserves for retirement allowances over the past five years

(Unit: KRW 100 million)

Year	2009	2010	2011	2012	2013
Reserves for retirement allowances	5,542	8,856	17,968	24,046	28,447

Trust asset balance

(Unit: KRW billion)

Business segment	Year-end 2012	Year-end 2013	% Increase
Property trust	7,679	7,854	2.3%
Money trust	1,688	1,895	12.3%
Custody	12,330	14,018	13.7%
Total	**21,697**	**23,767**	**9.4%**

Creative economy funds under custody

(Unit: KRW billion)

Fund name	Commitment
Growth Ladder Fund	71
Future Creation Fund	140
R&D Biz Fund	103
Overseas Expansion Support Fund	400
IP Fund	70
Total	**784**

Outbound assets under custody

(Unit: KRW billion)

Fund name	Commitment
Surgil Overseas PF	2,765
DI Overseas Perpetual Bonds	556
Overseas Hedge Fund	67
Total	**3,388**

Laying the foundation for a safe and stable trust business

Our trust business provides both corporate and retail customers with a variety of opportunities for managing their surplus funds. KDB Bank started its trust business in 1989 with money trust products, adding the property trust segment in 2000 and the custody business segment in 2003. The Bank was selected to manage the surplus funds of the Ministry of Strategy and Finance from 2010 onwards, and it set up the 'KDB Global Custody System' in 2012. In addition to managing the custody of creative finance funds since 2013, the Bank continues to increase its custody business every year.

In 2014, KDB Bank plans to enhance the profitability of its trust business by expanding the volume of assets under custody. Also, it will grow into a specialized bank for the custody of funds earmarked for investment in the creative economy and continuously expand its global operations by reinforcing the global custody business.

RETAIL BANKING

KDB Bank will continue to provide convenient retail banking services to its valued customers and develop innovative products satisfying their needs.

Despite the market's continuous pressure for lower interest rates, KDB Bank saw its deposits increase by KRW 200 billion to KRW 35.3 trillion over the previous year thanks to a KRW 1.3 trillion rise in deposits from the retail business. It also gained 90,000 new customers through 'KDBdirect', its internet-based deposit product. In addition, the Bank extended its low-interest funding sources by increasing Money Market Deposits Accounts through the launching of 'KDB Bank Check Card' and 'Nest-Egg Savings'.

Revamping Internet banking and other web-based systems

KDB Bank revamped all its web-based banking systems with the renewal of its website, Internet banking and retirement pension systems during the period of May 2012 to November 2013. For the purpose of maximizing customer convenience and access, the changes made included adding the latest in web technology trends in terms of user-oriented menus and design, as well as improved speed and security. Smart phone banking applications were also added to provide users with a truly ubiquitous banking service.

In 2014, KDB Bank plans to provide retail banking services conformant to the role and identity of a policy finance institution, for example by extending loans for microenterprises to boost job creation and domestic demand.

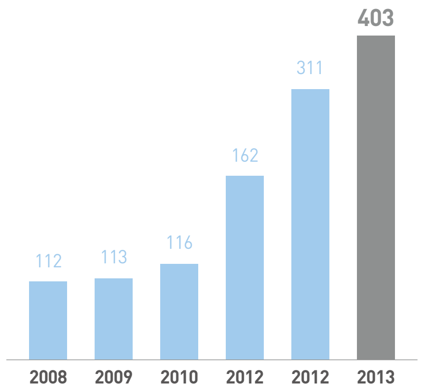
Developing customer-friendly products

In March 2013, KDB Bank launched its first check card, 'KDB Bank Check Card', with the intention to respond to the government's debit card invigoration policy, meet the increasing customer demand for check card services and expand KDB Bank's long-term customer base. It also launched 'Nest Egg Savings' on March 21 to help workers and self-employed persons save up for their future. The Bank was able to sell KRW 6.9 trillion in only just nine months.

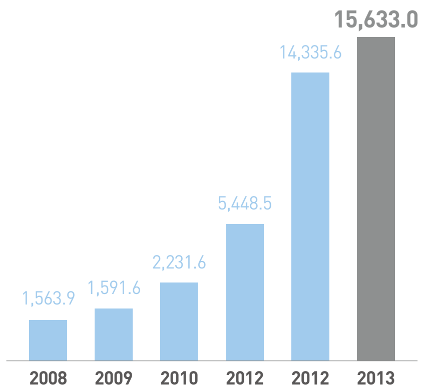
Efficiently operating retail deposits

KDB Bank plans to maintain its local currency deposit amount at a level similar to the previous year as a complementary means of funding, as opposed to the more volatile foreign currency deposits and bonds. Furthermore, the Bank will innovatively create customer-friendly products such as 'Hybrid Check Cards' to strengthen its retail base. The Bank will also foster 'KDB Shared Growth Accounts', to increase corporate deposits and to flexibly manage interest rates with the aim of lowering its funding costs.

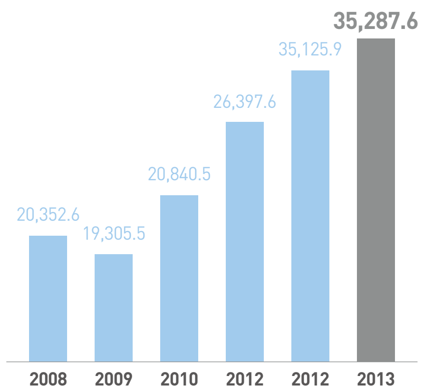
Number of retail customers
(Unit: 1,000 persons)



Retail deposits
(Unit: KRW billion)



Deposits in Korean won
(Unit: KRW billion)



RESEARCH & CONSULTING

KDB Bank's core competencies stem from perceptive and insightful research combined with the optimal consulting services delivered to its clients.

Enhancement of research strength

KDB Bank publishes in-depth research on the economy, finance and industry in order to assist in the decision making process throughout the Bank. These research papers support the overall loan process from marketing to post loan review. Some key research projects include the "Growth potential of the contents industry, a government policy initiative", "Impacts of expanding global marine plants to the Korean shipping industry", and periodical papers such as the "Weekly Research and Analysis Briefs" to help the Bank's management take preemptive measures in keeping ahead of changes in the marketplace.

KDB Bank produces industry evaluation reports every six months to constantly monitor changes in various industries. In particular, ten major industries are selected, for which their industry trends and analyses are provided in the "Key Industries Guidebook".

KDB Bank shares a variety of information exchange networks built on MOUs with other domestic and overseas research institutions. The Bank also publishes the "Economic developments review by country", a report that evaluates the business conditions and growth potential of target countries to assist in the Bank's expansion strategy and its overseas operations. The Bank's major research works include the periodic "KDB Monthly Bulletin", an in-depth study on the whole financial, economic and industrial climate. The "KDB Bank 2014 Economy, Finance and Industry Forecast" provides a comprehensive outlook on the Korean and international economy.

Optimal solution delivery

Ever since its establishment in 2003, KDB Bank's Consulting Service Department has provided a total consulting service covering management, finance, overseas expansion, business creation, in-house consulting, corporate restructuring and more. Professional consultants combine their rich experience with the Bank's resources and expertise to deliver the most optimized solution to its corporate clients.

NUMBER OF CONSULTING PROJECTS OVER A DECADE

631

Corporate consulting specialist

Based on sixty years of experience in corporate banking, KDB Bank's consulting services provide managerial and financial strategies as well as overseas and public project consulting. In 2013, the service scope was expanded to include funding and auditing strategies, thus enhancing the Bank's expertise in these fields. KDB Bank assists the globalization efforts of domestic firms by consulting them, with overseas expansion strategy in manufacturing, for example. Last but not least, the Bank's consultation works include African agricultural financing.

Policy role

Since March 2013, KDB Bank has been carrying out the "KDB Jump up ME consulting" program, a free consulting service for SMEs. In April, the Bank also launched the "KDB Value-up Consulting" initiative, an in-house consulting initiative to help the Bank manage exposure risks to large conglomerates and boost their business invigoration. All of these steps were taken to nurture the creative economy.

Consulting performance

(Unit: Number of projects)

Year	Consulting topic: Management & finance	Public sector & development	Overseas	Business creation	In-house	Workout	Total
2003~5	28	13	3	58	-	-	102
2006	2	6	5	50	3	-	66
2007	4	6	4	52	2	-	68
2008	9	7	4	29	6	-	55
2009	34	6	4	17	4	-	65
2010	34	12	5	8	8	-	67
2011	37	12	2	5	10	6	72
2012	17	20	3	2	12	12	66
2013	30	11	2	7	14	6	70
Total	195	93	32	228	59	24	631

With fierce competition among financial institutions and a strict regulatory environment, the domestic economy suffered a slowdown in almost all fronts. This dire situation calls for KDB Bank to constantly innovate itself with substantial, transparent and responsible management.

SUSTAINABLE DEVELOPMENT

HUMAN RESOURCES MANAGEMENT

KDB Bank's passion is projected on its efforts to develop the oncoming generation of leaders by offering them a wide range of training and education opportunities.

KDB Bank is working to become the "Financial Engine of Korea's Growth, Global KDB" by fostering creative finance professionals who thrive on challenges and market changes. This includes hiring outstanding employment candidates with exceptional potential through a transparent and equitable process and offering them a wide range of training and education opportunities that will enhance their global competitiveness.

SHARING CORE VALUES AND ENCOURAGING LEADERSHIP

Every year, KDB Bank holds the Value Sharing Workshop for all its employees to share the Bank's vision and encourage the development of an innovative organizational culture. The Bank also invites guest speakers from various professions and walks of life to hold 'Insight Lectures' which provide deep insight and inspire the convergence of ideas. In addition, it also offers leadership training programs for newly-promoted staff to become competent professionals with creative leadership and the ability to cope with changes.

REINFORCING JOB SKILLS TO LEAD THE CREATIVE ECONOMY AND ATTRACT CIB CUSTOMERS

In order to adapt to financial environmental changes, KDB Bank offers diverse training programs intended to help employees acquire expertise in new business areas such as Techno-banking and the Intellectual Property Business. KDB Bank also implements On the Job Training (OJT) by sending staff to overseas branches and other renowned financial institutions. The Bank also offers training programs in such areas as derivatives, private equity funds, and project finance to reinforce its employees' CB·IB competencies.

FOSTERING THE DEVELOPMENT OF GLOBAL-MINDED HUMAN RESOURCES

KDB Bank is committed to expand in overseas financial markets. In pursuit of this mission, KDB Bank strengthens its domestic and overseas study programs to produce experts in key strategic operating areas. KDB Bank not only runs in-house foreign language courses but also encourages its workers to engage in external training as well. With the goal of increasing the number of specialists in overseas markets, the Bank operates a special program for a pool of experts in strategic areas such as Turkey, Myanmar, Germany and so forth.

ESTABLISHING A SYSTEMATIC CAREER DEVELOPMENT PROGRAM AND AN INTERNAL CORPORATE UNIVERSITY

KDB Bank was the first player in Korea's financial industry to establish a corporate university, called the KDB Financial University. It provides employees having only a high school graduate degree with an opportunity to add to their skills and professionalism by learning while working. The university opened in February 2013, with 78 employees from the affiliates of the KDB Financial Group entering it as freshmen. The university's classes, which of course focus on the study of finance, link job training to the accumulation of study credits.

PROVIDING PURPOSE-DRIVEN TRAINING AND EDUCATION THAT ENHANCE EMPLOYEES' SKILLS, VALUES, AND SATISFACTION LEVELS

This year, KDB Bank plans to solidify its status as Korea's leading policy finance institution by successfully boosting the creative economy and developing overseas markets. In light of this plan, KDB Bank's training goal is to raise a truly professional and global workforce by providing purpose-driven training programs. Because competitiveness in overseas markets comes from a skilled workforce and an extensive overseas network, KDB Bank is updating its overseas study programs to strengthen its relationships with overseas venture capital companies and banks. KDB Bank is also determined to strengthen the communication skills of its front-line employees. In order to build a foundation for creative finance, the Bank will focus on technology and intellectual property banking. Furthermore, KDB Bank will reinforce its expertise in CB and IB areas, and improve systematic training programs to foster experts by function.

KDB Bank is a cradle of new leaders who will propel the advancement of the Korean financial industry.

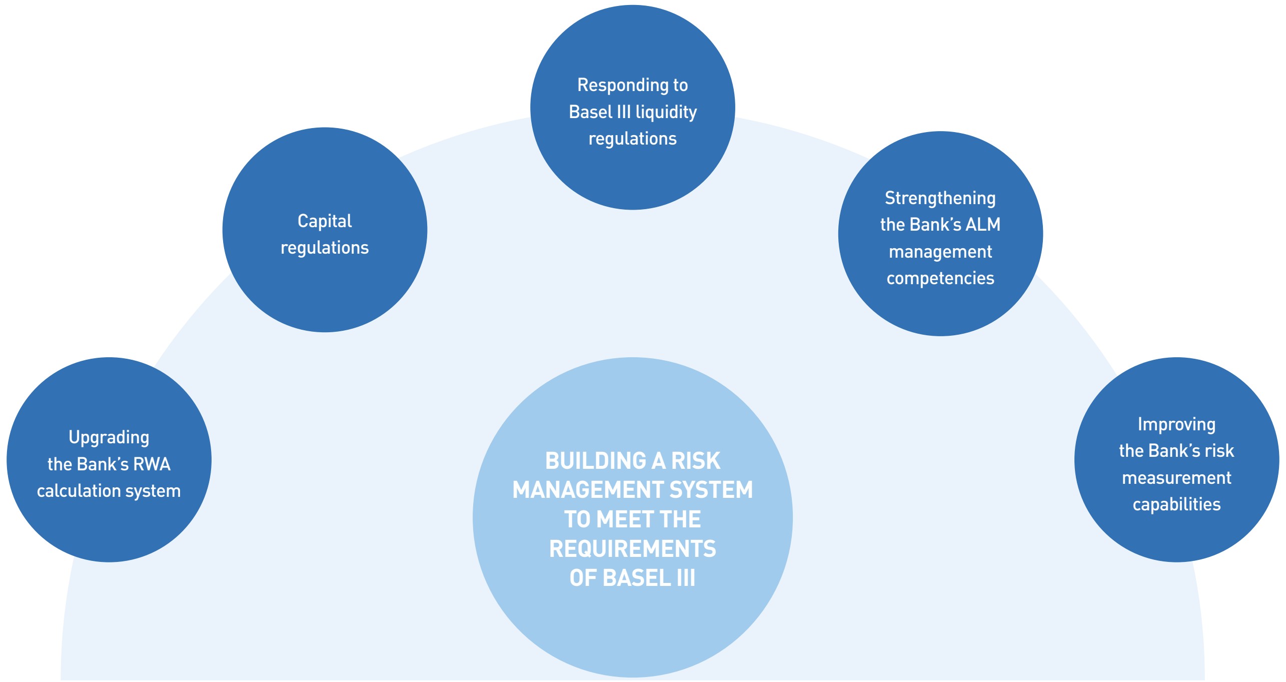
RISK MANAGEMENT

KDB Bank will continue to manage risks effectively by taking proactive and preemptive actions in order to strengthen its profitability for sustainable policy finance operations.

KDB Bank's Risk Management Committee makes relentless efforts to cope with volatile market conditions by securing adequate capital and controlling its asset quality. While the Risk Management Council composed of General Managers from key departments evaluates important risk-related issues of the Bank, the Risk Management Committee leads discussions in a more regular basis to build constructive business strategies against external risks.
Some of the topics that were taken up by the Committee in 2013 included drafts for the contingency funding plan, BIS ratio management plan, internal capital requirement level, quarterly risk management reports and stress-test results.
In 2013, the chairman of the Risk Management Committee was changed to an independent board member for greater transparency in the decision-making process of the committee.

RESPONDING TO A CONSTANTLY CHANGING OPERATING ENVIRONMENT

KDB Bank was the first financial institution in Korea to establish the 'Basel Ⅲ risk management system' to respond to the Basel III capital and liquidity regulations in a more efficient and effective manner. It has led to dramatic improvements in the accuracy and timeliness of the Bank's calculations regarding its capital adequacy ratios (i.e. its BIS and leverage ratios) and liquidity ratios (i.e. its LCR and NSFR) in conformity with the Basel Ⅲ regulatory requirements. The Bank also enhanced its risk management abilities by revamping its ALM system and making improvements to its overall risk measurement capabilities.



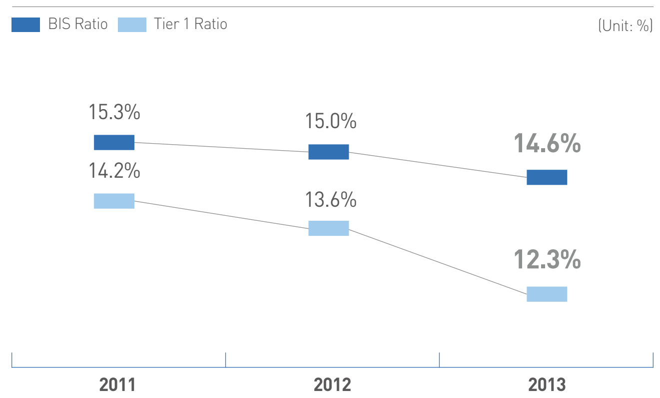
RISK-BASED PERFORMANCE EVALUATION

KDB Bank's Risk-Adjusted Performance Measurement (RAPM) system is designed to assist in the establishment of risk-based strategic business plans, and the management's decision-making process, and to ensure equitable employee compensation. The Bank has been using economic profit (EP) as its main RAPM index for evaluating the performance of its branches since 2010. It utilizes the estimated EP analysis system to evaluate from various angles how much profit can be made by adjusting the risk element in each branch's asset portfolio depending on a given interest rate.
In recognition of its renowned RAPM-based risk management, KDB Bank received the 'Risk Manager Award' from the Korean media 'the bell' in 2012, and continued to reinforce further its EP standards for accurate pricing evaluation in 2013.

FUTURE STRATEGIES AND PLANS

KDB Bank took proactive actions to increase its volume of tier 2 capital in 2013 through the issuance of subordinated bonds. Despite the deterioration of the operating environment worldwide, KDB Bank has maintained its BIS ratio at 14.64% (Basel Ⅲ) as of 2013. The Bank will continue to manage its BIS ratio in a safe and stable manner to strengthen the foundation for its operations through the issuance of contingent capital in response to the ongoing enforcement of the Basel Ⅲ capital regulations.

KDB Bank plans to continuously reduce concentration risk through regular risk reviews and tight management of its exposure to large conglomerates.
Also, KDB Bank strives to establish a solid Credit Portfolio Management Analysis System and benchmark global leading banks to develop multidimensional analysis modules for controlling exposures by borrower, affiliate, industry and product.
In the same line, KDB Bank will execute reverse stress tests and develop sophisticated contingency plans by proactively controlling its capital adequacy in order to respond to stricter global requirements.



As a leading bank in Korea, strict risk management is more than a duty, it is a necessity for protecting our customers.

ETHICAL MANAGEMENT

All the members of KDB Bank adhere to strict compliance guidelines and regularly attend lectures on integrity to reinforce their culture and commitment to ethics and compliance.

A major issue facing financial institutions both in Korea and abroad is financial governance and consumer protection. In order to actively respond to these rising calls for ethical management, KDB Bank operates its own internal control system. KDB Bank firmly believes that ethical management allows it to provide its customers with an exemplary level of service. The Bank is committed to ethical business conduct and continues to raise its governance standards to prevent unfair or unreasonable practices.

KDB Bank operates various compliance programs in accordance with the Bank's Code of Conduct. All the members of KDB Bank adhere to strict compliance guidelines and regularly attend lectures on integrity to reinforce their culture and commitment to ethics and compliance.

The 'KDB Ethics Charter' was instituted to ensure that the Bank fulfills social responsibilities and promotes its sustainable development. The underlying values of the Charter are codified in the 'KDB Code of Conduct' and underpin various compliance programs.

Starting from a pledge of compliance with the Code of Conduct, KDB Bank employees regularly attend mandatory lectures on ethics and undertake compliance self-evaluation to heighten ethical awareness. Through a mandatory registration system, employees are obliged to record details of their financial investments and securities accounts to prevent any possibility of insider trading or other forms of malfeasance.
Some of the Bank's other steps to create an ethical work environment include the anti-bribery campaign, 'clean report' hotline and whistleblower programs.
The Bank also reinforces consumer protection by ensuring that the integrity of all of its financial instruments is reviewed in advance, beginning at the planning and development stage. In addition, it operates a monitoring system to prevent mis-selling at the selling stage. It has also established a complaint management system for after sale assistance.

KDB Bank will continuously seek to enhance transparency and organizational ethics.

Programs	Details
Evaluation and rewards	Rewards for outstanding examples of ethical management (awarded annually)
Securities investment reporting system	Voluntary reporting (biannually) Registration of accounts owned by employees working in corporate banking and their family members
Financial instrument trading reporting system	Monthly or quarterly reporting For staff members stipulated by the Financial Investment Services and Capital Market Act
Clean report hotline/Anti-bribery campaign	Prohibition of the giving and receiving of gifts and entertainment over a certain value
Compliance self-evaluation	Biannual compliance self-evaluation
Whistleblower	Anonymity guaranteed Rewards committee for whistleblower incentives
Management pledge	Registered directors' pledge of integrity in the performance of their duties
Code of Conduct pledge	Obligatory for all new recruits
Ethics training	Offered during new employee training, position training, and job training

CORPORATE SOCIAL RESPONSIBILITY

KDB Bank's social contribution activities are an integral part of its role as Korea's leading bank and its commitment to the society. Operating under the slogan, "Inspiring the World with Our Pioneering Spirit," the Bank's employees carry out a host of volunteer activities targeting the underprivileged.

SOCIALLY RESPONSIBLE FINANCE

Assistance for small businesses and launching of an online 'Small Business Shopping Site'

KDB Bank increased its volume of loans for small businesses from KRW 1.8 billion in 2012 to KRW 408.2 billion as of the end of 2013. It played a major role in helping small businesses increase their number of sales channels by opening an online 'Small Business Shopping Site' (www.dooregift.co.kr) and actively purchased 'Onnuri' gift certificates which are usable in traditional markets, to stimulate their sustainable development.

Helping the financially underserved

KDB Foundation operates a number of employment training programs. The "Stepping Stones of Hope" project is a job-linked employment support program that focuses on education and training initiatives for the underprivileged. The Foundation also operates a "KDB Start-Up Support Program" to provide start-up funds to those on low incomes. Some of the other initiatives include the "KDB Scholarship Program", the "Young Entrepreneur Support Project", the "Support for Middle-Aged Retirees Project", the "Overseas Support Project", and the "Special Talents Support Project".

Assisting SMEs

KDB Bank plays a formative role in the growth and maturation of SMEs to help them grow into global top enterprises by converging creativity and industries.
The Bank provides financial assistance programs customized to each enterprise throughout its life cycle: initial stage (venture investment fund, IP commercialization fund), small enterprise stage (exclusive loans for SMEs, mid to long-term facility fund, 'shared growth' with large corporation fund), medium size enterprise stage (ME Leaders Loan, comprehensive financial services and strategic consulting) and global enterprise stage (overseas financial arrangement, overseas business support through the Bank's global network).

Partnering with Social Enterprises

KDB Bank assists the work of social enterprises that promote community development and provide employment opportunities for the underprivileged, and improves the quality of life of local residents. It also supports the sale of their products to help these organizations operate profitably. For instance, KDB Bank supports social enterprises such as 'Sumanas Bakery' by opening its outlet within the Bank's headquarters in Seoul.

Social Contribution Activities

KDB Bank's social contribution activities focus on helping the underprivileged and on promoting neighborly, cultural, educational, and patriotic solidarity. Going forward, the Bank will take greater advantage of its own, unique competencies to carry out social contribution activities in a more effective and efficient manner.

Caring for the underprivileged

Volunteers from KDB Bank regularly visit senior citizens who live alone to offer care packages and friendship. The Bank also conducts the 'Let's Share Love' campaign to help disabled people and children from broken homes.
Moreover, each branch of the Bank engaged in volunteer activities for their local communities helping their less fortunate neighbors, and branch employees participated in donation to many charitable organizations throughout the year.

Culture and Education for the youth

KDB Bank regularly invites low-income and disabled young people to attend cultural and artistic performances. In 2013, the Bank invited two hundred people, including North Korean defectors and their families, KDB scholarship winners, and patients from KDB sponsored care centers to such events.
The Bank also collaborates with JA-KOREA, one of Korea's most recognized volunteer organizations, to offer economics education sessions to adolescents twice a year. In addition, the Bank has been bringing young people living in isolated rural areas to Seoul, to give them an opportunity to savor the city's many cultural and artistic attractions since 1985.

Blood Donation Campaigns

KDB Bank has been conducting the KDB Bank Blood Donation Campaign since 2005, especially for people suffering from leukemia. As such, all the Bank's employees are encouraged to participate in sharing their love and hope with people in need.

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION & ANALYSIS

2013 REVIEW

2013 was a year of many tough challenges amidst rising uncertainties and the financial crisis hampering the growth of the global economy. The low interest rate environment coupled with the aftermath of the economic recession brought about hardship throughout the banking industry. In the wake of such setbacks, KDB Bank recorded a temporary loss for the first time in 13 years. With its strong capital structure, however, the Bank bolstered its position as the nation's leading policy finance institution, promoting the creative economy.

KDB Bank's prominent role is visible in various fields. The Bank ranked first in the domestic syndicated loan market for the fourth consecutive year. The Bank also excelled in the PF market, where it was placed in the top 9th Global PF ranking, and first in the global public private partnership PF sector.

As a representative funding window, KDB Bank actively managed foreign currency liquidity. Even with the rising concerns over the US tapering and global uncertainties, the Bank's optimal bond issuance strategy succeeded in maintaining the appropriate level of foreign currency liquidity in Korea.

Against dire economic conditions, KDB Bank made full efforts to acquire quality assets. As a result, the annual average balance of interest earning assets climbed to KRW 117.9 trillion in 2013, up by 8.3% from the previous year's KRW 108.9 trillion.
With a stable asset base, net interest income amounted to KRW 2,089 billion, a sound increase of 0.6% from 2012.

Despite the robust interest income, the Bank recorded a net loss of KRW 1,651 billion. This is mainly due to the increased level of bad debt provisions and impairment losses on securities. In particular, a loss of over KRW 1.5 trillion was incurred from loan loss provisions following major corporate restructurings. Impairment losses from securities caused by the recession have also damaged the Bank's profitability. Because of the protracted economic slowdown leading to soaring insolvency levels, the Bank's NPL ratio stood at 3.07% in 2013, up from the previous year's 1.59%.

Even though the financial figures show temporary hiccups, KDB Bank holds a solid capital adequacy ratio. After the successful migration to the Basel III standards in December 2013, its BIS ratio stands at 14.64% and its Tier 1 ratio at 12.32%, well over the minimum requirement.

2014 OUTLOOK

2014 is expected to show signs of growth as the global economy rebounds from a prolonged recession. As domestic consumption and investment pick up from the depressed levels of 2013, Korea's growth is expected to reach 3.7% in 2014.
However, some downside risks lurk in the path of economic growth such as the debt burden of the private sector and ongoing financial volatility.
In addition, the low interest rate environment will likely continue and fierce competition will hinder the profitability of the banking sector.

In preparation of looming uncertainties and challenges, KDB Bank will take the following measures to secure a sound profit base:

The Bank will reaffirm its role as Korea's representative policy finance institution and focus on creating stable sources of revenue. To this end, the Bank is designing a new, innovative policy financing model based on the commercial market benchmark that ensures sustainable profitability. The Bank plans to expand its technology financing and provide comprehensive financial services to SMEs. In addition, the Bank will enhance its global footprint by advancing into overseas markets in partnership with Korean companies while diversifying its financial services in the area of consulting and growth capital services. Last but not least, the Bank will spare no efforts to strengthen its earnings foundation and financial health through effective and sound risk management.

MANAGEMENT'S DISCUSSION & ANALYSIS

INCOME ANALYSIS

Condensed Statement of Income

(Unit: KRW billion)

	2013	2012	Change	
			Amount	%
Net Operating Revenue	1,114	2,891	-1,777	-61.5
Net Interest Income	2,089	2,075	13	0.6
Non-interest Income	-975	815	-1,790	-
Loan Loss Provisions	1,618	452	1,166	257.7
G&A Expenses	1,394	1,328	65	4.9
Operating Income	-1,898	1,110	-3,007	-
Non-operating Income	-359	3	-362	-
Income Tax	-605	211	-817	-
Net Income	-1,651	902	-2,553	-

Amidst the prolonged financial crisis, the Bank recorded a temporary but heavy loss of KRW 1,651 billion. This is mainly attributable to capital losses from financial assets and high loan loss provisions from corporate restructurings. With sluggish recovery of troubled industries, the delinquency ratio shot up to 1.60%, raising the loan loss provisions to KRW 1,618 billion.

Net interest income, on the other hand, stood firm at KRW 2,089 billion. In spite of the low interest rate environment and tough competition, the Bank's efforts to increase quality loans and save funding expenses have secured a high level of interest income. G&A expenses barely moved, but net interest income was insufficient to cover the non-operating loss.

Interest Income and NIM

(Unit: KRW trillion)

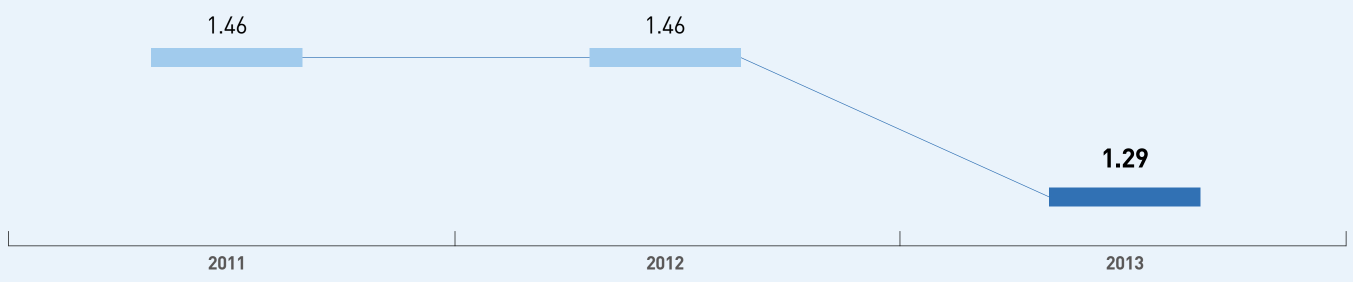
	2013	2012	Change	
			Amount	%
Interest-earning Assets	120.4	113.6	6.8	6.0
Annual Average Balance	117.8	108.9	8.9	8.2
Yield Rate (%)	3.92	4.51	-	-0.59%p
Interest-bearing Liabilities	117.9	108.6	9.3	8.6
Annual Average Balance	113.4	105.2	8.2	7.8
Yield Rate (%)	2.73	3.16	-	-0.43%p
NIM (%)	1.29	1.46	-	-0.17%p

Interest-earning assets rose to KRW 117.8 trillion on annual average balance basis from the previous year's KRW 108.9 trillion, which is an 8.2% increase year-on-year. On the contrary, the annual average balance of interest-bearing liability increased by 7.8% to KRW 113.4 trillion from the previous year's KRW 105.2 trillion.
Net interest margin (NIM) for the period fell to 1.29%, which is a 17bps drop from the previous year's 1.46%.

MANAGEMENT'S DISCUSSION & ANALYSIS

Net Interest Margin (NIM) Trend

(Unit: %)



FINANCIAL CONDITION

Condensed Statement of Financial Position

(Unit: KRW billion)

	2013	2012	Change	
			Amount	%
Assets	167,725	165,780	1,945	1.2
Cash & Due from Banks	7,436	4,006	3,430	85.6
Securities	39,534	38,792	742	1.9
Loan Receivables	98,059	93,047	5,012	5.4
Other Assets	22,696	29,935	-7,239	-24.2
Liabilities	148,970	144,889	4,081	2.8
FVTPL Liabilities	678	875	-197	-22.5
Deposits	39,336	40,040	-704	-1.8
Borrowings	25,911	24,473	1,438	5.9
Debentures	57,221	48,474	8,747	18.0
Other Liabilities	25,824	31,027	-5,203	-16.8
Shareholders' Equity	18,755	20,891	-2,136	-10.2
Capital Stock	9,262	9,252	10	0.1
Capital Surplus	60	57	3	4.6
Retained Earnings	7,033	8,485	-1,452	-17.1
Accumulated Other Comprehensive Income and Capital Adjustment	416	647	-231	-35.7

Total assets for the Bank stood at KRW 167.7 trillion at the end of 2013, which is an increase of KRW 1.9 trillion, or 1.2% compared to the figure in 2012. Cash and due from banks led to the Bank's asset growth. Loan receivables, however, took up the largest portion of 58.5% followed by securities, accounting for 23.6% of total assets.

Mostly driven by a robust increase in debentures (18.0%), the Bank's liabilities rose slightly in 2013, reaching KRW 148.9 trillion. Borrowings also went up 5.9% to KRW 25.9 trillion during the same period. Increase of debentures issuance and borrowings was due to the Bank's drive to preemptively secure liquidity in preparation for continued economic uncertainties across the globe. However, with a halt in the opening of new branches, deposits stayed at a level similar to that of 2012.

MANAGEMENT'S DISCUSSION & ANALYSIS

Loans

(Unit: KRW billion)

	2013	2012	Change	
			Amount	%
Total Loans	99,591	93,843	5,748	6.1
Corporate Loans	97,210	90,747	6,462	7.1
Large Enterprises	78,361	72,590	5,771	8.0
SMEs	18,849	18,157	691	3.8
Household Loans	1,958	1,108	850	76.6
Public and Others	423	1,987	-1,564	-78.7

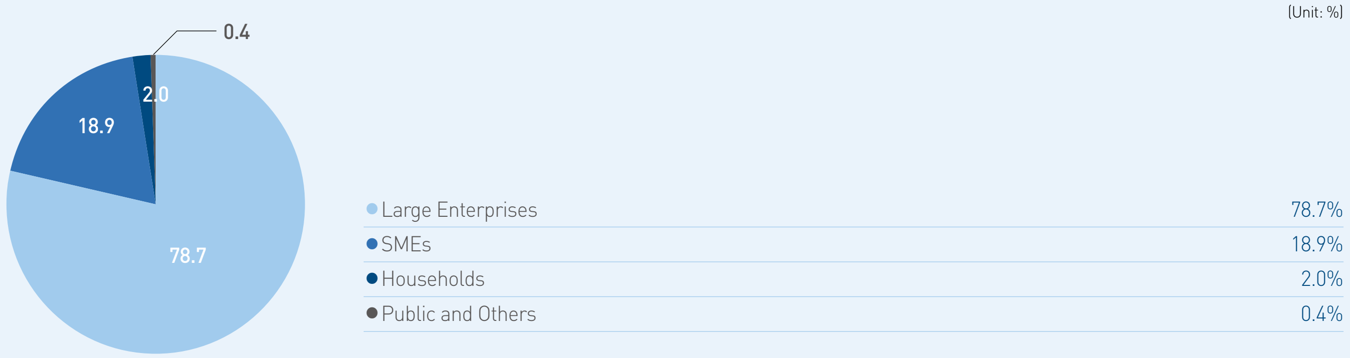
The Bank's total loans increased by 6.1% to KRW 99.6 trillion in 2013, with loans to households and large enterprises leading the growth.

Since KDB Bank kicked off its household loans business in order to diversify its loan portfolio, total household loans had jumped significantly in 2011. The amount multiplied over 20 times from KRW 85 billion in 2010 to KRW 1,958 billion in 2013.

Corporate loans grew by 7.1% as loans to large companies increased by 8.0%. The reason behind this was to secure quality loans to further enhance the Bank's capability to carry out more efficiently by keeping its sound asset quality.

Loan Composition in 2013

(Unit: %)



Funding

(Unit: KRW billion)

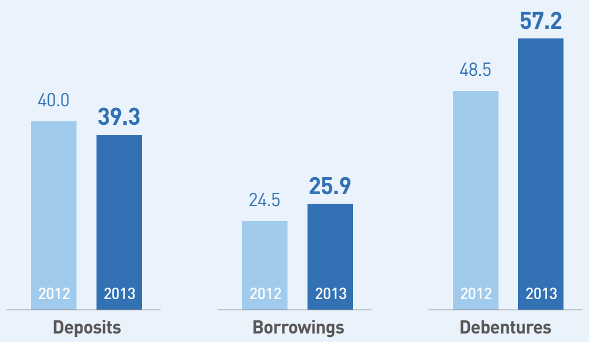
	2013	2012	Change	
			Amount	%
Deposits	39,336	40,040	-704	-1.8
Borrowings	25,911	24,473	1,438	5.9
Debentures	57,221	48,474	8,747	18.0

In alignment with the government's plan to enhance the Bank's policy financing role, KDB Bank's deposits level remained similar to that of 2012 with a slight drop of 1.8%. Instead, borrowings and debentures increased 5.9% and 18.0%, respectively, from a year earlier. Thus, the portion of financing through debentures increased to 46.7% in 2013 from 42.9% in 2012.

MANAGEMENT'S DISCUSSION & ANALYSIS

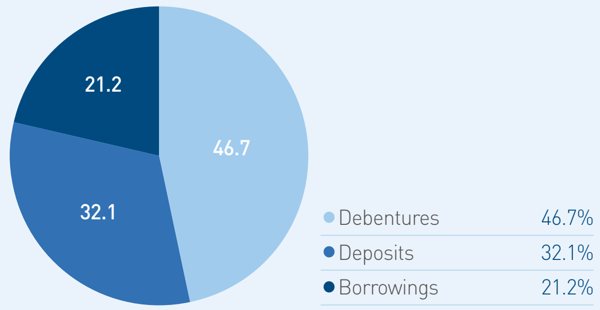
Funding Trend

(Unit: KRW billion)



Funding Composition in 2013

(Unit: %)



ASSET QUALITY

KDB Bank's total credit showed a stable growth, approaching KRW 100 trillion. It rose by 6.1% or KRW 5.7 trillion to KRW 99.6 trillion in 2013. However, sub-standard and below loans reached KRW 3,056 billion, more than double of what was recorded in 2012. Accordingly, the Bank's NPL ratio was drawn up to 3.1%. Protracted delinquencies caused by corporate restructurings led the Bank to experience difficulties in managing its asset quality. Even with the deterioration in the asset quality, however, the Bank's NPL coverage ratio stands over 100%.

Asset Quality

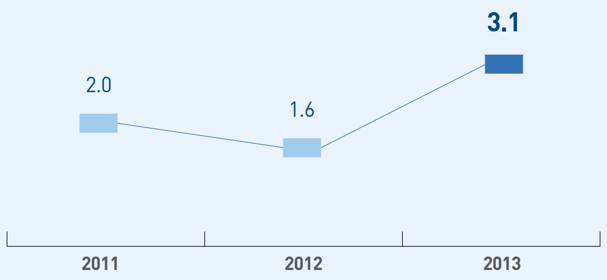
(Unit: KRW billion)

	2013	2012	Change	
			Amount	%
Total Credit	99,591	93,843	5,748	6.1
Normal	92,311	90,172	2,139	2.4
Precautionary	4,223	2,179	2,045	93.8
Sub-standard	2,244	1,137	1,107	97.4
Doubtful	305	18	287	1,565.0
Estimated Loss	507	337	171	50.7
Sub-standard and Below Loans (NPL)	3,056	1,492	1,564	104.9
NPL Ratio (%)	3.1	1.6		1.5%p
Loan Loss Reserve	3,148	1,978	1,170	59.1
NPL Coverage Ratio (%)	103.0	132.6		-29.6%p

MANAGEMENT'S DISCUSSION & ANALYSIS

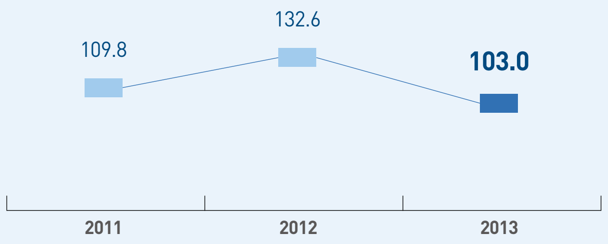
NPL Ratio

(Unit: %)



NPL Coverage Ratio

(Unit: %)



CAPITAL MANAGEMENT

Capital Adequacy Ratio and Tier 1 Ratio

(Unit: %)

	2013	2012	Change (%p)
Capital Adequacy Ratio	14.64	15.01	-0.37
Tier 1 Ratio	12.32	13.55	-1.23

*2013 numbers according to Basel III

KDB Bank's BIS capital adequacy ratio and Tier 1 ratio as of the end of 2013 were 14.64% and 12.32%, respectively. The 2013 numbers are based on the Basel III standards which the Bank successfully adopted to in December. The capital adequacy ratio and Tier 1 ratio dropped by 0.37%p and 1.23%p, respectively, from the previous year. The main reason for the fall is the increase of credit risk brought from bad debts, thus pushing risk-weighted assets upwards by 9.8%. Nonetheless, the overall capital adequacy ratio is well over the regulatory minimum of 8%.

INDEPENDENT AUDITORS' REPORT

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Korea Development Bank

We have audited the accompanying consolidated statements of financial position of Korea Development Bank and its subsidiaries (the "Group") as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated statement of financial position of the Group as of January 1, 2012, excluding the adjustments described in Note 3.(30) to the consolidated financial statements, was derived from the Group's consolidated financial statements as of and for the year ended December 31, 2011, which were audited by another auditor, whose report thereon dated March 29, 2012 expressed an unqualified opinion.

We did not audit the financial statements of Daewoo Engineering & Construction Co., Ltd, a subsidiary, which represent 6.04% and 5.94% of the Group's consolidated total assets as of December 31, 2013 and 2012, respectively, and 37.22% and 18.01% of the Group's consolidated profit (loss) before income taxes for the years then ended. In addition, we did not audit Daewoo Shipbuilding & Marine Engineering Co., Ltd. which is an equity method investee and represents 0.92% and 0.88% of the Group's consolidated total assets as of December 31, 2013 and 2012 and 3.73% and 5.92% of the Group's consolidated profit (loss) before income taxes for the years then ended. Other auditors audited those financial statements and our report, insofar as it relates to the respective subsidiary and equity method investment, is based solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 3.(30) to the consolidated financial statements, the Group changed its accounting upon adoption of K-IFRS No. 1110 Consolidated Financial Statements and others, which required the Group to include the disclosure of the statement of financial position as of January 1, 2012. We also have audited the adjustments to the consolidated statement of financial position as of January 1, 2012 to retrospectively apply this change in accounting, as described in note 3.(30) to the consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedure to the consolidated financial statements as of and for the year ended December 31, 2011 of the Group, from which the January 1, 2012 statement of financial position was derived, other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as of and for the year ended December 31, 2011 taken as a whole.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

Seoul, Korea
March 18, 2014

KPMG Samjong Accounting Corp.

This report is effective as of March 18, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013, 2012 AND JANUARY 1, 2012

(In millions of won)

	December 31, 2013	December 31, 2012 (Restated)	January 1, 2012 (Restated)
ASSETS			
Cash and due from banks (Notes 4, 48, 49 and 53)	₩ 7,436,428	₩ 4,006,421	₩ 3,805,998
Financial assets held for trading (Notes 5, 48, 49 and 53)	1,857,134	2,759,419	3,839,185
Financial assets designated at fair value through profit or loss (Notes 6, 48, 49 and 53)	240,812	251,873	70,677
Available-for-sale financial assets (Notes 7, 48, 49 and 53)	34,254,941	30,993,606	30,772,854
Held-to-maturity financial assets (Notes 8, 48, 49 and 53)	107,733	1,494,007	1,525,418
Loans (Notes 9, 48, 49 and 53)	98,059,191	93,047,157	82,591,861
Derivative financial assets (Notes 10, 48, 49, 50 and 53)	4,364,090	5,204,552	5,566,162
Investments in associates (Notes 11 and 51)	3,073,233	3,292,959	3,037,073
Property and equipment, net (Notes 12 and 51)	1,181,553	1,270,146	1,354,868
Investment property, net (Notes 13 and 51)	330,081	343,727	341,666
Intangible assets, net (Notes 14 and 51)	2,808,382	3,081,549	3,293,681
Deferred tax assets (Notes 38)	870,252	559,353	514,033
Other assets (Notes 15, 48, 49 and 53)	12,707,134	19,080,543	12,554,722
Non-current assets held for sale (Notes 16)	433,753	394,305	329,171
TOTAL ASSETS	₩ 167,724,717	₩ 165,779,617	₩ 149,597,369
LIABILITIES			
Financial liabilities designated at fair value through profit or loss (Notes 17, 48, 49 and 53)	₩ 677,916	₩ 875,197	₩ 992,136
Deposits (Notes 18, 48, 49 and 53)	39,335,843	40,039,975	26,851,738
Borrowings (Notes 19, 48, 49 and 53)	25,910,911	24,473,003	27,320,460
Bonds (Notes 20, 48, 49 and 53)	57,221,273	48,473,995	49,012,629
Derivative financial liabilities (Notes 10, 48, 49, 50 and 53)	3,916,041	4,121,564	4,524,521
Policy reserves (Notes 21)	10,397,382	9,190,864	8,042,263
Defined benefit liabilities (Notes 22)	197,676	211,964	164,814
Provisions (Notes 23)	1,091,568	243,728	393,109
Deferred tax liabilities (Notes 38)	72,241	696,794	950,861
Current tax liabilities	86,097	213,992	170,424
Other liabilities (Notes 24, 48, 49 and 53)	10,029,017	16,348,026	10,583,511
Non-current liabilities held for sale (Notes 16)	33,976	-	-
TOTAL LIABILITIES	148,969,941	144,889,102	129,006,466
EQUITY			
Issued capital (Notes 25)	9,261,861	9,251,861	9,251,861
Capital surplus (Notes 25)	60,028	57,385	56,698
Capital adjustment (Notes 25)	1,800	1,885	1,825
Accumulated other comprehensive income (Notes 25)	416,456	647,246	758,921
Retained earnings (Notes 25) (Regulatory reserve for loan losses of ₩1,329,825, ₩1,034,949 and ₩0 as of December 31, 2013, 2012 and January 1, 2012, respectively) (Obligated amount of provision for regulatory reserve for loan losses of ₩19,778, ₩294,876 and ₩1,034,949 as of December 31, 2013, 2012 and January 1, 2012, respectively) (Planned regulatory reserve for loan losses of ₩2,626 and ₩294,876, ₩1,034,949 as of December 31, 2013, 2012 and January 1, 2012, respectively)	7,032,928	8,484,717	7,913,839
Total equity attributable to equity holders of the Company	16,773,073	18,443,094	17,983,144
Non-controlling interests	1,981,703	2,447,421	2,607,759
TOTAL EQUITY	18,754,776	20,890,515	20,590,903
TOTAL LIABILITIES AND EQUITY	₩ 167,724,717	₩ 165,779,617	₩ 149,597,369

See accompanying notes to the consolidated financial statements.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In millions of won, except earnings per share information)

	2013	2012 (Restated)
Interest income (Notes 26)	₩ 5,188,408	₩ 5,436,221
Interest expense (Notes 26)	(3,099,686)	(3,360,887)
Net interest income (Notes 51)	2,088,722	2,075,334
Net fees and commission income (Notes 27)	489,413	600,879
Dividend income (Notes 28)	127,719	95,224
Net gain (loss) on financial instruments held-for-trading (Notes 29)	(23,493)	22,154
Net gain (loss) on financial instruments designated at fair value through profit and loss (Notes 30)	51,639	(60,103)
Net gain (loss) on available-for-sale financial assets (Notes 31)	(195,452)	153,692
Net gain (loss) on held-to-maturity financial assets (Notes 32)	1,022	(5,032)
Net gain on derivatives (Notes 33)	387,005	452,837
Net foreign currency transaction loss (Notes 34)	(274,365)	(306,770)
Other operating loss, net (Notes 35)	(1,538,294)	(137,612)
Non-interest income (loss), net	(974,806)	815,269
Provision for loan losses (Notes 9)	1,617,962	452,281
General and administrative expenses (Notes 36 and 51)	1,393,518	1,328,396
Operating income (loss) (Notes 51)	(1,897,564)	1,109,926
Gain (loss) related to investments in associates (Notes11)	(136,648)	93,608
Other non-operating income (Notes 37)	103,673	245,657
Other non-operating expense (Notes 37)	(325,853)	(336,107)
Non-operating income (expense), net	(358,828)	3,158
Profit (loss) before income taxes	(2,256,392)	1,113,084
Income tax expense (benefit) (Notes 38)	(605,427)	211,327
Profit (loss) for the year (Notes 25) (Profit (loss) for the year adjusted for regulatory reserve for loan losses : (-)₩1,238,420 million and ₩623,872 million for the years ended December 31, 2013 and 2012)	₩ (1,650,965)	₩ 901,757

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) , CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In millions of won, except earnings per share information)

	2013	2012
Other comprehensive income (loss) for the year, net of tax Items that are or may be reclassified subsequently to profit or loss:		
Valuation gain (loss) on available-for-sale financial assets, net	₩ (175,515)	₩ 57,285
Equity adjustment from equity method investee	3,480	(27,808)
Exchange differences on translation of foreign operations	(62,339)	(225,520)
Others comprehensive loss	(1,517)	(5,032)
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit liabilities	(79,394)	28,413
	(315,285)	(172,662)
Total comprehensive income (loss) for the year (Notes 25)	₩ (1,966,250)	₩ 729,095
Profit (loss) attributable to:		
Equity holders of the Bank (Notes 25)	₩ (1,218,642)	₩ 918,748
Non-controlling interest	(432,323)	(16,991)
Profit (loss) for the year	₩ (1,650,965)	₩ 901,757
Total comprehensive income (loss) attributable to:		
Equity holders of the Bank	₩ (1,449,432)	₩ 807,073
Non-controlling interest	(516,818)	(77,978)
Total comprehensive income (loss) for the year	₩ (1,966,250)	₩ 729,095
Earnings (loss) per share		
Basic and diluted earnings (loss) per share (in won) (Notes 39)	₩ (659)	₩ 497

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In millions of won)

	Attributable to equity holders of the Bank							
	Issued capital	Capital surplus	Capital adjust -ment	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2012	₩ 9,251,861	₩ 56,698	₩ 1,825	₩ 731,136	₩ 7,924,450	₩17,965,970	₩ 2,607,759	₩20,573,729
Cumulative effect of changing accounting policies	-	-	-	27,785	(10,611)	17,174	-	17,174
Balance at January 1, 2012 (Restated)	9,251,861	56,698	1,825	758,921	7,913,839	17,983,144	2,607,759	20,590,903
Profit for the year	-	-	-	-	918,748	918,748	(16,991)	901,757
Changes in valuation gain on available-for-sale financial assets	-	-	-	42,278	-	42,278	15,007	57,285
Changes in equity in other comprehensive income of associates	-	-	-	(21,642)	-	(21,642)	(6,166)	(27,808)
Changes in exchange differences on translation of foreign operations	-	-	-	(151,732)	-	(151,732)	(73,788)	(225,520)
Changes in remeasurements of defined benefit liabilities	-	-	-	17,387	-	17,387	11,026	28,413
Changes in other accumulated other comprehensive income	-	-	-	2,034	-	2,034	(7,066)	(5,032)
Total comprehensive income for the year	-	-	-	(111,675)	918,748	807,073	(77,978)	729,095
Dividends	-	-	-	-	(347,870)	(347,870)	-	(347,870)
Acquisition on / disposal of interest in subsidiaries while maintain control	-	687	60	-	-	747	(82,360)	(81,613)
Transaction with owners	-	687	60	-	(347,870)	(347,123)	(82,360)	(429,483)
Balance at December 31, 2012 (Restated)	₩ 9,251,861	₩ 57,385	₩ 1,885	₩ 647,246	₩ 8,484,717	₩18,443,094	₩ 2,447,421	₩20,890,515
Balance at January 1, 2013	₩ 9,251,861	₩ 57,385	₩ 1,885	₩ 647,246	₩ 8,484,717	₩18,443,094	₩ 2,447,421	₩20,890,515
Loss for the year	-	-	-	-	(1,218,642)	(1,218,642)	(432,323)	(1,650,965)
Changes in valuation loss on available-for-sale financial assets	-	-	-	(163,002)	-	(163,002)	(12,513)	(175,515)
Changes in equity in other comprehensive income of associates	-	-	-	7,037	-	7,037	(3,557)	3,480
Changes in exchange differences on translation of foreign operations	-	-	-	(39,041)	-	(39,041)	(23,298)	(62,339)
Changes in remeasurements of defined benefit liabilities	-	-	-	(34,821)	-	(34,821)	(44,573)	(79,394)
Changes in other accumulated other comprehensive income	-	-	-	(963)	-	(963)	(554)	(1,517)
Total comprehensive income for the year	-	-	-	(230,790)	(1,218,642)	(1,449,432)	(516,818)	(1,966,250)
Dividends	-	-	-	-	(233,147)	(233,147)	-	(233,147)
Paid in capital increase	10,000	-	(51)	-	-	9,949	-	9,949
Acquisition on / disposal of interest in subsidiaries while maintain control	-	2,643	(34)	-	-	2,609	51,100	53,709
Transaction with owners	10,000	2,643	(85)	-	(233,147)	(220,589)	51,100	(169,489)
Balance at December 31, 2013 (Restated)	₩ 9,261,861	₩ 60,028	₩ 1,800	₩ 416,456	₩ 7,032,928	₩16,773,073	₩ 1,981,703	₩18,754,776

See accompanying notes to the consolidated financial statements.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In millions of won)

	2013	2012
Cash flows from operating activities		
Profit (loss) for the year	₩ (1,650,965)	₩ 901,757
Adjustments for:		
Income tax expense (benefit) (Notes 38)	(605,427)	211,327
Interest income (Notes 26)	(5,188,408)	(5,436,221)
Interest expense (Notes 26)	3,099,686	3,360,887
Dividend income (Notes 28)	(127,719)	(95,224)
Loss (gain) related to financial instruments held for trading (Notes 29)	9,683	(7,428)
Loss (gain) related to financial instruments designated at fair value through profit or loss (Notes 30)	(45,125)	62,398
Gain on disposal of available-for-sale financial assets (Notes 31)	(545,214)	(521,618)
Impairment loss on available-for-sale financial assets (Notes 7 and 31)	740,666	367,926
Loss (gain) related to held-to-maturity financial assets (Notes 32)	(1,022)	5,032
Loss on foreign currency translation (Notes 34)	250,608	254,736
Loss (gain) on valuation of derivatives (Notes 33)	371,224	(93,911)
Net gain on fair value hedged items (Notes 33)	(608,027)	(1,667,272)
Loss (gain) on disposal of investments associates (Notes 35)	12,564	5,393
Equity in earnings of investments in associates (Notes 11)	136,648	(93,608)
Provision for loan loss (Notes 9)	1,617,962	452,281
Defined benefit costs (Notes 22)	124,881	83,400
Depreciation of property and equipment (Notes 12)	80,328	80,533
Loss (gain) on disposal of property and equipment (Notes 37)	(426)	3,886
Impairment loss on property and equipment (Notes 12 and 37)	-	44
Depreciation of investment property (Notes 13)	6,628	5,542
Impairment loss on investment property (Notes 13 and 37)	-	32
Amortization of intangible assets (Notes 14)	246,861	243,780
Gain on disposal of intangible assets (Notes 37)	(672)	(3)
Impairment loss on intangible assets (Notes 14 and 37)	90,445	1,684
Loss (gain) on disposal of assets held for sale (Notes 16 and 37)	5,655	(68,224)
Impairment of assets held for sale (Notes 16 and 37)	6,106	3,841
Other operating income (loss), net	956,119	(130,893)
Loss on redemption of bonds	600	410
	634,624	(2,971,270)
Changes in operating assets and liabilities:		
Due from banks	(1,696,284)	4,288
Financial assets held for trading	979,046	775,748
Financial assets designated at fair value through profit or loss	13,102	(179,573)
Loans	(7,496,908)	(7,502,296)
Derivative financial assets	3,347,135	3,597,765
Other assets	6,001,284	(6,319,610)
Financial liabilities held for trading	-	8,886
Financial liabilities designated at fair value through profit or loss	(154,198)	(181,995)
Deposits	(802,860)	13,500,435
Policy reserve	1,206,518	1,148,602
Derivative financial liabilities	(3,083,419)	(3,554,140)
Defined benefit liabilities	(223,937)	(60,417)
Provisions	(68,808)	(33,096)
Other liabilities	(6,331,633)	5,704,692
	(8,310,962)	6,909,289
Income taxes paid	(130,430)	(414,047)
Interest received	5,352,943	5,384,637
Interest paid	(3,212,683)	(3,184,515)
Dividends received	185,059	51,234
Net cash provided by (used in) operating activities	₩ (7,132,414)	₩ 6,677,085

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In millions of won)

	2013	2012
Cash flows from investing activities		
Disposal of available-for-sale financial assets (Notes 7)	₩ 37,680,616	₩ 45,275,305
Acquisition of available-for-sale financial assets (Notes 7)	(39,956,238)	(45,845,278)
Disposal of held-to-maturity financial assets (Notes 8)	1,470,465	92,818
Acquisition of held-to-maturity financial assets (Notes 8)	(1,414,848)	(90,111)
Disposal of property and equipment (Notes 12)	5,683	35,326
Acquisition of property and equipment (Notes 12)	(245,360)	(114,282)
Disposal of investment property (Notes 13)	1,698	6,571
Acquisition of investment property (Notes 13)	(5,437)	-
Disposal of intangible assets (Notes 14)	4,075	569
Acquisition of intangible assets (Notes 14)	(94,591)	(73,435)
Disposal of non-current assets held for sale	102,057	47,337
Disposal of investment in associates	153,229	173,904
Acquisition of investments in associates	(158,654)	(152,111)
Acquisition of investments in subsidiaries	-	(5,795)
Net cash used in investing activities	(2,457,305)	(649,182)
Cash flows from financing activities		
Proceeds from borrowings	144,445,897	143,608,054
Repayment of borrowings	(142,525,828)	(145,002,523)
Proceeds from other borrowings	(45,796)	17,665
Proceeds from issuance of bonds	26,855,970	24,361,251
Repayment of bonds	(17,296,540)	(24,532,153)
Paid in capital increase	9,949	-
Additional acquisition of investments in subsidiaries	-	(14,042)
Dividends paid (Notes 25)	(233,147)	(347,870)
Net cash provided by (used in) financing activities	11,210,505	(1,909,618)
Effect of exchange rate fluctuations on cash and cash equivalents held	175,011	(626,350)
Net increase in cash and cash equivalents	1,795,797	3,491,935
Cash and cash equivalents at beginning of period	7,001,992	3,510,057
Cash and cash equivalents at end of period (Notes 46)	₩ 8,797,789	₩ 7,001,992

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1. REPORTING ENTITY

The accompanying consolidated financial statements comprise Korea Development Bank ("KDB" or the "Bank") and its subsidiaries (collectively the "Group"). General information of the Bank and its subsidiaries is stated below.

(1) Controlling company

Korea Development Bank (the "Bank") was established on April 1, 1954, in accordance with The Korea Development Bank Act to finance and manage major industrial projects, in order to expedite industrial development and enhance the national economy.

The Bank is engaged in the banking industry under The Korea Development Bank Act and other applicable statutes, and in the fiduciary in accordance with the Financial Investment Services and Capital Markets Act.

The Bank is a fully-owned subsidiary of the KDB Finance Group ("KDBFG"), which is owned by the Korean government and Korea Finance Corporation ("KoFC"), and its capital stocks amount to ₩9,251,861 million as of December 31, 2012. The capital amount is ₩9,261,861 due to the issuing of new stocks during the year ended December 31, 2013.

The Bank's head office is located in Yeouido-dong, Yeongdeungpo-gu, Seoul and its service network as of December 31, 2013, is as follows:

	Domestic		Overseas			
	Head Office	Branches	Branches	Subsidiaries	Representative offices	Total
KDB	1	82	8	5	6	102

(2) Consolidated subsidiaries

The Group's equity ownership in its consolidated direct and indirect subsidiaries as of December 31, 2013, and 2012 are summarized as follows (Korean won in millions, US dollar and Brazilian real in thousands, Hungarian forint in millions):

Investor	Investee	Country	Industry	Fiscal year end	Acquisition cost 2013	Acquisition cost 2012	Equity Ownership(%) 2013	Equity Ownership(%) 2012
KDB	**Domestic subsidiaries:**							
	Korea Infrastructure Fund	Korea	Financial investment	June and December	30,861	33,294	85.00	85.00
	KDB Value Private Equity Fund II	Korea	Financial investment	December	-	-	51.93	51.93
	KDB Value Private Equity Fund III	Korea	Financial investment	December	-	44,286	100.00	100.00
	KDB Value Private Equity Fund VI	Korea	Financial investment	December	2,426,581	2,343,423	99.84	99.84
	KDB Venture M&A Private Equity Fund	Korea	Financial investment	December	-	-	57.56	57.56
	KDB Turn Around Private Equity Fund	Korea	Financial investment	December	72,816	72,816	95.17	95.17
	KDB Consus Value Private Equity Fund(*1)	Korea	Financial investment	December	261,795	258,297	40.71	40.63
	Materials & Components M&A	Korea	Financial investment	December	165,756	165,756	83.33	83.33
	KoFC-KDB Materials and Components Investment Fund No.1(*2)	Korea	Financial investment	December	27,500	37,500	50.00	50.00
	Principals and interests guaranteed trust(*3)	Korea	Financial investment	December	-	-	-	-
	Principals guaranteed trust(*3)	Korea	Financial investment	December	-	-	-	-
	KDB 1st SPC and 10 SPCs(*4)	Korea	Financial investment	December	-	1	-	-
	KDB Shipping Private Fund KL 1st and 15 others	Korea	Financial investment	December	363,863	186,071	Over 50%	Over 50%

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Investor	Investee	Country	Industry	Fiscal year end	Acquisition value 2013	Acquisition value 2012	Equity Ownership(%) 2013	Equity Ownership(%) 2012
KDB	**Overseas subsidiaries:**							
	KDB Asia Ltd.	Hong Kong	Financial service	December	USD 140,000	USD 140,000	100.00	100.00
	KDB Ireland Ltd.	Ireland	Financial service	December	USD 20,000	USD 20,000	100.00	100.00
	KDB Bank Europe Ltd.	Hungary	Financial service	December	HUF 21,296	HUF 21,296	100.00	100.00
	Banco KDB Do Brasil S.A	Brazil	Financial service	December	BRL 328,396	BRL 328,396	100.00	100.00
	KDB Bank Uzbekistan	Uzbekistan	Financial service	December	USD 34,986	-	86.34	-
	KDB Uzbekistan, Ltd.	Uzbekistan	Financial service	December	-	USD 18,440	-	88.89
	RBS NB Uzbekistan, Ltd.	Uzbekistan	Financial service	December	-	USD 16,546	-	82.35
KDB Turn Around	**Domestic sub subsidiary(*5):**							
	Sunstar Co., Ltd.	Korea	Manufacturing	December	-	56,848	-	100.00
KDB Consus	**Domestic sub-sub subsidiary(*6):**							
	KDB Life Insurance Co., Ltd.	Korea	Financial service	December	852,255	852,255	85.05	85.05
KDB Value Private Equity Fund VI	Daewoo Engineering & Construction Co., Ltd.	Korea	Construction	December	3,178,493	3,178,493	51.34	51.34

(*1) The entity was included in the scope of consolidation even though the investor holds less than 50% of the voting rights because the investor has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.

(*2) Those entities have been fully consolidated even though the investor's ownership is not over 50%, because the investor, as an executive partner, has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.

(*3) The investees are included in the scope of consolidation because the investor has power over the investees to control the financial and operating policies of the entity, and is exposed to variable returns through the contract for preservation of principal and interest or principal only.

(*4) The investees are established for the investor's business, or the investor is structured entity which has rights to obtain the majority of the benefits of the investee or if the investor retains the majority of the risks related to the investee. Therefore the investees are included in the scope of consolidation because the investor has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.

(*5) KDB Turn Around is excluded from the scope of consolidation considering the loss of the Group's control since its subsidiary, Sunstar Co., Ltd., went into receivership due to the management deterioration.

(*6) The parent company of the sub-sub-subsidiary is a SPE, which is not separately disclosed in the consolidated financial statements.

(i) Korea Infrastructure Fund

Korea Infrastructure Fund ("KIF") was established on December 15, 1999 in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA") and the Private Participation in Infrastructure Act ("PPIA"). KIF is classified as a special purpose vehicle that was established to invest in certain entities that have entered into long-term construction agreements with the national, provincial and municipal governments in Korea. Korea Infrastructure Investment Asset Management Co., Ltd. is KIF's asset manager. Issued capital of KIF amounts to ₩33,486 million as of December 31, 2013.

(ii) KDB Value Private Equity Fund II

KDB Value Private Equity Fund II ("KDB Value PEF II") was established on September 27, 2006 in accordance with the FSCMA to engage in investment of securities. Issued capital of KDB Value PEF II amounts to nil as of December 31, 2013, as KDB Value PEF II is under liquidation procedures.

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(iii) KDB Value Private Equity Fund III

KDB Value Private Equity Fund III ("KDB Value PEF III") was established on September 16, 2008 in accordance with the FSCMA to engage in investment of securities. Issued capital of KDB Value PEF III amounts to nil as of December 31, 2013, as KDB Value PEF III is under liquidation procedures.

(iv) KDB Value Private Equity Fund VI

KDB Value Private Equity Fund VI ("KDB Value PEF VI") was established on July 9, 2009 in accordance with the FSCMA to engage in investment of securities. Issued capital of KDB Value PEF VI amounts to ₩2,430,561 million as of December 31, 2013.

(v) KDB Venture M&A Private Equity Fund

KDB Venture M&A Private Equity Fund ("KDB Venture M&A") was established on May 2, 2007 in accordance with the FSCMA to engage in investment of securities. KDB Venture M&A Private Equity Fund has no issued capital as of December 31, 2013 as a result of declaring and paying ₩24,740 million of dividend with its issued capital in 2011.

(vi) KDB Turn Around Private Equity Fund

KDB Turn Around Private Equity Fund ("KDB Turn Around") was established on April 8, 2009 in accordance with the FSCMA to engage in private equity financial services. Issued capital of KDB Turn Around amounts to ₩77,790 million as of December 31, 2013.

(vii) KDB Consus Value PEF

KDB Consus Value PEF ("KDB Consus Value") was established on February 22, 2010 in accordance with the FSCMA to engage in private equity financial services. Issued capital of KDB Consus Value amounts to ₩643,000 million as of December 31, 2013.

(viii) Components and Materials M&A PEF

Components and Materials M&A PEF ("Components and Materials M&A") was established on January 28, 2010 in accordance with the FSCMA to engage in private equity financial services. Issued capital of Components and Materials M&A amounts to ₩198,909 million as of December 31, 2013.

(ix) KoFC-KDB Materials and Components Investment Fund No.1

KoFC-KDB Materials and Components Investment Fund No.1, ("KoFC-KDB Materials and Components Investment") was established on June 29, 2010 in accordance with the Act on Special Measures for the Promotion of Specialized Enterprises and other applicable statutes to engage in private equity financial services. Issued capital of KoFC-KDB Materials and Components Investment amounts to ₩55,000 million as of December 31, 2013 as a result of declaring and paying ₩20,000 million of dividend with its issued capital for the year ended 2013.

(x) Trust Accounts

In accordance with K-IFRS, trusts held for development projects, private annuities trusts and pension annuities trusts embedded with credit protection that guarantees a return of principal and interest amounts, which in turn, exposes the Bank to a majority of the residual or ownership risks related to these trusts are included in scope of consolidation. Conversely, unearmarked funds in trusts, new private annuities trusts, pension trusts and new retirement annuities trusts without these productive provisions are excluded from consolidation.

(xi) KDB 1st Securitization and 10 other SPCs

The Group has power over KDB 1st Securitization and 10 other SPCs to control the financial and operating policies, exposure, or rights, to variable returns from its involvement with the investees and the ability to use its power over the investees to affect the amount of the Group's returns.

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(xii) KDB Shipping Private Fund KL 1st and 15 other funds

The Group has power over KDB Shipping Private Fund KL 1st and 15 other funds to control the financial and operating policies, exposure, or rights, to variable returns from its involvement with the investees and the ability to use its power over the investees to affect the amount of the Group's returns.

(xiii) KDB Asia Ltd.

KDB Asia, Ltd. was incorporated on January 23, 1986 in Hong Kong to provide financial services to Korean companies, engage in investment of securities, and mediate issuance and trading of international securities. Issued capital of KDB Asia Ltd. amounts to USD 140,000 thousand as of December 31, 2013.

(xiv) KDB Ireland Ltd.

KDB Ireland Ltd. was incorporated on June 18, 1997 in the Republic of Ireland to provide financial services to Korean companies and engage in investment of securities. Issued capital of KDB Ireland Ltd. amounts to USD 25,000 thousand as of December 31, 2013.

(xv) KDB Bank Europe Ltd.

KDB Bank Europe Ltd. was incorporated on February 1, 1990 to engage in commercial banking. On December 30, 2002, the Bank assumed all the shares of KDB Bank Europe Ltd. from Daewoo Securities Co., Ltd. KDB Hungary changed its name to KDB Europe Ltd. on May 22, 2013. Issued capital of KDB Bank Europe Ltd. amounts to HUF 15,340,100 thousand as of December 31, 2013.

(xvi) Banco KDB Do Brasil S.A.

Banco KDB Do Brasil S.A. was incorporated on October 25, 2005 to provide financial services to Korean companies and engage in investment of securities and investment banking activities. Issued capital of Banco KDB Do Brasil S.A. amounts to BRL 324,969 thousand as of December 31, 2013.

(xvii) KDB Bank Uzbekistan

KDB Bank Uzbekistan, as described in Note 52, was established on March 25, 2013, by the merger of UzKDB and RBS NB Uzbekistan, subsidiaries of the Bank, in order to expand operations within Uzbekistan. Issued capital of KDB Bank Uzbekistan amounts to UZS 37,634 million as of December 31, 2013.

(xviii) KDB Life Insurance Co., Ltd.

KDB Life Insurance Co., Ltd. ("KDB Life Insurance") was established on April 1, 1988 in accordance with the Korea Insurance Business Act to offer insurance policies and generate revenue from applicable premiums and other related sources. Issued capital of KDB Life Insurance amounts to ₩613,122 million as of December 31, 2013.

(xix) Daewoo Engineering & Construction Co., Ltd.

Daewoo Engineering & Construction Co., Ltd. ("Daewoo E&C") was established on December 27, 2000 after a spin-off from Daewoo Corporation and is engaged in civil engineering, construction, housing and plant business. Issued capital of Daewoo E&C amounts to ₩2,078,113 million as of December 31, 2013.

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(3) Changes in subsidiaries

Subsidiaries that are newly included in the consolidated financial statements and those that are excluded from the consolidated financial statements as of December 31, 2013 are as follows:

(i) Subsidiaries newly included in scope of consolidation as of December 31, 2013

Reason	Subsidiaries
New establishment	KDB Shipping Private Fund SPO-2, KDB PIONEER Intellectual Property Rights Private Fund, K-Five 3rd Securitization Specialty Co., Ltd.

(ii) Subsidiaries excluded from scope of consolidation as of December 31, 2013

Reason	Subsidiaries
Liquidation	KDB Champ 4th SPC, Songsan II Industrial Complex Securitization SPC, KIAMCO KDB Shipping Private Fund PR-1, Samsung Focus Private Fund 35, KDB Private Fund Investment Trust DB-9, Kyobo AXA Tomorrow 6M Private Fund L-10, Hanhwa Private Fund 41, KB Evergreen Private Fund 58, IBK Panorama Private Fund 49, GS Gold Scope Private Fund 17, Private Fund KD-5

(4) Financial information of subsidiaries

Financial information of subsidiaries included in the consolidated financial statements as of and for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013					
		Assets	Liabilities	Equity	Operate Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Infrastructure Fund	₩	32,998	13	32,985	2,376	2,038	2,038
KDB Value Private Equity Fund II		111	11,295	(11,184)	1	-	-
KDB Value Private Equity Fund III		107	7	100	194	(7,969)	(1,761)
KDB Value Private Equity Fund VI		11,976,687	8,497,564	3,479,123	9,070,118	(532,624)	(582,550)
KDB Venture M&A Private Equity Fund		119	7,910	(7,791)	4	(7,902)	(7,902)
KDB Turn Around Private Equity Fund		5,535	296	5,239	135	(2,537)	9,095
KDB Consus Value Private Equity Fund		12,480,110	12,014,285	465,825	3,485,533	(102,895)	(174,390)
Materials & Components M&A		154,865	6,175	148,690	23,781	(32,510)	(43,462)
KoFC-KDB Materials and Components Investment Fund No.1		52,697	-	52,697	1,873	(2,435)	(2,435)
Principals and interests guaranteed trusts		222,831	220,325	2,506	10,874	(11,181)	(11,181)
Principals guaranteed trusts		291,309	285,373	5,936	10,007	(2,781)	(2,781)
KDB 1st SPC and 10 SPCs		677,707	974,984	(297,277)	59,064	(3,463)	(4,030)
KDB Shipping Private Fund KL 1st and 15 others		406,881	13,879	393,002	35,930	28,660	16,300
KDB Asia Ltd.		847,478	590,224	257,254	54,675	17,408	6,203
KDB Ireland Ltd.		355,294	277,392	77,902	20,927	5,074	3,688
KDB Bank Europe Ltd.		1,167,824	1,023,783	144,041	91,684	5,871	6,536
Banco KDB Do Brasil S.A		232,742	249,126	(16,384)	80,008	(47,828)	(52,405)
KDB Bank Uzbekistan		852,484	773,554	78,930	37,058	17,313	9,291

(In millions of won)

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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		2012					
		Assets	Liabilities	Equity	Revenue	Net profit(loss)	Total comprehensive income(loss)
Korea Infrastructure Fund	₩	35,556	14	35,542	2,622	2,245	2,245
KDB Value Private Equity Fund II		111	11,295	(11,184)	80	(8,373)	(6,146)
KDB Value Private Equity Fund III		55,618	121	55,497	213	(75)	(3,074)
KDB Value Private Equity Fund VI		12,328,691	7,934,723	4,393,968	8,390,285	(86,169)	(160,014)
KDB Venture M&A Private Equity Fund		8,837	7,725	1,112	2,587	928	2,709
KDB Turn Around Private Equity Fund		333,109	336,965	(3,856)	354,019	(8,252)	(21,433)
KDB Consus Value Private Equity Fund		11,289,225	10,638,202	651,023	3,377,857	7,522	34,253
Materials & Components M&A		192,715	572	192,143	4,879	2,403	(1,170)
KoFC-KDB Materials and Components Investment Fund No.1		75,132	-	75,132	1,081	316	316
Principals and interests guaranteed trusts		224,554	210,867	13,687	15,780	(59)	(59)
Principals guaranteed trusts		302,580	293,863	8,717	20,783	(7,474)	(7,474)
KDB 1st SPC and 10 SPCs		800,409	931,746	131,337)	393,589	(22,360)	(20,564)
KDB Shipping Private Fund KL 1st and 13 others		825,075	8,956	816,119	26,088	24,230	8,906
KDB Asia Ltd.		820,085	569,034	251,051	46,132	17,533	5,585
KDB Ireland Ltd.		351,588	277,374	74,214	21,289	4,836	3,428
KDB Bank Europe Ltd.		862,951	725,446	137,505	109,972	8,844	9,923
Banco KDB Do Brasil S.A		341,961	305,940	36,021	61,877	2,429	(3,517)
KDB Uzbekistan		425,398	383,820	41,578	20,156	9,922	2,884
RBS NB Uzbekistan, Ltd.		561,427	533,365	28,062	17,079	7,130	2,409

(5) Additional acquisition of investment in subsidiaries

The Group acquired an additional 0.08% interest in its subsidiary, KDB Consus Value, for W3,498 million, increasing its ownership from 40.63% to 40.71% during the year ended December 31, 2013. The carrying amount of KDB Consus Value's net assets in the consolidated financial statements is ₩465,825 million. From this transaction with owners, the Group recognized an increase in noncontrolling interest of ₩3,848 million and a decrease in capital surplus of ₩86 million.

2. BASIS OF PREPARATION

(1) Statement of compliance

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

(2) Basis of measurement

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

- Derivative financial instruments measured at fair value
- Financial instruments measured at fair value through profit or loss
- Available-for-sale financial instruments measured at fair value
- Fair value hedged financial instruments with changes in fair value, due to hedged risks, recognized in profit or loss
- Liabilities for defined benefit plans, which are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

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(3) Functional and presentation currency

In preparing the Group's consolidated financial statements, transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. The Group's consolidated financial statements are presented in Korean won, which is also the Bank's functional currency. The following entities of the Group have different functional currency from the presentation currency:

Functional currency	Subsidiaries
USD	KDB Asia Ltd.
	KDB Ireland Ltd.
	KDB Shipping Private Fund KL 1st
	KDB Shipping Private Fund KL 2nd
	KDB Shipping Private Fund DA-1
	KDB Shipping Private Fund SH1
	KIAMCO KDB Shipping Private Fund PR-2
	KIAMCO KDB Shipping Private Fund DA-2
	KDB Shipping Private Fund HJ-1
	KDB Shipping Private Fund SPO-1
	KDB Shipping Private Fund SKR-1
	KDB Shipping Private Fund SPO-2
	KIAMCO KDB Shipping Private Fund PR-3
	KIAMCO KDB Shipping Private Fund PR-4
	KIAMCO KDB Shipping Private Fund PR-5
UZS	KDB Bank Uzbekistan
BRL	Banco KDB Do Brasil S.A
HUF	KDB Bank Europe Ltd.

(4) Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3.(6) – Impairment of financial assets
- Note 3.(17) – Employee benefits

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 9 – Loans and allowance for loan losses
- Note 22 – Defined benefit liabilities
- Note 23 – Provisions

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(5) Approval date for the consolidated financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on March 18, 2014, which will be submitted for approval to the shareholders' meeting to be held on March 28, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes explained in note 3.(30).

(1) Basis of consolidation

(i) Subsidiaries and business combinations

Subsidiaries are entities controlled by group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which controls ceases.

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

For acquisitions meeting the definition of a business combination, the acquisition method of accounting is used. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date in fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed and the amount of any non-controlling interest in the acquiree. Costs related to acquisition are recognized as expenses when occurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

Intra-group balances, income and expenses, unrealized gain and loss and dividends resulting from intragroup transactions are fully eliminated.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it recognizes any investment retained at fair value and any surplus or deficit in profit or loss.

(ii) Investments in associates

Associates are all entities over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. When the investors' share on the fair value of the associates' identifiable assets and liabilities exceeds acquisition cost of the associates' interest, the excess portion is recognized as the current profit for the year of acquisition.

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The Group's share of its associates' post-acquisition profits or loss is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further loss, unless it has incurred obligations or made payments on behalf of the associates. The carrying amount of equity method investments and the long term interest which partially consists of investors' net investment are included in interest in the associate.

Unrealized gain and loss on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Acquisitions from entities under common control

The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of share premium. The difference between cash paid and acquired net assets is recorded in equity.

(iv) Non-controlling Interests

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

(v) Changes in the parent company's ownership interest

Changes in the parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the parent company.

(2) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. The Group's chief operating decision maker (the CEO of the Bank) makes decisions about resources to be allocated to the segment and assess its performance, and makes strategic decisions.

(3) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

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Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available for sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

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

Unless the functional currency of foreign operations is in a state of hyper inflation, assets and liabilities of foreign operations are translated at the closing exchange rate at the end of the reporting period. Revenues and expenses on the statement of comprehensive income are translated at the exchange rates of the date of transaction. Foreign currency differences that arise from translation are recognized as other comprehensive income, and the disposal of a foreign operation is re-categorized as profit or loss as of the moment the disposal profit or loss is recognized.

Any goodwill arising on the acquisition of a foreign operation, and any adjustments in fair value to the carrying amounts of assets and liabilities due to such acquisition, are treated as assets and liabilities of the foreign operation. Therefore, such are expressed in the functional currency of the foreign operations and, alongside other assets and liabilities of the foreign operation, translated at the closing exchange rate.

In the case of the disposal of a foreign operation, cumulative amounts of exchange difference regarding the foreign operation, recognized separately from other comprehensive income, are recategorized from assets to profit or loss as of the moment the disposal profit or loss is recognized.

(iii) Foreign exchange of net investment in foreign operations

Monetary items receivable from or payable to a foreign operation, with none or little possibility of being settled in the foreseeable future, are considered a part of the net investment in the foreign operation. Therefore, the exchange difference is recognized as comprehensive profit or loss in the financial statement, and re-categorized to profit or loss as of the disposal of the related net investment.

(4) Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of or less three months' maturity from the date of acquisition that are subject to an insignificant risk of changes in their fair value, including cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(5) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories:
financial assets at fair value through profit or loss, held-to-maturity assets, loans and receivables and available for sale financial assets. Moreover, the Group recognizes financial assets in the statement of financial position as of the time the Group becomes a party to the contractual provisions of the instrument.

Non-derivative financial assets are measured at fair value upon initial recognition and, unless designated at fair value through profit or loss, transaction costs directly regarding acquisition and issuance of such assets are summed to the initial fair value.

(i) Financial assets at fair value through profit or loss

Any financial asset classified as held-for-trading or designated at fair value through profit or loss at initial recognition is categorized under financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss ("FVTPL") are measured at fair value upon initial recognition, and changes therein are recognized as profit or loss. Furthermore, transaction costs regarding acquisition upon initial recognition are recognized as profit or loss as incurred.

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(ii) Held-to-maturity financial assets

If a non-derivative financial asset has a fixed maturity with a fixed or determinable payment, and the Group has positive intent and ability to hold such an asset, it is classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized costs using the effective interest rate ("EIR") method.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method. Furthermore, the effective interest rate method is applied to recognize interest incomes on financial investments, except short-term loans and receivables, in which case the impact of effective interest the method is immaterial.

(iv) Available-for-sale financial assets

Any non-derivative financial asset, not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables, is classified as available-for-sale financial assets. Subsequent to initial recognition, such assets are measured at fair value. However, equity instruments that do not have a quoted market price in an active market and cannot be reliably measured, and any derivatives that are linked to these instruments and need to be settled upon the delivery of such equity instruments are measured at cost. Accumulated other comprehensive income, reflected in equity as fair value changes, is recognized as profit or loss as of the time the related available-for-sale asset is disposed of or the impairment loss is recognized. Furthermore, dividends earned whilst holding available-for-sale financial assets are recognized in the statement of comprehensive income upon the establishment of the right to receive the payment.

(v) De-recognition of financial assets

The Group de-recognizes a financial asset when the rights to receive cash flow from an asset expire, or when it transfers the rights to receive cash flow and substantially all the risks and rewards from the ownership of a financial asset. In the case that the Group has neither transferred nor retained substantially all the risks and rewards of an asset, the Group de-recognizes any assets if it does not have control, and recognizes any assets to the extent of the Group's continuing involvement if it does have control. In the latter case, any associated liabilities are recognized by the Group. In the case the Group retains substantially all the risks and rewards from the ownership of an asset it does not have control of, the Group continues to recognize the financial asset, and recognizes consideration received as financial liabilities.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and liabilities are set-off only under the conditions that the Group has legal rights to set-off the recognized amounts, and the intention to settle on a net basis or to realize assets and settle liabilities at the same time.

(6) Impairment of financial assets

The Group assesses the possibility of objective evidence that may indicate any impairment of financial assets, except those designated at fair value through profit or loss, at each reporting date. A financial asset is defined as impaired if, as a result of one or more events after initial recognition, the estimated future cash flow of the asset has been affected. However, expected impairments from future events are not recognized, regardless of their likelihood.

Upon the finding of objective evidence to believe an asset is impaired, the impairment is measured and recognized in profit or loss as follows, according to the asset category:

(i) Impairment of loans and receivables

The Group assesses, at each reporting date, whether objective evidence that indicate impairment of loans and receivables exist. If objective evidence shows that believe impairment has occurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted using the initial effective interest rate ("EIR"). Furthermore, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

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All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In individual assessment, allowances on losses are computed using the discounted expected recoverable value, estimated by operating cash flows or collateral cash flow; in collective assessment, allowances on losses are computed using statistical methods based on obtainable historical loss experience.

The present value of estimated future cash flows is measured using the loan's initial EIR. If the loan has a floating interest rate, the Group uses the current EIR for the measurement. Future cash flows from collateral are estimated at net cash flow from disposal of collateral (deducting transaction cost).

For the purpose of a collective assessment of impairment, assets are analyzed on the basis of the Group's internal credit rating system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows of the assets collectively assessed are estimated on the basis of historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that no longer exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred loss in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be de recognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

(ii) Impairment of available-for-sale financial assets

The Group assesses, at each reporting date, whether objective evidence that indicate impairment of available-for-sale assets exist. If such objective evidence exists, the amount of the loss is measured as the difference between the acquisition cost and the current fair value.

An available-for-sale financial asset is considered to be impaired if there is a significant or prolonged decline in fair value of the asset below the acquisition cost. The Group considers a 30% to be significant and a period of six months to be prolonged.

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Impairment loss on equity securities are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in, the impairment loss is reversed through the statement of comprehensive income. Moreover, the impairment loss is directly reduced from the carrying amount of the financial assets available-for-sale.

(iii) Impairment of held-to-maturity financial assets

The Group assesses individually, at each reporting date, whether there is objective evidence that a held-to-maturity financial asset is impaired. If any such evidence exists, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, which is discounted using the initial EIR, and recognized in the statement of comprehensive income. If, in a subsequent period, the fair value of a financial asset held-to-maturity increases and the increase can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed through the statement of comprehensive income. Moreover, the impairment loss is directly reduced from the carrying amount of the financial asset heldto- maturity.

(iv) Loss events of financial assets

Objective evidences that a financial asset is impaired include the following loss events:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as a default or delinquency in interest or principal payments
- The granting of a concession to the borrower, for economic or legal reasons, that the lender would not otherwise consider
- A state with high probability that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset due to financial difficulties
- The presence of observable data indicating a measurable decrease in the estimated future cash flows of a group of financial assets since the initial recognition of the group, although the decrease cannot yet be identified with the individual financial asset within the group

(7) Derivative financial instruments including hedge accounting

Derivative instruments are initially recognized at the fair value upon agreement of the contract, and reestimated at fair value subsequently. The recognition of profit or loss due to changes in fair value of derivative instruments is as stated below.

(i) Hedge accounting

Derivative instruments are accounted differently depending on whether or not hedge accounting is applied, and therefore, are classified into trading purpose derivatives and hedging purpose derivatives. Upon the transaction of hedging purpose derivatives, two different hedge accounting are applied; a fair value hedge, and a cash flow hedge. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised 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. A cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss. For trading purpose derivatives transaction, changes in the fair value of derivatives are recognized in net income.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item and actual result was so.

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Fair value hedge

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in profit or loss in the statement of comprehensive income. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss in the statement of comprehensive income. When the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged item recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the EIR.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of gain or loss on the hedging instruments is initially recognized directly in equity. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the statement of comprehensive income. When the hedged cash flow affects the profit or loss in statement of comprehensive income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line in profit or loss in the statement of comprehensive income. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged forecasted transaction is ultimately recognized in the statement of comprehensive income. When a forecasted transaction is no longer expected to occur, the cumulative gain and loss that was reported in equity is immediately transferred to profit or loss in the statement of comprehensive income.

(ii) Embedded derivative instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives. The Group records embedded derivative instruments at fair value if their economic characteristics and risks are not clearly and closely related to those of the host contract. If the embedded derivative cannot be measured separately from the host contract, the Group aggregately designates the host contract and embedded derivative as a financial instrument at fair value through profit or loss. Changes due to the fair value assessment of embedded derivative instruments are recognized in profit or loss

(iii) Other derivative financial instruments

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

(8) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by referencing quoted market prices at each reporting date. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation methods.

The Group's policies for measuring fair value of financial instruments at amortized costs are as follows:

- Cash and due from banks: Fair value of cash is considered equivalent to the carrying amount. In the case of due from banks on demand, which do not have a set maturity and can be realized instantly, the carrying amount is considered to be a close estimate of the fair value and is assumed so. In the case of other ordinary due from banks, the cash flow discount method is used to estimate the fair value.

- Loans: The fair value of loans is the expected future cash flows, reflecting premature redemption ratio, discounted by the market interest rate, adjusted by a spread sheet considering the probability of default. Exceptions to this method include loans with credit line facilities, loans with a maturity of three months or less left and impaired loans, which the Group assumes the carrying amount as the fair value.

- Held-to-maturity financial assets: The fair value of held-to-maturity financial assets is computed by widely-accepted appraisal agencies upon request.

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- Deposits: The fair value of deposits is computed using the discounted cash flow method. However for deposits, whose cash flows cannot be estimated reasonably, the Group assumes the carrying amount as the fair value.

- Borrowings: For borrowings in Korean won, the fair value is computed using the discounted cash flow method. For borrowings in foreign currency, the fair value is computed by widely-accepted appraisal agencies upon request.

- Bonds: The fair value of industrial financial debentures in Korean won, except structured debentures in Korean won, is computed using the discounted cash flow method. For structured industrial financial debentures in Korean won and industrial financial debentures in foreign currency, the fair value is computed by widely-accepted appraisal agencies upon request.

- Other financial assets and liabilities: The fair value of other financial assets and liabilities is computed using the discounted cash flow method. However, in cases cash flow cannot be estimated reasonably, the Group assumes the carrying amount as the fair value.

(9) Day one profit or loss recognition
For financial instruments classified as level 3 on the fair value level hierarchy measured using assess variables not observable in the market, the difference between the fair value at initial recognition and the transaction price, which is equivalent to Day one profit or loss, is amortized by using the straight line method over time on an appropriate basis.

(10) Lease
The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor and the lessee.

(i) Finance lease
Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases, and the Group presents them as a receivable at an amount equal to the net investment in the lease. Also, initial direct cost which includes directly and additionally incurred commission fee, legal expenses, and internal accrued costs are included in finance lease receivables. The Group accounts for lease payment by apportioning into finance lease receivables and interest revenue, and interest revenue is recognized using the EIR method on uncollected finance lease net investment.

(ii) Operating lease
A lease is classified as operating lease if it does not transfer substantially all the risks and rewards incidental to ownership, and the related asset is presented as acquisition cost less accumulated depreciation. Moreover, the minimum lease payment excluding guaranteed residual value is recognized as revenue on a straight line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term, and the depreciation policy for depreciable leased assets shall be consistent with the lessors' normal depreciation policy for similar assets.

(11) Property and equipment
The Group's property and equipment is recognized at the carrying amount as historical costs less accumulated depreciation and accumulated impairment in value. Historical costs include the expenditures directly related to the acquisition of assets.

Subsequent costs are recognized in the carrying amount of assets or, if appropriate, as separate assets if the probabilities future economic benefits associated with the assets will flow into the Group and the costs can be measured reliably; the carrying amount of the replaced part is derecognized. Furthermore, any other repairs or maintenances are charge to profit or loss as incurred.

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Land is not depreciated. Depreciation on other assets is calculated using the straight line method to the amount of residual value less acquisition cost over the following estimated useful lives:

Type	Useful lives (years)
Buildings	20 ~ 50
Structure	10 ~ 40
Leasehold improvements	4
Movable property	4

Property and equipment are impaired when its carrying amount exceeds the recoverable amount. The Group assesses residual value and economic life of its assets at each reporting date and makes adjustments to its useful life when necessary. Any gain or loss arising from the disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in non-operating income (expense) in the statement of comprehensive income.

(12) Investment property
The Group classifies property held for the purpose of rental income or benefits from capital appreciation as investment property. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, the cost model is applied. Subsequent to initial recognition, an item of investment property is carried at its cost less any accumulated depreciation and any accumulated impairment loss.

Investment properties are derecognized either when 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 de-recognition. Reclassification to other account is made if there is a change in use of corresponding investment property.

Depreciation of investment property is calculated using the straight line method over their estimated useful lives as follows:

Type	Useful lives (years)
Buildings	20 ~ 50
Structure	10 ~ 40

(13) Intangible assets
An intangible asset is recognized only when its cost can be measured reliably, and the probabilities future economic benefits from the asset will flow into the Group are high. Separately acquired intangible assets are recognized at the acquisition cost, and subsequently, the cost less accumulated depreciation and accumulated impairment is recognized as the carrying amount.

Intangible assets with finite lives are amortized over the 4-year to 30-year period of useful economic lives using the straight line method. At the end of each reporting period, the Group reviews intangible assets for any evidence that indicate impairment, and upon the presence of such evidence, the Group estimates the amount recoverable and recognizes the loss accordingly.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. Furthermore, the Group reviews such intangible assets as to determine whether or not it is appropriate to consider these assets to have indefinite useful lives. If in the case the Group concludes an asset is not qualified to be classified as non-finite, prospective measures are taken to consider such an asset as finite.

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(14) Non-current assets (or disposal groups) held for sale

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance.

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

(15) Impairment of non-financial assets

The Group tests for any evidence of impairment in assets and reviews whether or not the impairment has taken place by estimating the recoverable amount, at the end of each reporting period. The recoverable amount is the higher of the fair value less cost and value in use, of an asset.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(16) Non-derivative financial liabilities

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

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss in the current year include financial liabilities held for trading and financial liabilities designated at FVTPL upon initial recognition. Financial liabilities and derivatives are classified as financial instruments held for trading if they are acquired for the purpose of repurchasing in the near future. Financial liabilities are classified as financial liabilities at FVTPL upon initial recognition, if the profit or loss from the liabilities indicates to be more purpose-appropriate to be recognized as profit or loss. Financial liabilities at FVTPL are designated at fair value in subsequent measurements, and any related un-realized profit or loss is recognized as profit or loss.

(ii) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are recognized at fair value less cost less transaction cost upon initial recognition, and subsequently at amortized costs. The difference between the proceeds (net of transaction cost) and the redemption value is recognized in the statement of comprehensive income over the periods of the liabilities using the EIR.

Fees paid on the establishment of a loan facility are recognized as transaction costs of the loan, if the probability that some or all of the facility will be drawn down is high. If, however, there is not enough evidence to conclude a draw-down of some or all of the facility will occur, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(iii) De-recognition of financial liabilities

A financial liability is de-recognized 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 de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

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(17) Employee benefits

(i) Short-term employee benefits

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

(ii) Retirement benefits: defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. A defined benefit plan defines the amount of pension benefit that an employee will receive on retirement and is usually dependent on one or more factors such as years of service and compensation.

The Group is no longer responsible for any foreseeable future liability after a certain amount or percentage of money is set aside for defined contribution plans. If the pension plan allows for early retirement, payments are recognized as employee benefits. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iii) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity similar to the terms of the related pension liability.

Remeasurements of the net defined benefit liabilities (assets), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

(18) Provisions

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

(19) Financial guarantees

Financial guarantee contracts are contracts that require the issuer (the Bank) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or changed terms of a debt instrument. Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given, and amortized over the period of the guarantee. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of:

- The amount determined in accordance with K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets and
- The initial amount less amortization of fees recognized in accordance with K-IFRS No. 1018 Revenue.

(20) Securities under resale or repurchase agreements

Securities purchased under agreements to resell are recorded as other loans and receivables and the related interest from these securities is recorded as interest income; Securities sold under agreements to repurchase are recorded as other borrowings, and the related interest from these securities is recorded as interest expense.

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(21) Policy reserves for insurance contracts
In accordance with the Insurance Business Act and related insurance standards, the Group is required to maintain policy reserves, which consist of premium reserve, unearned premium reserve, reserve for outstanding claims, reserve for participating policyholders' dividends, excess participating policyholders' dividend reserve and reserve for loss on participating insurance policies, as a liability which is measured in accordance with the Manual for Calculation of Premium and Policy Reserves as approved by the Financial Supervisory Commission. Details are as follows:

(i) Premium reserve
Premium reserve represents an amount calculated based on a net premium valuation, which is the greater of an amount calculated by using the standard interest rate and standard risk rate issued by the Financial Supervisory Service ("FSS"), and an amount calculated using an internally generated rate derived by the Group. If the reserve is at zero or less, the amount is to be recorded at nil.

(ii) Unearned premium reserve
Unearned premium reserve represents an amount allocated for certain premiums whose initial payment date falls within the current reporting period and future payments, if any, fall subsequent to the end of the reporting period.

(iii) Guaranteed benefit reserve
Guaranteed benefit reserve guarantees a certain level of the insurance claims considering expected loss in the future. The Group's guaranteed benefit reserve consists of the following:

- Guaranteed minimum accumulation benefit: reserves that guarantee financial resources for the pension benefit amount that equals to the predetermined value in the contract.
- Guaranteed minimum death benefit: reserves that guarantee death benefit amount that equals to the predetermined value in the contract.
- Guaranteed minimum withdrawal benefit: reserves that guarantee the interim withdrawals amount that equals to the predetermined value in the contract during the period for interim withdrawals.
- Guaranteed lifetime withdrawal benefit: reserves that guarantee the interim withdrawals amount that equals to the predetermined value in the contract during lifetime.
- Other benefits: guaranteed benefit reserves other than those listed above for a guarantee of insurance proceeds in excess of a certain level.

(iv) Reserve for outstanding claims
Reserve for outstanding claims represents a reserve based on estimate of loss for insured events that have occurred prior to the reporting date but have not yet been settled or determined, including:

- Outstanding losses: losses that have been reported to the insurer but are still in the process of settlement (in cases where a claim is partially paid, the remnant is reported).
- Incurred but not reported ("IBNR"): an estimate of the amount based on historical information of an insurer's liability for claim-generating events that have taken place but have not yet been reported to the insurer.
- Reserve for lapsed insurance contracts: reserve for insurance cancellation refund for lapsed insurance contracts due to non-payment of insurance premium that still can be revived or deferred within a certain period.
- Outstanding claims: legitimate claims, such as compensation, refund, dividend that an insurer has not yet paid to policy holder.

(v) Reserve for participating policyholders' dividends
The reserve for participating policyholders' dividends is classified into interest dividend reserve, mortality dividend reserve, interest rate difference guarantee reserve and long-term duration dividend reserve.

(vi) Excess participating policyholders' dividend reserve
Pursuant to relevant laws and contracts, the Group may provide an excess participating policyholder dividend reserve based on the operating results of related insurance products. The reserve may be used to pay participating policyholder dividends or additional dividends.

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(22) Equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Bank repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or loss from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.
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Non–controlling interest refers to equity in a subsidiary not attributable, directly or indirectly, to a parent. Non- controlling interest consists of the minority interest net income calculated under K-IFRS No.1103 Business Combinations at the date of the initial combination, and minority interest of changes in equity after the business combination.

(23) Interest income and expense
Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest method measures the amortized costs of financial instruments and allocates the interest income or expense during the related period.

Upon the calculation of the effective interest rate, the Group estimates future cash flows by taking into consideration all contractual terms of the financial instrument, but not future credit loss. The calculation also reflects any fees or points paid or received, transaction costs and any related premiums or discounts. In the case that the cash flow and expected duration of a financial instrument cannot be estimated reliably, the effective interest rate is calculated by the contractual cash flow during the contract period.

Once an impairment loss has been recognized on a financial asset or a group of similar assets, subsequent interest income is recognized on the interest rate that was used to discount future cash flow for the purpose of measuring the impairment loss.

(24) Fees and commission income
The Group recognizes the fees and commission income from services provided to the customers, and does so according to the purpose of the charge, as follows:
- Fees and commission income from providing services are recognized over the period of the service by the straight-line method,
- Fees and commission from significant transactions, such as trading stocks and other securities, negotiation and mediation activities for third parties, for instance business transfer and takeover, are recognized temporarily upon the transactions,
- Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are recognized under effective interest rate method.

(25) Dividend income
Dividend income is recognized upon the establishment of the Group's right to receive the payment.

(26) Income tax expense
Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in profit or loss except to the extent that the tax arises from a transaction or event, which is recognized in other comprehensive income or directly in equity, or a business combination.

KDB Financial Group ("KDBFG"), the Parent Company of the Group, considers two of its wholly owned domestic subsidiaries, including the Bank, as a single tax-paying entity pursuant to related regulations. Therefore, the Bank files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make income tax payments based on the combined profits or loss of the Bank and its wholly owned domestic subsidiaries. Deferred income taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or loss of eligible companies in accordance with the consolidated corporate tax system.

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Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income tax to be recorded in their respective financial statements.

The Group recognizes deferred income tax liabilities for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred income tax assets for all deductible temporary differences arising from investments in associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the reporting period when the assets are realized or the liabilities settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred income tax assets and liabilities reflects the income tax effects that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are off-set only if the Group has a legally enforceable right to off-set the related current income tax assets and liabilities, and the assets and liabilities relate to income tax levied by the same tax authority and are intended to be settled on a net basis.

Additional income taxes arising from dividend payments are recognized when expenses related to dividend payments are recognized.

(27) Accounting for trust accounts

The Group, for the purpose of financial reporting, differentiates trust assets from identifiable assets according to the Financial Investment Services and Capital Markets Act. Furthermore, the Group receives trust fees from the application, management and disposal of trust assets, and appropriates such amounts for fees from trust accounts.

Meanwhile, in the case the fee from an unspecified principal and interests guaranteed money in trust does not meet the principal or interest amount, even after appropriating deficit with trust fees and special reserve, the Group fills in the remaining deficit in the trust account and appropriates such amounts for losses on trust accounts

(28) Regulatory reserve for loan loss

In the case that the total sum of allowance for possible loan loss does not meet the amount prescribed in Article 29(1) of the Regulations on supervision of Banking Business, the Group, according to K-IFRS, records the difference at the end of each reporting period, and records the equal amount as a reserve for loan loss.

In the case that the existing total sum of reserve for possible loan loss exceeds the amount needed to be set aside as of the closing date, the surplus is reversed. Furthermore, in the case that undisposed deficit exists, reserves for loan loss is saved from the time the undisposed deficit is disposed.

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(29) Earnings per share

The Group represents its diluted and basic earnings per common share in the consolidated comprehensive statement of income. Basic earnings per share ("EPS") is calculated by dividing net profit attributable to shareholders of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting net profit attributable to common shareholders of the Group, considering dilution effects from all potential common shares, and the weighted average number of common shares outstanding.

(30) Changes in accounting policies and the impact of changes

(i) Changes in accounting policies

Except for the following new standards and amendments to existing standards, the Group applies its accounting policies consistently to which were used for preparing its annual consolidated financial statements for all periods presented.

- K-IFRS No. 1110 Consolidated Financial Statements
- K-IFRS No. 1111 Joint Arrangements
- K-IFRS No. 1112 Disclosures of Interests in Other Entities
- K-IFRS No. 1113 Fair Value Measurement
- K-IFRS No. 1019 Employee Benefits
- Presentation of items in other comprehensive income. (Amendments to K-IFRS No. 100 Presentation of Financial Statements)
- Disclosure of offsetting financial assets and financial liabilities. (Amendments to K-IFRS No. 1107 Financial Instruments: Disclosures)

Followings are characteristics of the accounting policy changes, and the impact of changes in accounting policy disclosed. In accordance with the amendments, the Group retroactively restated the comparative information of the consolidated financial statements as of and for the year ended December 31, 2012, and the consolidated statement of financial position as of January 1, 2012.

Subsidiaries

The amendments to K-IFRS No. 1110, Consolidated Financial Statements change the standard in determining which entities the Group controls. The standard introduces a new control model that focuses on assessing whether the Group is exposed or has rights to variable returns from its involvement with the investee, and the Group's ability to affect those returns through its power over the investee.

The Group re-assessed the control conclusion for its invetees as of January 1, 2013, the date of initial application, in accordance with the transitional provision of K-IFRS No. 1110. As a consequence, the Group has changed its control conclusions in respect of the follows entities:

Subsidiaries	Description
Retirement trust Personal pension trust New personal pension trust New pension trust	These entities were previous accounted for as non-consolidated entities due to the retirement trust risks and the lack of major benefits. As the Group's involvement and power over the entities exposes the Group to the variable returns and also affects the returns, therefore upon adoption of the standard, the entities are included as consolidated entities.

Joint Arrangements

In accordance to K-IFRS No. 1111 Joint Arrangements, the standard classifies joint arrangements into two types – joint operations and joint ventures. Prior to adoption of the standard, joint arrangements were classified by evaluating the structure. With the adoption of the standard, joint arrangements are classified according to structure, legal form, contractual agreements, and other factors and circumstances. The Group re-assessed its involvement in joint arrangements, and re-classified its investment assets from jointly controlled entities to joint ventures. With the investment assets continuously applying the equity method, the re-classification has no effect on the Group's consolidated financial statements.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Disclosure of Interest in Other Entities

In accordance to K-IFRS No. 1112 Disclosure of Interests in Other Entities, the Group discloses more detailed information in relations to interests in its subsidiaries and investees that apply the equity method, as described in notes 1.(2) and 45.

Fair Value Measurement

K-IFRS No. 1113, 'Fair Value Measurement' defines the fair value and the single framework for the fair value, and replaces the requirement about fair value measurements contained in individual standards. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard includes requirements from K-IFRS No. 1107 and other standards, regarding fair value measurements and related disclosures. The Group included the required disclosures in notes 48.

The Group applies the application guidance for fair value measurement prospectively in accordance with the transition of K-IFRS No. 1113, and does not provide comparative information related to the new disclosures. The revised amounts of the fair values of assets and liabilities, measured under the standard, do not impact the financial statements significantly.

Defined benefit retirement plans

The Group applied amendments to the recognition of actuarial gains and losses that are related to defined benefit retirement plans in accordance to K-IFRS No. 1019 Employee Benefits, and decided to apply the discount rate used to measure the defined benefit obligation at the beginning of the reporting period, to calculate the net interest expense (income) of the net defined benefit liability (asset). Changes to the net defined liabilities (assets) due to contributions and salaries paid during the reporting period are under consideration. Therefore, the net interest for the net defined benefit liability (asset) is comprised of the interest cost on the defined benefit obligation; the interest income on plan assets; and the effects of asset recognition. Prior to the amendment, the Group determined the interest income on plan assets based on the long-term expected rate of return.

Presentation of items in other comprehensive income

The amendments to K-IFRS No. 1001 Presentation of Financial Statements require items in other comprehensive income to be grouped, according to character, under two categories: items that will not be reclassified subsequently to profit or loss, and items that may be reclassified subsequently to profit or loss upon satisfying specific conditions. Therefore, the statement of comprehensive income for the year ended December 31, 2012, presented for comparative purpose, has been restated.

Offsetting financial assets and financial liabilities

The Group included disclosures of offsetting financial assets and financial liabilities in accordance to KIFRS No. 1107, as explained in notes 50.

(ii) Impact of changes in accounting policy

Impact of the changes in subsidiaries, and the defined benefit plan's accounting policies on the Group's consolidated financial statements is as follows. The Group has taken advantage of the transitional provisions of Consolidated Financial Statements, Joint Arrangements and Disclosure of interests in Other Entities: Transition Guidance (Amendments to K-IFRS No.1110, K-IFRS No.1111 and K-IFRS No.1112), and has not included in the following tables the impact of consolidating the additional subsidiary on the Group's financial position, comprehensive income and cash flows as at and for the year ended December 31, 2013.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

- Consolidated statements of financial position

(In millions of won)

	December 31, 2013			December 31, 2012			
	Before revision (*1)	Adjustments (*2) K-IFRS No. 1019	After revision	As previously reported	Adjustments K-IFRS No. 1110	Adjustments K-IFRS No. 1019	As restated
Financial assets held for trading	₩ 1,857,134	-	1,857,134	2,634,660	124,759	-	2,759,419
Available-for-sale financial assets	34,254,941	-	34,254,941	31,012,727	(19,121)	-	30,993,606
Loans	98,059,191	-	98,059,191	92,910,414	136,743	-	93,047,157
Investments in subsidiaries and associates	3,073,233	-	3,073,233	3,276,384	16,575	-	3,292,959
Other assets	12,707,134	-	12,707,134	19,084,506	(3,963)	-	19,080,543
Overall impact on total assets	167,724,717	-	167,724,717	165,524,624	254,993	-	165,779,617
Deposits	₩ 39,335,843	-	39,335,843	39,775,944	264,031	-	40,039,975
Deferred tax liabilities	72,241	-	72,241	695,238	1,556	-	696,794
Other liabilities	10,062,993	-	10,062,993	16,363,235	(15,209)	-	16,348,026
Overall impact on total liabilities	148,969,941	-	148,969,941	144,638,724	250,378	-	144,889,102
Accumulated other comprehensive income (loss)	₩ 298,840	117,616	416,456	609,788	(764)	38,222	647,246
Retained earnings	7,150,544	(117,616)	7,032,928	8,517,560	5,379	(38,222)	8,484,717
Overall impact on total equity	18,754,776	-	18,754,776	20,885,900	4,615	-	20,890,515

(In millions of won)

	January 1, 2012			
	As previously reported	Adjustments K-IFRS No. 1110	Adjustments K-IFRS No. 1019	As restated
Cash and due from banks	₩ 3,796,338	9,660	-	3,805,998
Financial assets held for trading	3,402,949	436,236	-	3,839,185
Available-for-sale financial assets	30,785,358	(12,504)	-	30,772,854
Loans	82,481,205	110,656	-	82,591,861
Investments in subsidiaries and associates	3,020,332	16,741	-	3,037,073
Other assets	12,539,942	14,780	-	12,554,722
Overall impact on total assets	149,021,800	575,569	-	149,597,369
Deposits	₩ 26,299,067	552,671	-	26,851,738
Deferred tax liabilities	947,606	3,255	-	950,861
Other liabilities	10,581,042	2,469	-	10,583,511
Overall impact on total liabilities	128,448,071	558,395	-	129,006,466
Accumulated other comprehensive income (loss)	₩ 731,136	6,949	20,836	758,921
Retained earnings	7,924,450	10,225	(20,836)	7,913,839
Overall impact on total equity	20,573,729	17,174	-	20,590,903

(*1) The amounts are calculated under the assumption that the Group has not adopted amendments to K-IFRS No. 1019 Employee Benefits.

(*2) The adjusted amounts don't include the impact of consolidating the additional subsidiary as of December 31, 2013 according to the transition guidance.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
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FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

- Consolidated statements of comprehensive income (loss)

(In millions of won)

		2013			2012			
		Before revision (*1)	Adjustments (*2) K-IFRS No. 1019	After revision	As previously reported	Adjustments K-IFRS No. 1110	Adjustments K-IFRS No. 1019	As restated
Net interest income	₩	2,088,722	-	2,088,722	2,070,086	5,248	-	2,075,334
Non-interest income, net		489,413	-	489,413	612,211	(11,332)	-	600,879
Dividend income		127,719	-	127,719	96,150	(926)	-	95,224
Net gain on financial assets held for trading		(23,493)	-	(23,493)	22,207	(53)	-	22,154
Net gain (loss) on available-for-sale financial assets		(195,452)	-	(195,452)	152,705	987	-	153,692
Net gain on derivatives		387,005	-	387,005	453,148	(311)	-	452,837
Other operating loss, net		(1,485,329)	(52,965)	(1,538,294)	(92,064)	14,088	(59,636)	(137,612)
Provision for loan losses		1,617,962	-	1,617,962	452,525	(244)	-	452,281
General and administrative expenses		1,341,742	51,776	1,393,518	1,345,187	5,361	(22,152)	1,328,396
Income tax expenses		(580,080)	(25,347)	(605,427)	212,969	7,429	(9,071)	211,327
Other comprehensive loss for the year		(394,679)	79,394	(315,285)	(193,361)	(7,714)	28,413	(172,662)

(*1) The amounts are calculated under the assumption that the Group has not adopted amendments to K-IFRS No. 1019 Employee Benefits.
(*2) The adjusted amounts don't include the impact of consolidating the additional subsidiary as of December 31, 2013 according to the transition guidance.

- Consolidated statements of cash flow

There is no impact on net cash flow or cash and cash equivalents from operating, financing activities, and investment activities.

(31) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been issued but are not yet effective for the annual period beginning January 1, 2013, and the Group has not early adopted them. The impacts of adopting these new changes cannot be estimated as of December 31, 2013.

K-IFRS No. 1032 Financial Instruments: Presentation

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014, with earlier application permitted.

K-IFRS No. 2121 Levies

K-IFRS No. 2121 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. K-IFRS No. 2121 Levies is effective for annual periods beginning on or after January 1, 2014.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
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FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

4. CASH AND DUE FROM BANKS

(1) Cash and due from banks as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Cash	₩	786,514	504,860
Due from banks in Korean won			
Due from Bank of Korea		1,973,652	706,759
Other due from banks in Korean won		596,997	391,566
		2,570,649	1,098,325
Due from banks in foreign currencies /off-shores		4,079,366	2,403,339
Provisions		(101)	(103)
	₩	7,436,428	4,006,421

(2) Restricted due from banks as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Reserve deposit	₩	1,779,520	782,064
Reserve for payment of principal on behalf of SPC		114	-
Others		209,642	115,031
	₩	1,989,276	897,095

5. FINANCIAL ASSETS HELD FOR TRADING

(1) Financial assets held for trading as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Financial assets held for trading denominated in Korean won:			
Equity securities:			
Stocks and equity investments	₩	33,241	16,413
Beneficiary certificates		155,119	6,264
		188,360	22,677
Debt securities:			
Government and public bonds		1,075,623	1,381,915
Financial bonds		375,305	812,244
General bonds		159,588	449,208
Corporate paper		37,100	52,180
		1,647,616	2,695,547
		1,835,976	2,718,224
Financial assets held for trading denominated in foreign currencies /off-shores:			
Equity securities		-	2,741
Debt securities		21,158	28,357
		21,158	31,098
Loaned financial assets held for trading:			
Debt securities		-	10,097
	₩	1,857,134	2,759,419

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FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(2) The details of debt securities in financial assets held for trading as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Government and public bonds	₩	1,070,000	1,088,042	1,075,623
Financial bonds		376,097	376,482	375,305
Corporate bonds		156,275	156,012	159,588
Commercial paper		50,001	49,174	37,100
Debt securities in foreign currencies		21,149	21,213	21,158
	₩	1,673,522	1,690,923	1,668,774

(In millions of won)

		December 31, 2012		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Government and public bonds	₩	1,362,351	1,376,083	1,381,915
Financial bonds		812,647	814,313	812,244
Corporate bonds		448,004	450,419	449,208
Commercial paper		52,500	52,167	52,180
Debt securities in foreign currencies		28,165	31,325	28,357
Loaned debt securities		10,000	10,166	10,097
	₩	2,713,667	2,734,473	2,734,001

Debt securities in Korean won are measured at the lower of fair values provided by NICE Bonds Pricing Services Inc. and KIS Bonds Prcing Inc. Debt securities in foreign currencies are measured at the lower of the fair values provided by NICE Bonds Pricing Services Inc. and the Korea Asset Pricing Co.

6. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets designated at fair value through profit or loss as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Securities designated at FVTPL denominated in Korean won	₩	240,812	251,873

The above financial assets designated at "Fair Value Through Profit or Loss" (FVTPL) consist of equityindex- linked securities, and others. Through designating embedded derivatives and host contracts as FVTPL items, changes in fair value of complex financial products are recognized in profit or loss.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(1) Available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Available-for-sale financial investments denominated in Korean won:			
Equity securities:			
Stocks and equity investments	₩	2,862,727	3,354,117
Beneficiary certificates		4,374,284	3,354,323
Others		447,581	67,421
		7,684,592	6,775,861
Debt securities:			
Government and public bonds		4,462,420	2,451,692
Financial bonds		4,253,697	5,032,304
Corporate bonds		12,371,948	11,526,908
Others		-	216,387
		21,088,065	19,227,291
		28,772,657	26,003,152
Available-for-sale financial investments denominated in foreign currencies /off-shores:			
Equity securities		652,196	619,055
Debt securities		4,770,561	4,352,137
		5,422,757	4,971,192
Loaned available-for-sale financial assets:			
Debt securities		59,527	19,262
	₩	34,254,941	30,993,606

Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost in the amount of ₩495,803 million as of December 31, 2013 (₩659,659 million as of December 31, 2012). The Group does not have the intention to dispose of these financial assets in the near future.

(2) Changes in available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Beginning balance	₩	30,993,606	30,772,854
Acquisition		39,956,238	45,845,278
Disposal		(37,135,402)	(44,753,687)
Change due to amortization		25,802	29,144
Unrealized change in fair value recorded in equity		(253,534)	55,583
Impairment loss		(745,404)	(373,789)
Reversal of impairment loss		4,738	5,863
Reclassification (note 8 (2))		1,579,311	(225,064)
Foreign exchange differences		(350,010)	(479,406)
Others(*)		179,596	116,830
Ending balance	₩	34,254,941	30,993,606

(*) Represents the value increase in available-for-sale equity securities acquired from Ssangyong Engineering & Consturction Co., Ltd., Oriental Precision & Engineering Co., Ltd., Pan Ocean Co., LTD. and Taihan Electric Wire Co., Ltd. during the year ended December 31, 2013 after a debt-forequity swap decision, of The Creditor Financial Institutions Committee, based upon Corporate Restructuring Promotion Act.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES
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(3) Equity securities with disposal restrictions in available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013		
	Number of shares	Carrying amount	Restricted period
Oriental Precison & Engineering Co., Ltd.	60,511,999	₩ 78,666	Until December 31, 2016
Kumho Tire Co., Inc.	27,357,555	314,612	Until December 31, 2014
Ssangyong Cement Industry Co., Ltd.	11,090,842	75,972	Undecided
Kumho Industrial Co., Ltd.	1,452,863	17,071	Until December 31, 2014
Taesan LCD Co., Ltd.	1,405,514	3,718	Until December 31, 2013
Hanchang Paper Co., Ltd.	6,409,200	3,878	Until December 31, 2014
Jaeyoung Solutec Co., Ltd.	1,962,000	2,659	Until December 31, 2013
Hanil Engineering & Construction Co., Ltd.	183,803	-	Until December 31, 2014
Ssangyong Engineering & Consturction Co., Ltd.	4,347,327	-	Until July 31, 2014
Taihan Electric Wire Co., Ltd.	4,991,100	24,698	Until December 20, 2014
Byucksan Engineering & Construction Co., Ltd.	188,830	632	Until June 30, 2014
	119,901,033	₩ 521,906	

(In millions of won)

	December 31, 2012		
	Number of shares	Carrying amount	Restricted period
Pantech Co., Ltd.	249,427,382	₩ 109,499	Subject to shareholders' committee's decision
Chinhung International Inc.	37,516,000	15,307	Until March 31, 2013
Oriental Precision & Engineering Co., Ltd.	22,920,666	27,642	Until December 31, 2016
Kumho Tire Co., Inc.	13,161,600	145,409	Until December 31, 2014
Ssangyong Cement Industry Co., Ltd.	11,090,842	61,321	Undecided
Kumho Industrial Co., Ltd.	9,963,982	15,046	Until December 31, 2014
Taesan LCD Co., Ltd.	7,027,574	2,117	Until December 31, 2013
Hanchang Paper Co., Ltd.	6,409,200	3,339	Until December 31, 2012
Kumho Petrochemical	4,281,715	507,041	Until May 3, 2013
Jaeyoung Solutec Co., Ltd.	1,962,000	1,550	Until December 31, 2012
Byucksan Engineering & Construction Co., Ltd.	1,480,833	28,660	Until April 12, 2014
Namkwang Engineering & Construction Co., Ltd.	1,406,139	20,280	Until March 31, 2013
Hanil Engineering & Construction Co., Ltd.	909,600	635	Until December 31, 2014
	367,557,533	₩ 937,846	

(4) Details of debt securities in available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013		
	Face value	Acquisition cost	Fair value (Carrying amounts)
Government and public bonds in Korean won	₩ 4,532,535	4,501,028	4,462,420
Financial bonds in Korean won	4,220,800	4,240,619	4,253,697
Corporate bonds in Korean won	12,507,191	12,500,529	12,371,948
Debt securities denominated in foreign currencies /off shores	4,716,482	4,855,051	4,770,561
Loaned debt securities	60,000	60,410	59,527
	₩ 26,037,008	26,157,637	25,918,153

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(In millions of won)

	December 31, 2012		
	Face value	Acquisition cost	Fair value (Carrying amounts)
Government and public bonds in Korean won	₩ 2,340,983	2,410,946	2,451,692
Financial bonds in Korean won	4,963,700	4,989,010	5,032,304
Corporate bonds in Korean won	11,444,225	11,437,722	11,526,908
Others debt securities in Korean won	306,736	132,432	216,387
Debt securities denominated in foreign currencies /off shores	4,206,592	4,344,052	4,352,137
Loaned debt securities	20,000	19,749	19,262
	₩ 23,282,236	23,333,911	23,598,690

Debt securities in Korean won are measured at the lower of fair values provided by NICE Bonds Pricing Services Inc. and KIS Prcing Inc. Debt securities in foreign currencies are measured at the lower of the fair values provided by NICE Bonds Pricing Services Inc. and the Korea Asset Pricing Co.

8. HELD-TO-MATURITY FINANCIAL ASSETS

(1) Held-to-maturity financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013		December 31, 2012	
	Amortized cost	Fair value	Amortized cost	Fair value
Held-to-maturity financial assets in Korean won:				
Government and public bonds	₩ 7,109	7,703	395,004	433,373
Financial bonds	-	-	580,583	607,189
Corporate bonds	52,819	53,019	217,969	221,577
	59,928	60,722	1,193,556	1,262,139
Held-to-maturity financial assets in foreign currencies/off-shores:				
Debt Securities	47,805	47,806	300,451	331,780
	₩ 107,733	108,528	1,494,007	1,593,919

(2) Changes in held-to-maturity financial assets for the years periods ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Beginning balance	₩ 1,494,007	1,525,418
Acquisition	1,414,848	90,111
Redemption	(1,469,443)	(93,754)
Change due to amortization	415	2,189
Impairment loss	-	(4,096)
Reclassification(*)	(1,332,536)	-
Foreign exchange differences	442	(25,861)
Ending balance	₩ 107,733	1,494,007

(*) The Group reclassified held-to-maturity financial assets owned by subsidiary KDB Life Insurance to available-for-sale financial assets. Such procedures to reduce the size of held-to-maturity financial assets by reclassification were carried out to comply with significantly strengthened requirements on capital regulation in the insurance business in Korea. The Group believes that the transfer from held-to-maturity financial assets is a result of significant change in regulatory requirements in Korea which the Group couldn't have reasonably anticipated and is non-controllable by the Group. Therefore the Group believes that the remaining held-to-maturity financial assets are not subject to tainting provisions.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

9. LOANS AND ALLOWANCE FOR LOAN LOSSES

(1) Loans and allowance for loan losses as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013		December 31, 2012	
		Amortized cost	Fair value	Amortized cost	Fair value
Loans in Korean won:					
Loans for working capital	₩	28,279,565	27,456,597	24,689,581	24,444,670
Loans for facility development		32,824,419	32,873,505	30,750,522	31,030,039
Loans for households		2,864,137	2,852,823	2,009,505	2,018,687
Inter-bank loans		901,325	827,649	714,382	664,777
Others		2,554	2,554	2,554	2,554
		64,872,000	64,013,128	58,166,544	58,160,727
Loans in foreign currencies:					
Loans		13,144,612	13,470,371	12,951,582	13,099,898
Inter-bank loans		591,907	591,964	927,400	927,727
Loans borrowed from overseas financial institutions		288,502	293,119	323,191	328,803
Off-shore loans receivables		7,214,796	7,472,045	5,488,852	5,678,811
		21,239,817	21,827,499	19,691,025	20,035,239
Other loans receivables:					
Bills bought in foreign currency		1,283,785	1,281,892	1,982,715	1,975,839
Advance payments on acceptances and guarantees		147,262	119,444	99,353	87,828
Privately-placed corporate bonds		4,500,088	4,303,195	5,618,048	5,699,707
Others		7,932,074	7,844,204	8,434,048	8,187,731
		13,863,209	13,548,735	16,134,164	15,951,105
		99,975,026	99,389,362	93,991,733	94,147,071
Less:					
Allowance for loan losses		(1,874,814)		(883,942)	
Present value discount		(43,842)		(49,300)	
Deferred loan origination costs and fees		2,821		(11,334)	
	₩	98,059,191		93,047,157	

(2) Changes in allowance for loan losses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

2013		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Beginning balance	₩	397,826	176,656	3,123	153,466	89,153	63,718	883,942
Provision for loan losses		922,547	118,462	7,259	23,058	426,558	120,078	1,617,962
Write-offs		(109,159)	(40,391)	-	(22,404)	(173,149)	(17,722)	(362,825)
Foreign exchange differences		-	-	-	(2,001)	-	-	(2,001)
Others (*)		(211,542)	(26,030)	(16)	10,502	(18,285)	(16,893)	(262,264)
Ending balance	₩	999,672	228,697	10,366	162,621	324,277	149,181	1,874,814

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(In millions of won)

2012		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Beginning balance	₩	416,326	193,213	1,714	199,883	192,657	81,094	1,084,887
Provision for loan losses		262,193	68,359	1,409	27,966	81,599	10,755	452,281
Write-offs		(226,595)	(55,171)	-	(48,332)	(134,816)	(22,303)	(487,217)
Foreign exchange differences		-	-	-	(1,700)	-	-	(1,700)
Others (*)		(54,098)	(29,745)	-	(24,351)	(50,287)	(5,828)	(164,309)
Ending balance	₩	397,826	176,656	3,123	153,466	89,153	63,718	883,942

(*) Others consist of changes due to the sales of loans, debt-to-equity swap and unwinding effect, etc.

(3) Losses related to loans for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Provision for loan losses	₩	(1,617,962)	(452,281)
Losses on disposal of loan		(148,286)	(348,591)
	₩	(1,766,248)	(800,872)

(4) Changes in net deferred loan origination costs and fees for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Beginning balance	₩	(11,334)	(32,944)
New deferrals		14,252	14,614
Amortization		(97)	6,996
Ending balance	₩	2,821	(11,334)

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments consist of trading derivatives and hedging derivatives, depending on the nature of each transaction. The Group enters into hedging derivative transactions mainly for the purpose of hedging fair values risk related to changes in fair values of the underlying assets and liabilities.

The Group enters into trading derivative transactions such as futures, forwards, swaps and options for arbitrage transactions by speculating on the future value of the underlying assets. Derivatives held-for trading transactions include contracts with the Group's clients and its liquidation position.

For the purpose of hedging the exposure to the variability of fair values of funds in Korean won by changes in interest rate, the Group mainly uses interest swaps or currency swaps. The main counterparties are foreign financial institutions and local banks. In addition, to hedge the exposure to the variability of fair values of bonds in foreign currencies by changing in interest rate or foreign exchange rate, the Group mainly uses interest swaps or currency swaps.

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The notional amounts outstanding for derivative contracts and the carrying amounts of the derivative financial instruments as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013			
		Notional amounts		Carrying amounts	
		Buy	Sell	Asset	Liability
Trading purpose derivative financial instruments:					
Interest rate	₩	266,014,096	266,800,540	1,479,071	1,451,113
Currency		51,859,392	50,098,439	2,158,388	2,082,629
Stock		202,967	304,946	6,761	6,023
Commodities		443,279	443,279	747	747
Embedded derivatives		369,920	380,000	41,745	2,951
Allowance and other adjustment		-	-	(9,834)	2,715
		318,889,654	318,027,204	3,676,878	3,546,178
Hedging purpose derivative financial instruments:					
Interest rate		12,509,847	12,405,456	476,509	116,683
Currency		5,733,279	6,619,640	212,132	253,210
Allowance and other adjustment		-	-	(1,429)	(30)
		18,243,126	19,025,096	687,212	369,863
		337,132,780	337,052,300	4,364,090	3,916,041

(In millions of won)

		December 31, 2012			
		Notional amounts		Carrying amounts	
		Buy	Sell	Asset	Liability
Trading purpose derivative financial instruments:					
Interest rate	₩	213,471,857	213,291,886	2,027,642	1,981,396
Currency		47,233,436	44,753,281	2,162,673	1,984,591
Stock		483,377	603,482	8,739	8,196
Commodities		575,854	575,854	13,353	13,353
Embedded derivatives		359,872	207,815	105,981	38
Allowance and other adjustments		-	-	(11,323)	4,779
		262,124,396	259,432,318	4,307,065	3,992,353
Hedging purpose derivative financial instruments:					
Interest rate		11,085,327	11,085,802	605,768	46,378
Currency		6,004,902	6,688,027	293,241	82,833
Allowance and other adjustment		-	-	(1,522)	-
		17,090,229	17,773,829	897,487	129,211
		279,214,625	277,206,147	5,204,552	4,121,564

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

11. INVESTMENTS IN ASSOCIATES

(1) Investments in associates as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013		December 31, 2012	
		Acquisition cost	Carrying amounts	Acquisition cost	Carrying amounts
Daewoo Shipbuilding & Marine Engineering Co.,Ltd.	₩	1,052,166	1,552,568	1,040,486	1,458,492
GM Korea Company		287,774	291,953	287,774	413,259
Korea BTL Fund I		239,227	242,871	252,512	258,370
KDB Electronic Power PEF		92,278	90,796	96,724	95,119
Korea Infrastructure Fund II		162,835	164,076	141,315	141,837
Korea Education Fund		85,115	86,348	88,482	89,825
Korea Railroad Fund I		200,895	204,179	200,430	203,673
Shinbundang Railroad Co., Ltd.		51,609	13,692	51,609	29,702
Troika Resources Investment PEF		133,311	107,201	107,173	90,839
Others		460,786	319,549	348,382	511,843
	₩	2,765,996	3,073,233	2,614,887	3,292,959

(2) The market value of marketable investments in associates as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		Market value		Carrying amount	
		December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	₩	2,107,601	1,624,265	1,552,568	1,458,492
STX Offshore & Shipbuilding Co.,Ltd. (*1), (*2)		68,487	-	10	-
STX Engine Co,.Ltd.(*1), (*2)		19,088	-	4	-
STX Heavy Industries Co,.Ltd.(*2)		58,773	-	18	-

(*1) The active market for the equity investment disappeared because stock trading was suspended after December 31, 2013 due to deteriorating business circumstances.

(*2) The Bank was able to obtain significant influence due to The Creditor Financial Institutions Committee's debt-for-equity swap decision based upon the Corporate Restructuring Promotion Act during the year ended December 31, 2013.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

11. INVESTMENTS IN ASSOCIATES, CONTINUED

(3) Changes in investments in associates for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013								
	January 1, 2013	Acquisition/ transfer	Disposal/ transfer	Share of earnings (loss)	Impairment loss (*1)	Changes in capital adjustments from equity method valuation	Dividends	Others	December 31, 2013
Daewoo Shipbuilding & Marine Engineering Co.,Ltd.	₩ 1,458,492	11,680	-	84,269	-	11,270	(14,956)	1,813	1,552,568
GM Korea Company	413,259	-	-	(119,193)	-	(2,459)	-	346	291,953
Korea BTL Fund I	258,370	9,333	(22,618)	11,340	-	-	(13,554)	-	242,871
KDB Electronic Power PEF	95,119	-	(4,323)	6,301	-	-	(6,301)	-	90,796
Korea Infrastructure Fund II	141,837	21,520	-	8,836	-	-	(8,117)	-	164,076
Korea Education Fund	89,825	-	(3,367)	4,272	-	-	(4,382)	-	86,348
Korea Railroad Fund I	203,673	3,500	(3,035)	8,958	-	-	(8,917)	-	204,179
Shinbundang Railroad Co., Ltd.	29,702	-	-	(16,010)	-	-	-	-	13,692
Troika Resources Investment PEF	90,839	26,171	-	(7,289)	-	-	-	(2,520)	107,201
Others	511,843	95,591	(145,914)	(25,454)	(92,678)	(5,331)	(10,472)	(8,036)	319,549
	₩ 3,292,959	167,795	(179,257)	(43,970)	(92,678)	3,480	(66,699)	(8,397)	3,073,233

(*1) The Group recognized W34,396 million of impairment losses on investment in Daehan Shipbuilding Co., Ltd. considering reducing orders and cancellation of contracts due to the recession of the shipbuilding industry as an indication of impairment. The Group also recognized W22,220 million of impairment losses on investment in Econhill Development Co., Ltd. considering deteriorating business performances due to the recession of the construction industry and financing difficulties as an indication of impairment during the year ended December 31, 2013.

(In millions of won)

	2012								
	January 1, 2012	Acquisition/ transfer	Disposal/ transfer	Share of earnings (loss)	Impairment loss	Changes in capital adjustments from equity method valuation	Dividends	Others	December 31, 2012
Daewoo Shipbuilding & Marine Engineering Co.,Ltd.	₩ 1,434,145	-	-	67,992	-	(13,732)	(29,913)	-	1,458,492
GM Korea Company	367,811	-	-	51,548	-	(6,100)	-	-	413,259
Korea BTL Fund I	257,408	13,459	(13,944)	14,767	-	-	(13,320)	-	258,370
KDB Electronic Power PEF	146,781	-	(51,662)	15,422	-	-	(15,422)	-	95,119
Korea Infrastructure Fund II	127,370	15,973	(4)	7,855	-	-	(9,357)	-	141,837
Korea Education Fund	85,452	7,150	(2,879)	4,572	-	-	(4,470)	-	89,825
Korea Railroad Fund I	175,273	28,252	-	9,108	-	-	(8,960)	-	203,673
Shinbundang Railroad Co., Ltd.	-	51,609	-	(21,901)	-	(6)	-	-	29,702
Troika Resources Investment PEF	103,440	2,518	-	(15,119)	-	-	-	-	90,839
Others	339,393	296,065	(118,040)	(11,280)	(29,356)	(7,970)	(888)	43,919	511,843
	₩ 3,037,073	415,026	(186,529)	122,964	(29,356)	(27,808)	(82,330)	43,919	3,292,959

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(4) The details of financial information of significant equity method investees and ratio of ownership as of and for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013									
	Country	Fiscal year end	Industry	Assets	Liabilities	Equity	Operating revenue	Net income (loss)	Other comprehen-sive income (loss)	Ratio (%)
Daewoo Shipbuilding & Marine Engineering Co.,Ltd.	Korea	December	Manufacturing	₩ 18,488,879	13,709,509	4,779,370	15,305,281	241,893	303,528	31.26
GM Korea Company(*1)	Korea	December	Manufacturing	10,082,452	8,366,881	1,715,571	18,624,412	(695,856)	(695,856)	17.02
Korea BTL Fund I	Korea	December	Financial investment	583,292	398	582,894	29,016	27,216	27,216	41.67
KDB Electronic Power PEF	Korea	December	Financial investment	181,937	2,493	179,444	12,947	4,962	4,962	50.00
Korea Infrastructure Fund II	Korea	December	Financial investment	666,116	50,832	615,284	44,253	33,133	33,133	26.67
Korea Education Fund	Korea	December	Financial investment	172,704	9	172,695	9,000	8,544	8,544	50.00
Korea Railroad Fund I	Korea	December	Financial investment	408,373	15	408,358	18,947	17,915	17,915	50.00
Shinbundang Railroad Co., Ltd.	Korea	December	Other	838,124	838,763	(639)	49,321	(77,381)	(77,381)	20.69
Troika Resources Investment PEF	Korea	December	Financial investment	234,373	1,344	233,029	(10,814)	(15,946)	(15,946)	45.93

(In millions of won)

	December 31, 2012									
	Country	Fiscal year end	Industry	Assets	Liabilities	Equity	Operating revenue	Net income (loss)	Other comprehen-sive income (loss)	Ratio (%)
Daewoo Shipbuilding & Marine Engineering Co.,Ltd.	Korea	December	Manufacturing	₩ 16,113,671	11,559,543	4,554,128	14,057,819	175,720	148,592	31.26
GM Korea Company(*1)	Korea	December	Manufacturing	9,900,039	7,469,622	2,430,417	2,070,636	302,904	263,681	17.02
Korea BTL Fund I	Korea	December	Financial investment	620,514	420	620,094	37,342	35,440	35,440	41.67
KDB Electronic Power PEF	Korea	December	Financial investment	190,713	2,623	188,090	21,638	30,844	30,844	50.00
Korea Infrastructure Fund II	Korea	December	Financial investment	650,319	118,429	531,890	42,581	29,457	29,457	26.67
Korea Education Fund	Korea	December	Financial investment	179,660	9	179,651	9,607	9,144	9,144	50.00
Korea Railroad Fund I	Korea	December	Financial investment	407,356	11	407,345	19,149	18,214	18,214	50.00
Shinbundang Railroad Co., Ltd.	Korea	December	Other	881,841	805,099	76,742	42,279	(87,429)	(87,429)	20.69
Troika Resources Investment PEF	Korea	December	Financial investment	192,766	1,574	191,192	(38,720)	(44,003)	(44,003)	45.93

(*1) Equity method is applied to GM Korea Company, even though the Group's ownership is less than 20%, because the Group is considered to have significant influence over GM Korea Company by having rights to elect board of directors, etc. The Group used the financial statements of GM Korea Company as of September 30, 2013 in applying the equity method since the Group was not able to obtain the financial statements as of December 31, 2013. The Group made adjustments for the effects of any significant events or transactions occurred between the date of the investee's financial statements and the date of the Group's consolidated financial statements.

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12. PROPERTY AND EQUIPMENT

Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013						
	January 1, 2013	Acquisition/ depreciation	Disposal	Reclassifi -cation	Foreign exchange differences	Disposal of subsidiary	December 31, 2013
Acquisition cost:							
Land	₩ 391,497	133,334	(82)	9,240	(127,165)	(55,315)	351,509
Buildings and structures	584,355	19,122	(2,248)	6,336	(15,576)	(38,682)	553,307
Leasehold improvements	32,082	2,952	(2,414)	1,717	(728)	-	33,609
Vehicles	107,995	9,042	(13,405)	-	(2,282)	(1,902)	99,448
Equipment	202,829	16,893	(11,233)	-	(1,515)	(19,406)	187,568
Construction in-progress	273,968	19,207	-	(3,878)	(20,646)	-	268,651
Others	476,528	44,810	(18,093)	-	(11,638)	(36,326)	455,281
	2,069,254	245,360	(47,475)	13,415	(179,550)	(151,631)	1,949,373
Accumulated depreciation:							
Buildings and structures	180,049	16,520	(1,172)	2,488	(472)	(32,455)	164,958
Leasehold improvements	16,975	6,859	(1,872)	-	(525)	-	21,437
Vehicles	85,424	9,298	(12,722)	-	(1,738)	(903)	79,359
Equipment	150,514	16,509	(10,042)	-	(794)	(9,037)	147,150
Others	360,755	31,142	(16,410)	-	(9,260)	(16,872)	349,355
	793,717	80,328	(42,218)	2,488	(12,789)	(59,267)	762,259
Accumulated impairment loss:							
Land	3,030	-	-	111	-	-	3,141
Buildings and structures	2,361	-	-	59	-	-	2,420
	5,391	-	-	170	-	-	5,561
	₩ 1,270,146	165,032	(5,257)	10,757	(166,761)	(92,364)	1,181,553

(In millions of won)

	2012						
	January 1, 2013	Acquisition/ depreciation	Disposal	Reclassifi -cation	Foreign exchange differences	Disposal of subsidiary	December 31, 2013
Acquisition cost:							
Land	₩ 399,841	1,834	-	(10,130)	(48)	-	391,497
Buildings and structures	647,300	1,847	(8,489)	223	(3,552)	(52,974)	584,355
Leasehold improvements	25,561	1,120	(1,581)	7,595	(613)	-	32,082
Vehicles	111,556	7,725	(2,672)	214	(8,583)	(245)	107,995
Equipment	214,304	20,115	(25,491)	1,759	(1,141)	(6,717)	202,829
Construction in-progress	282,332	32,891	(16,233)	(16,087)	(7,862)	(1,073)	273,968
Others	496,862	48,750	(33,048)	(2,704)	(27,805)	(5,527)	476,528
	2,177,756	114,282	(87,514)	(19,130)	(49,604)	(66,536)	2,069,254
Accumulated depreciation:							
Buildings and structures	187,265	15,892	(8,487)	(1,037)	978	(14,562)	180,049
Leasehold improvements	15,018	3,650	(1,121)	(163)	(572)	-	16,975
Vehicles	86,219	9,720	(2,526)	749	(7,529)	(297)	85,424
Equipment	159,743	19,211	(23,633)	(1,129)	(778)	(4,778)	150,514
Others	369,259	32,060	(12,535)	(1,580)	(21,492)	(5,408)	360,755
	817,504	80,533	(48,302)	2,488	(29,393)	(25,045)	793,717
Accumulated impairment loss:							
Land	3,023	44	-	(37)	-	-	3,030
Buildings and structures	2,361	-	-	-	-	-	2,361
	5,384	44	-	(37)	-	-	5,391
	₩ 1,354,868	33,705	(39,212)	(17,513)	(20,211)	(41,491)	1,270,146

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13. INVESTMENT PROPERTY

Changes in carrying value of investment property for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013				
	January 1, 2013	Acquisition/ depreciation	Disposal	Reclassification	December 31, 2013
Acquisition cost:					
Land	₩ 196,334	2,551	-	(9,240)	189,645
Buildings and structures	225,959	2,886	(2,526)	(4,175)	222,144
	422,293	5,437	(2,526)	(13,415)	411,789
Accumulated depreciation:					
Buildings and structures	70,399	6,628	(828)	(2,488)	73,711
Accumulated impairment loss:					
Land	4,568	-	-	(111)	4,457
Buildings and structures	3,599	-	-	(59)	3,540
	8,167	-	-	(170)	7,997
	₩ 343,727	(1,191)	(1,698)	(10,757)	330,081

Fair value of the Group's investment property, as determined on the basis of valuation by an independent appraiser, amounts to ₩306,471 million as of December 31, 2013 (₩350,147 million as of December 31, 2012). Additionally, fair value of investment properties is classified as level 3 according to the fair value hierarchy in Note 48.

(In millions of won)

	2012				
	January 1, 2012	Acquisition/ depreciation	Disposal	Reclassification	December 31, 2012
Acquisition cost:					
Land	₩ 199,635	-	(13,431)	10,130	196,334
Buildings and structures	221,374	-	(565)	5,150	225,959
	421,009	-	(13,996)	15,280	422,293
Accumulated depreciation:					
Buildings and structures	64,071	5,542	(251)	1,037	70,399
Accumulated impairment loss:					
Land	11,673	32	(7,174)	37	4,568
Buildings and structures	3,599	-	-	-	3,599
	15,272	32	(7,174)	37	8,167
	₩ 341,666	(5,574)	(6,571)	14,206	343,727

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14. INTANGIBLE ASSETS

Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013							
		January 1, 2013	Acquisition	Disposal	Amortization	Impairment loss	Foreign exchange differences	Disposal of subsidiary	December 31, 2013
Goodwill(*1)	₩	934,691	26	-	-	(90,307)	(2)	(3,071)	841,337
Intangible assets related to customers		755,683	-	-	(96,681)	-	-	-	659,002
Membership(*2)		46,939	8,484	(828)	-	(138)	(13)	(1,667)	52,777
Others(*3)		1,344,236	86,081	(2,575)	(150,180)	-	(902)	(21,394)	1,255,266
	₩	3,081,549	94,591	(3,403)	(246,861)	(90,445)	(917)	(26,132)	2,808,382

(*1) The Group recognized impairment losses of goodwill considering the declined values of holding contracts and new contracts of KDB Consus Value Private Equity Fund's sub-sub subsidiary, KDB Life Insurance Co., Ltd., due to reduced interest rates as an indication of impairment for the year ended December 31, 2013. The impairment loss represents the carrying value of the CGU (KDB Life Insurance Co., Ltd.) in excess of the recoverable amount of the CGU, which is based on valuation performed by an independent external appraiser using the significant input of discount rate (10.00%).
(*2) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.
(*3) Trademarks, patents, and others measured at fair value are included due to the acquisition of Daewoo Engineering & Construction Co., Ltd.

(In millions of won)

		2012									
		January 1, 2013	Acquisition	Disposal	Reclassifi-cation	Amortization	Impairment loss	Foreign exchange differences	Disposal Of subsidiary	Others	December 31, 2012
Goodwill	₩	964,359	-	-		-	-	(11)	-	(29,657)	934,691
Intangible assets related to customers		852,364	-	-		(96,681)	-	-	-	-	755,683
Membership(*1)		18,987	5,179	-	23,547	-	(684)	(90)	-	-	46,939
Others(*2)		1,457,971	68,256	(566)	(29,765)	(147,099)	(1,000)	(1,551)	(2,010)	-	1,344,236
	₩	3,293,681	73,435	(566)	(6,218)	(243,780)	(1,684)	(1,652)	(2,010)	(29,657)	3,081,549

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.
(*2) Trademarks, patents, and others measured at fair value are included due to the acquisition of Daewoo Engineering & Construction Co., Ltd. Impairment losses on other intangible assets arose of development costs of Sunstar.

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15. OTHER ASSETS

Other assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Accounts receivable	₩	3,943,461	9,080,164
Unsettled domestic exchange receivables		851,673	2,360,742
Accrued income		526,108	552,534
Guarantee deposits		383,453	311,533
Trade accounts receivables		3,265,798	2,908,751
Inventories		1,482,592	1,501,694
Prepaid expenses		338,345	385,367
Advance payments		516,691	636,574
Deferred acquisition cost		565,853	604,264
Separate account assets		839,576	738,706
Financial guarantee asset		37,007	62,254
Others		52,349	59,344
		12,802,906	19,201,927
Allowance for possible loss		(89,567)	(113,716)
Present value discount		(6,205)	(7,668)
	₩	12,707,134	19,080,543

The carrying amount of financial assets included in other assets above amounted to ₩4,448,118 million as of December 31, 2013 (₩10,858,186 million as of December 31, 2012) and their fair value amounted to ₩4,398,426 million as of December 31, 2013 (₩10,854,498 million as of December 31, 2012).

16. NON-CURRENT ASSETS HELD FOR SALE AND NON-CURRENT LIABILITIES HELD FOR SALE

(1) Non-current assets and liabilities held for sale as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Non-current assets held for sale			
Property and equipment (*1)	₩	285,295	394,305
Asset for disposal group (*2)		148,458	-
	₩	433,753	394,305
Non-current liabilities held for sale			
Asset for disposal group (*2)		33,976	-

(*1) Property and equipment is owned by Daewoo Engineering & Construction Co., Ltd. and it is expected to be sold in foreseeable future.
(*2) The Group classified assets and liabilities related to Imgo Development Co., subsidiary of Daewoo Engineering & Construction Co., as non-current assets and liabilities held for sale since the company is being sold to a third party.

(2) Gains (losses) related to non-current assets and liabilities held for sale for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Gains on disposal of non-current assets held for sale	₩	1,298	90,927
Reversal of impairment loss on disposal of non-current assets held for sale		-	5,460
Losses on disposal of non-current assets held for sale		(6,953)	(22,703)
Impairment losses on disposal of noncurrent assets held for sale		(6,106)	(9,301)
	₩	(11,761)	64,383

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17. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Financial liabilities designated at fair value through profit or loss as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Borrowings	₩	9,289	10,770
Bonds		668,627	864,427
	₩	677,916	875,197

The borrowings designated at "Fair Value Through Profit or Loss" (FVTPL) consist of equity-indexlinked securities, and others. Through designating embedded derivatives and host contracts as FVTPL items, changes in fair value of complex financial products are recognized in profit or loss. Changes in fair value of structured bonds which hedge accounting are applied, are recognized in profit or loss, but structured bonds which hedge accounting are not applied, are measured at amortized costs. Therefore, such structured bonds with no hedge accounting applied, have been designated at FVTPL in order to eliminate mismatch in measurements of accounting profit and loss.

(2) The difference between the carrying amount and contractual cash flow amount of financial liabilities designated at fair value through profit or loss as of December 31, 2013 and 2012 are as follows.

(In millions of won)

		December 31, 2013	December 31, 2012
Carrying amount	₩	677,916	875,197
Contractual cash flow amount		560,201	711,400
Difference	₩	117,715	163,797

18. DEPOSITS

Deposits as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013		December 31, 2012	
		Amortized cost	Fair value	Amortized cost	Fair value
Deposits in Korean won:					
Demand deposits	₩	273,323	273,319	241,663	241,663
Time and savings deposits		31,756,831	31,773,265	33,840,267	33,892,396
Certificates of deposit		72,914	73,027	74,996	75,339
		32,103,068	32,119,611	34,156,926	34,209,398
Deposits in foreign currencies:					
Demand deposits		2,826,861	2,826,861	2,371,672	2,371,672
Time and savings deposits		2,727,720	2,728,883	2,810,541	2,812,912
Certificates of deposit		1,678,194	1,678,875	700,836	701,184
		7,232,775	7,234,619	5,883,049	5,885,768
	₩	39,335,843	39,354,230	40,039,975	40,095,166

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19. BORROWINGS

(1) Borrowings as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013				
	Minimum interest rate (%)	Maximum interest rate (%)		Amortized cost	Fair value
Borrowings in Korean won	0.22	5.30	₩	6,514,787	6,514,758
Borrowings in foreign currencies	0.01	6.20		11,062,739	11,086,880
Off-shore borrowings in foreign currencies	0.19	4.27		2,262,188	2,265,441
Callable preferred stocks	-	-		305,535	305,535
Others	0.05	8.90		5,780,975	5,781,619
				25,926,224	25,954,233
Present value discount				(6,937)	
Deferred borrowing costs				(8,376)	
			₩	25,910,911	

(In millions of won)

	December 31, 2012				
	Minimum interest rate (%)	Maximum interest rate (%)		Amortized cost	Fair value
Borrowings in Korean won	0.04	5.54	₩	6,300,379	6,288,774
Borrowings in foreign currencies	0.01	7.19		10,638,855	10,446,660
Off-shore borrowings in foreign currencies	0,14	4.27		2,229,944	2,235,372
Callable preferred stocks	-	-		427,328	427,328
Others	0.01	6.55		4,897,862	4,898,455
				24,494,368	24,296,589
Present value discount				(10,562)	
Deferred borrowing costs				(10,803)	
			₩	24,473,003	

(2) Borrowings in Korean won before adjusting gains and losses on deferred borrowing costs as of December 31, 2013 and 2012 are as follows:

(In millions of won)

Lender	Classification	Annual interest rate(%)		December 31, 2013	December 31, 2012
Ministry of Strategy and Finance	Borrowings from government fund(*)	1.92 ~ 5.00	₩	564,288	641,195
Industrial Bank of Korea	Borrowings from industrial technique fund	1.83 ~ 2.42		2,425	5,816
Small & Medium Business Corp.	Borrowings from local small and medium company promotion fund	1.87 ~ 4.21		306,085	384,467
Ministry of Culture and Tourism	Borrowings from tourism promotion fund	0.38 ~ 2.50		1,222,208	1,168,333
Korea Energy Management Corporation	Borrowings from fund for rational use of energy	0.25 ~ 3.75		1,187,543	1,225,670
Local governments	Borrowings from local small and medium company promotion fund	1.49 ~ 5.30		95,024	110,292
Others	Borrowings from environment improvement support fund and others	0.22 ~ 5.00		3,137,214	2,764,606
			₩	6,514,787	6,300,379

(*) Borrowings from government fund are subordinated borrowings.

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(3) Borrowings in foreign currencies and off-shore borrowings before adjusting gains and losses on deferred borrowing costs as of December 31, 2013 and 2012 are as follows:

(In millions of won)

Lender	Classification	Annual interest rate(%)	December 31, 2013	December 31, 2012
Japan Bank for International Cooperation("JBIC")	Borrowings from JIBC	1.44 ~ 2.16	₩ 288,502	323,191
Mizuho and others	Loan fund to bank for reconstruction and development	3M Libor+0.45~ 3M Telerate+3.80	2,307,530	2,906,302
Citi Bank and others	Off-shore short term borrowings	0.19 ~ 0.87	1,109,858	1,766,783
		3M Telerate+0.50	31,659	-
		6M Telerate+0.27 ~ 9M Telerate+0.35	73,871	-
		1Y Telerate+0.40	52,765	-
		6M Libor+0.27~0.65	-	85,688
			1,268,153	1,852,471
BNP-PARIBAS and Others	Off-shore long term borrowings	3M Libor+0.30~0.75	551,713	246,353
		3M Libor ~ Telerate+0.75~1.05	316,590	-
			868,303	246,353
Japan Bank for International Cooperation("JBIC")	Borrowings from JBIC	1.79	83,526	60,902
		4.27~6M Libor+1.20	42,206	48,957
			125,732	109,859
Others	Short term borrowings in foreign currency	0.01 ~ 5.40	6,007,762	5,389,648
	Long term borrowings in foreign currency	0.40 ~ 6.20	2,458,945	2,040,975
			₩ 13,324,927	12,868,799

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20. BONDS

(1) Bonds as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Bonds in Korean won:				
Bonds	2.42	8.05	₩ 38,544,192	38,560,176
Discount on bonds			(38,235)	
Valuation adjustment for fair value hedges			33,533	
			38,539,490	38,560,176
Bonds in foreign currencies:				
Bonds	3M Libor+0.24	3M Libor+6.28	11,744,721	12,246,199
Discount on bonds			(32,027)	
Premium on bonds			14,098	
Valuation adjustment for hedging purposes			(67,449)	
			11,659,343	12,246,199
Off-shore bonds:				
Bonds	3M Libor+0.0005	3M Libor+6.18	7,283,719	7,233,416
Discount on bonds			(20,845)	
Premium on bonds			14,103	
Valuation adjustment for fair value hedges			(254,537)	
			7,022,440	7,233,416
			₩ 57,221,273	58,039,791

(In millions of won)

	December 31, 2012			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Bonds in Korean won:				
Bonds	2.54	10.00	₩ 30,765,630	31,127,604
Discount on bonds			(45,851)	
Valuation adjustment for fair value hedges			90,166	
			30,809,945	31,127,604
Bonds in foreign currencies:				
Bonds	3M Libor+0.24	3M Libor+6.28	11,742,828	12,408,199
Discount on bonds			(26,530)	
Premium on bonds			18,849	
Valuation adjustment for fair value hedges			273,683	
			12,008,830	12,408,199
Off-shore bonds:				
Bonds	3M Libor+0.37	3M Libor+6.18	5,736,595	5,834,462
Discount on bonds			(16,843)	
Valuation adjustment for fair value hedges			(64,532)	
			5,655,220	5,834,462
			₩ 48,473,995	49,370,265

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21. POLICY RESERVES

The details of policy reserves categorized by insurance type as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	Type		December 31, 2013	December 31, 2012
Premium reserve	Pure endowment	₩	3,115,935	2,717,791
	Death		3,541,038	3,289,157
	Endowment		3,137,677	2,647,902
	Group		39,140	36,490
			9,833,790	8,691,340
Unearned premium reserve	Pure endowment		6	6
	Death		337	399
	Endowment		2	5
	Group		1,182	816
			1,527	1,226
Reserve for outstanding claims	Pure endowment		63,423	60,069
	Death		270,637	254,020
	Endowment		178,561	129,473
	Group		7,439	7,371
			520,060	450,933
Reserve for participating policyholders' dividends	Pure endowment		17,452	13,726
	Death		6,730	7,383
	Endowment		3,086	3,233
	Group		101	107
			27,369	24,449
Excess participating policyholders' dividend reserve			2,690	3,230
Guaranteed benefit reserve			11,946	19,686
		₩	10,397,382	9,190,864

22. DEFINED BENEFIT LIABILITIES

The Group implements a defined benefit retirement pension plan based on employee compensation benefits and service periods. The plan assets are in trusts with Kookmin Bank, Samsung Life Insurance co., Ltd., etc.

(1) Details of defined benefit liabilities as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Present value of defined benefit liabilities	₩	526,509	513,927
Fair value of plan assets		(328,833)	(301,963)
	₩	197,676	211,964

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(2) Changes in defined benefit liabilities for years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013		
		Present value of defined benefit liabilities	Fair value of plan assets	Defined benefit liabilities (assets)
Beginning balance	₩	513,927	(301,963)	211,964
Current service costs		105,092	-	105,092
Interest expense (income)		28,380	(8,591)	19,789
Remeasurements of defined benefit liabilities:				
Demographic assumption		(32,510)	-	(32,510)
Financial assumption		(38,218)	-	(38,218)
Return on plan assets		-	(34,013)	(34,013)
		(70,728)	(34,013)	(104,741)
Benefits paid by the plan		(33,800)	26,692	(7,108)
Contribution		-	(30,751)	(30,751)
Disposal of subsidiary		(16,714)	20,082	3,368
Others		352	(289)	63
Ending balance	₩	526,509	(328,833)	197,676

(In millions of won)

		2012		
		Present value of defined benefit liabilities	Fair value of plan assets	Defined benefit liabilities (assets)
Beginning balance	₩	431,620	(266,806)	164,814
Current service costs		68,151	-	68,151
Interest expense (income)		21,420	(6,171)	15,249
Remeasurements of defined benefit liabilities:				
Demographic assumption		(21,079)	-	(21,079)
Financial assumption		48,217	-	48,217
Return on plan assets		-	10,346	10,346
		27,138	10,346	37,484
Benefits paid by the plan		(34,290)	13,487	(20,803)
Contribution		-	(49,373)	(49,373)
Others		(112)	(3,446)	(3,558)
Ending balance	₩	513,927	(301,963)	211,964

(3) Fair value of plan assets for each type as of December 31, 2013 and 2012 is as follows:

(In millions of won)

		December 31, 2013		December 31, 2012	
		Quoted market prices	Unquoted market prices	Quoted market prices	Unquoted market prices
Due from banks	₩	-	328,833	-	301,963

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(4) Defined benefit costs recognized in profit or loss for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Current service costs	₩	105,092	68,151
Interest expense (income), net		19,789	15,249
	₩	124,881	83,400

(5) The principal actuarial assumptions used as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Discount rate (%)	2.10 ~ 4.27	3.70 ~ 4.61
Future salary increasing rate (%)	3.83 ~ 5.60	5.00 ~ 5.60

(6) The present value sensitivity of defined benefit liabilities as principal actuarial assumptions change as of December 31, 2013 is as follows:

	Sensitivity	
	1% increase in assumption	1% decrease in assumption
Discount rate	8.03% decrease	9.28% increase
Future salary increasing rate	9.28% increase	8.17% decrease

23. PROVISIONS

(1) Changes in provisions for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013					
		Provision for payment guarantees	Provision for unused commitments	Lawsuit provision	Asset retirement obligation	Other provision	Total
Beginning balance	₩	49,179	37,034	2,105	3,336	152,074	243,728
Increase (Reversal) of provision		461,859	(11,208)	332	(552)	460,865	911,296
Utilization for the year		-	(275)	-	-	(63,321)	(63,596)
Capitalized restoration expenses		-	-	-	355	-	355
Foreign exchange differences		286	24	(41)	(100)	-	169
Disposal of subsidiary		-	-	-	-	(384)	(384)
Ending balance	₩	511,324	25,575	2,396	3,039	549,234	1,091,568

(In millions of won)

		2012					
		Provision for payment guarantees	Provision for unused commitments	Lawsuit provision	Asset retirement obligation	Other provision	Total
Beginning balance	₩	63,691	194,125	3,252	3,325	128,716	393,109
Increase (Reversal) of provision		(14,393)	(156,878)	894	(233)	58,262	(112,348)
Utilization for the year		-	-	-	(484)	(41,923)	(42,407)
Capitalized restoration expenses		-	-	-	728	-	728
Foreign exchange differences		(119)	(213)	(35)	-	(403)	(770)
Others		-	-	(2,006)	-	7,422	5,416
Ending balance	₩	49,179	37,034	2,105	3,336	152,074	243,728

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(2) Provision for payment guarantees

Confirmed acceptances and guarantees, unconfirmed acceptances and guarantees and bills endorsed are not recognized on the statement of financial position, but are disclosed as offstatement of financial position items in the notes to the financial statements. The Group provides a provision for such off-statement of financial position items, applying a Credit Conversion Factor ("CCF") and provision rates, and records the provision as a reserve for possible losses on acceptances and guarantees.

(3) Provision for unused commitments

The Group records a provision for a certain portion of unused credit lines which is calculated using a CCF as provision for unused commitments applying provision rates.

(4) Provision for possible losses from lawsuits

As of December 31, 2013, the Group is involved in 181 lawsuits as a plaintiff and 245 lawsuits as a defendant. The aggregate amount of claims as a plaintiff and a defendant amounted to ₩4,132,550 million and ₩522,109 million, respectively. The Group provided a provision against contingent loss from pending lawsuits as of December 31, 2013, and additional losses may be incurred depending on the final result of pending lawsuits.

The financial institution creditors of Renault Samsung Motors (including KDB) filed a lawsuit against Kun-hee Lee and 28 Samsung affiliates (including Samsung Electronics), claiming compensation for delays in payment of liquidated damages and contract bills based on the agreement signed on August 24, 1999. In connection to the litigation, the financial institution creditors partially won the second trial at the Seoul High Court, but both parties filed an appeal to the Supreme Court judgment, and are waiting for the final decision as of December 31, 2013.

The performance deposit of Hanhwa Chemical Co., Ltd. (the "defendant") was confiscated by Korea Development Bank on January 12, 2009 for not fulfilling the terms of contract in MOU on acquisition of Daewoo Shipbuilding & Marine Engineering Co., Ltd. The defendant filed a lawsuit against the Group and KAMCO for redemption of the performance deposit on June 19, 2009. Seoul High Court decided in favor of the plaintiff in the first and the second trials, and the Group is waiting for final decision.

Major lawsuits in progress as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013			
	Contents		Amount	Status of lawsuit
Plaintiff:				
29 Samsung affiliates (including Samsung Electronics)	Deposit contracts, etc.	₩	3,711,586	1st, 2nd trials ruled in part favor of the Group; Pending appeals
Gyenggi Urban Innovation Corporation	Claim for refund of investments		19,100	1st trials in progress
SH Corporation	Claim for damages		9,720	1st trials in progress
Defendant:				
Hanhwa Chemical Co., Ltd.	Performance depoits	₩	322,593	1st, 2nd trials ruled in favor of the Group; Pending appeals
Simmtech Co., Ltd.	Claim for damages		115,465	1st trials in progress
Cheonan city	Delivery of stocks, etc.		29,292	1st trials in progress
Standard Chartered Bank Korea Ltd.	Claim for sales billings		20,177	1st trial ruled against the Group; Pending appeals

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(In millions of won)

	December 31, 2012			
	Contents		Amount	Status of lawsuit
Plaintiff:				
29 Samsung affiliates (including Samsung Electronics)	Deposit contracts, etc.	₩	3,711,586	1st, 2nd trials ruled in part favor of the Group; Pending appeals
Private Real Estate Investment Trust Fund 1st	Loans, etc.		263,051	1st trials in progress
Defendant:				
Hanhwa Chemical Co., Ltd.	Performance bonds	₩	322,593	1st, 2nd trials ruled in favor of the Group; Pending appeals
Simmtech Co., Ltd.	Claim for damages		115,465	1st trials in progress
Cheonan city	Delivery of stocks, etc.		29,292	1st trials in progress
Standard Chartered Bank Korea Ltd.	Claim for sales billings		20,177	1st trials in progress

In December 2013, the Supreme Court of Korea ruled that all fixed payments such as bonuses and allowances that have been uniformly provided to employees on a regular basis must now be included when calculating the employee's ordinary wage. As of December 31, 2013, there is no lawsuit related with ordinary wage from the Group's employees and management cannot reliably estimate the potential impacts, if any, on the Group's financial position, financial performance and cash flows.

24. OTHER LIABILITIES

Other liabilities as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Accounts payable	₩	3,300,349	8,333,618
Accrued expense		2,020,170	1,754,382
Domestic exchanges payable		285,965	1,931,584
Borrowing from trust accounts		436,153	246,594
Advance receipts		1,729,840	1,620,828
Guarantee money received		232,467	391,115
Trade payable		486,496	590,704
Unearned income		123,495	120,505
Deposits withholding tax		59,355	47,869
Foreign exchanges payable		22,923	6,277
Separate account liabilities		864,181	754,449
Financial guarantee liability		150,583	164,691
Policyholders equity adjustment		18,526	38,521
Others		298,948	347,493
		10,029,451	16,348,630
Present value discount		(434)	(604)
	₩	10,029,017	16,348,026

The carrying amount of financial liabilities included in other liabilities amounted to ₩5,212,007 million as of December 31, 2013 (₩11,766,324 million as of December 31, 2012) and its fair value amounted to₩5,209,932 million as of December 31, 2013 (₩11,766,012 million as of December 31, 2012).

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25. EQUITY

(1) Issued capital

The Group is authorized to issue up to 3,000 million shares of common stock and has 1,852,372,235 shares issued as of December 31, 2013 (1,850,372,235 shares issued as of December 31, 2012), and outstanding with a total par value of ₩9,261,861 million as of December 31, 2013 (₩9,251,861 million as of December 31, 2012).

(2) Capital surplus

The Group reduced ₩5,178,600 million of its issued capital in 1998 and 2000 to offset its accumulated deficit amounting to ₩5,134,227 million. As the result of the capital reduction, including ₩44,373 million of surplus exceeding accumulated deficit, ₩60,028 million was recorded in capital surplus in equity.

(3) Capital adjustments

Capital adjustments as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Discount on stock issuance	₩	(643)	(558)
Equity in capital adjustment		(1,193)	(1,193)
Other capital adjustment		3,636	3,636
	₩	1,800	1,885

(4) Accumulated other comprehensive income

(i) Accumulated other comprehensive income (loss) as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Valuation gain on available-for-sale financial assets:			
Valuation gain on available-for-sale financial assets (before tax)	₩	544,878	768,928
Income tax effect		(148,527)	(209,575)
		396,351	559,353
Equity in other comprehensive income of associates:			
Equity in other comprehensive income of associates (before tax)		314,289	305,025
Income tax effect		(76,043)	(73,816)
		238,246	231,209
Exchange differences on translation of foreign operations:			
Exchange differences on translation of foreign operations (before tax)		(293,586)	(242,144)
Income tax effect		70,996	58,595
		(222,590)	(183,549)
Remeasurements of defined benefit liabilities:			
Remeasurements of defined benefit liabilities (before tax)		4,487	50,424
Income tax effect		(1,086)	(12,202)
		3,401	38,222
Other accumulated other comprehensive income			
Other accumulated other comprehensive income (before tax)		1,351	2,653
Income tax effect		(303)	(642)
		1,048	2,011
	₩	416,456	647,246

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(ii) Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013			
		January 1, 2013	Increase (Decrease)	Tax effect	December 31, 2013
Valuation gain on available-for-sale financial assets	₩	559,353	(224,050)	61,048	396,351
Equity in other comprehensive income of associates		231,209	9,264	(2,227)	238,246
Exchange differences on translation of foreign operations		(183,549)	(51,442)	12,401	(222,590)
Remeasurements of defined benefit liabilities		38,222	(45,937)	11,116	3,401
Other accumulated other comprehensive income		2,011	(1,302)	339	1,048
	₩	647,246	(313,467)	82,677	416,456

(In millions of won)

		2012			
		January 1, 2012	Increase (Decrease)	Tax effect	December 31, 2012
Valuation gain on available-for-sale financial assets	₩	517,075	61,750	(19,472)	559,353
Equity in other comprehensive income of associates		252,851	(28,552)	6,910	231,209
Exchange differences on translation of foreign operations		(31,817)	(200,173)	48,441	(183,549)
Remeasurements of defined benefit liabilities		20,835	22,937	(5,550)	38,222
Other accumulated other comprehensive income		(23)	2,683	(649)	2,011
	₩	758,921	(141,355)	29,680	647,246

(5) Retained earnings

The Korea Development Bank Act requires the Group to appropriate at least 40% of net income as a legal reserve. This reserve can be transferred to paid-in capital or offset accumulated deficit. In accordance with the Korea Development Bank Act, the Group offsets accumulated deficit with reserves. If reserve is insufficient to offset the accumulated deficit, the Korean government is supposed to be responsible for the deficit.

(i) Retained earnings as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Legal reserve	₩	6,022,262	5,641,362
Voluntary reserves:			
Regulatory reserve for loan losses		1,329,825	1,034,949
Unappropriated retained earnings (accumulated deficits)		(319,159)	1,808,406
	₩	7,032,928	8,484,717

(ii) Changes in legal reserve for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Beginning balance	₩	5,641,362	5,076,393
Transferred from unappropriated retained earnings		380,900	564,969
Ending balance	₩	6,022,262	5,641,362

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(iii) Changes in unappropriated retained earnings (accumulated deficits) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Beginning balance	₩	1,808,406	2,848,057
Effects of accounting policy changes		-	(10,611)
Profit (loss) for the year		(1,218,642)	918,748
Contribution to legal reserve		(380,900)	(564,969)
Contribution to regulatory reserve for loan losses		(294,876)	(1,034,949)
Dividends		(233,147)	(347,870)
Ending balance	₩	(319,159)	1,808,406

(iv) Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012(*)
I. Unappropriated retained earnings (accumulated deficits):			
Unappropriated retained earning carried forward from the prior year	₩	825,647	772,054
Effects of accounting policy changes		-	(7,258)
Profit (loss) for the year		(1,447,391)	946,874
		(621,744)	1,711,670
II. Appropriation of retained earnings (disposal of deficits):			
Legal reserve (transfer from legal reserve)		(621,744)	380,900
Regulatory reserve for loan losses		-	271,976
Dividends (Dividends per share ₩0 for 2013 and W126 for 2012)		-	233,147
		(621,744)	886,023
III. Unappropriated retained earnings (accumulated deficits) to be carried over to subsequent year		-	825,647

(*) Restatement of the prior period reflects the effects of accounting policy changes, as described in note 3.(30).

These statements of appropriation of retained earnings were based on the separate financial statements of the Bank.

(6) Regulatory reserve for loan losses

The Group is required to provide regulatory reserve for loan losses in accordance with Regulations on Supervision of Bank Business 29(1) and (2). The details of regulatory reserve for loan losses are as follows:

(i) Regulatory reserve for loan losses as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Beginning balance	₩	1,329,825	1,034,949
Planned reserve for loan losses		2,626	294,876
Ending balance	₩	1,332,451	1,329,825

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(ii) Obligated amount of provision for regulatory reserve for loan losses attributable to equity holders of the Bank and profit (loss) after adjusting regulatory reserve for loan losses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Profit (loss) attributable to equity holders of the Bank	₩	(1,218,642)	918,748
Obligated amount of provision for regulatory reserve for loan losses		(19,778)	(294,876)
Profit (loss) after adjusting regulatory reserve for loan losses		(1,238,420)	623,872
Profit (loss) per share after adjusting regulatory reserve for loan losses (won)	₩	(669)	337

(*) The Group is required to reserve obligated amount of provision for regulatory reserve for loan losses according to the regulations for the year ended December 31, 2013.

26. NET INTEREST INCOME

Net interest income for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Interest income:			
Due from banks	₩	66,698	58,691
Financial assets held for trading		73,715	101,936
Financial assets designated at fair value through profit or loss		3,130	930
Available-for-sale financial assets		955,955	1,074,349
Held-to-maturity financial assets		27,406	85,591
Loans		4,061,504	4,114,724
		5,188,408	5,436,221
Interest expense:			
Financial liabilities designated at fair value through profit or loss		(45,267)	(50,262)
Deposits		(1,103,042)	(1,153,229)
Borrowings		(363,590)	(492,841)
Bonds		(1,587,787)	(1,664,555)
		(3,099,686)	(3,360,887)
Net interest income	₩	2,088,722	2,075,334

Interest received from impaired assets relating to loan receivables for the years ended December 31, 2013 and 2012 were ₩40,628 million and ₩19,766 million, respectively, and there was no interest received from impaired assets related to financial assets other than loans.

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27. NET FEES AND COMMISSION INCOME

Net fees and commission income for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Fees and commission income:			
Loan commissions	₩	182,290	225,623
Underwriting and investment consulting commissions		193,583	259,299
Brokerage and agency commissions		16,436	22,408
Trust and retirement pension plan commissions		29,799	21,922
Fees on asset management commissions		1,762	2,696
Other fees (*)		116,027	125,234
		539,897	657,182
Fees and commission expenses:			
Brokerage and agency fees		(8,503)	(7,862)
Other fees		(41,981)	(48,441)
		(50,484)	(56,303)
	₩	489,413	600,879

(*) Other fees consist of agent fee, commitment fee, etc.

28. DIVIDEND INCOME

Dividend income for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Financial assets held for trading	₩	2,419	2,054
Available-for-sale financial assets		125,300	93,170
	₩	127,719	95,224

29. NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Net gain (loss) related to financial assets held for trading for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Gains on financial assets held for trading:			
Gains on redemption	₩	56	539
Gains on sale		29,416	40,131
Gains on valuation		4,511	16,108
		33,983	56,778
Losses on financial assets held for trading:			
Losses on redemption		(1,680)	(2,258)
Losses on sale		(41,361)	(23,403)
Losses on valuation		(14,194)	(8,680)
Purchase related expense		(241)	(283)
		(57,476)	(34,624)
	₩	(23,493)	22,154

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30. NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain (loss) related to financial assets and liabilities designated at fair value through profit or loss for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Gains on financial assets and liabilities designated at FVTPL:			
Gains on redemption	₩	2,606	1,252
Gains on sale		4,831	1,546
Gains on valuation		50,488	8,733
		57,925	11,531
Losses on financial assets and liabilities designated at FVTPL:			
Losses on redemption		(119)	(291)
Losses on sale		(804)	(212)
Losses on valuation		(5,363)	(71,131)
		(6,286)	(71,634)
	₩	51,639	(60,103)

31. NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

Net gain (loss) on available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Gains on available-for-sale financial assets:			
Gains on redemption	₩	9,633	3,444
Gains on sale		663,709	577,523
Reversal of impairment losses		4,738	5,863
		678,080	586,830
Losses on available-for-sale financial assets:			
Losses on redemption		-	(141)
Losses on sale		(128,128)	(59,208)
Impairment losses		(745,404)	(373,789)
		(873,532)	(433,138)
	₩	(195,452)	153,692

32. NET GAIN (LOSS) ON HELD-TO-MATURITY FINANCIAL ASSETS

Net gain (loss) on held-to-maturity financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Gains on held-to-maturity financial assets:			
Gains on redemption	₩	1,022	1,959
		1,022	1,959
Losses on held-to-maturity financial assets:			
Losses on redemption		-	(2,895)
Impairment losses		-	(4,096)
		-	(6,991)
	₩	1,022	(5,032)

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33. NET GAIN (LOSS) ON DERIVATIVES

Net gain (loss) on derivatives for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Net gain (loss) on trading purpose derivatives:			
Gains on trading purpose derivatives:			
Interest	₩	1,864,993	1,705,160
Currency		4,689,741	4,742,116
Stock		16,584	49,036
Commodity		38,633	73,679
Embedded derivatives		137,172	61,264
Gains on adjustment of derivatives		6,132	4,678
		6,753,255	6,635,933
Losses on trading purpose derivatives:			
Interest		(1,979,449)	(1,761,658)
Currency		(4,557,859)	(4,844,718)
Stock		(13,647)	(49,784)
Commodity		(38,551)	(68,047)
Embedded derivatives		(14,010)	(25,277)
Losses on adjustment of derivatives		(8,417)	(11,599)
		(6,611,933)	(6,761,083)
		141,322	(125,150)
Net gain (loss) on hedging purpose derivatives:			
Gains on hedging purpose derivatives:			
Interest		58,361	101,597
Currency		194,163	186,478
Credit		-	3,724
Gains on adjustment of derivatives		2,255	2,047
		254,779	293,846
Losses on hedging purpose derivatives:			
Interest		(239,582)	(94,653)
Currency		(375,316)	(169,940)
Losses on adjustment of derivatives		(2,225)	(3,416)
		(617,123)	(268,009)
		(362,344)	25,837
Net gain (loss) on fair value hedged items:			
Gains on fair value hedged items:			
Gains on valuation		644,387	569,947
Gains on redemption		208,451	204,255
		852,838	774,202
Losses on fair value hedged items:			
Losses on valuation		(80,237)	(124,090)
Losses on redemption		(164,574)	(97,962)
		(244,811)	(222,052)
		608,027	552,150
	₩	387,005	452,837

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34. NET FOREIGN CURRENCY TRANSACTION GAIN (LOSS)

Net foreign currency transaction gain (loss) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Net gain (loss) on foreign exchange transactions:			
Gains on sales	₩	857,179	603,800
Losses on sales		(880,936)	(655,834)
		(23,757)	(52,034)
Net gain (loss) on foreign exchange translations:			
Gains on foreign exchange translations		878,547	1,456,707
Losses on foreign exchange translations		(1,129,155)	(1,711,443)
		(250,608)	(254,736)
	₩	(274,365)	(306,770)

35. OTHER OPERATING INCOME (LOSS), NET

Other operating income (loss), net for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Other operating income:			
Insurance gains	₩	2,739,955	2,684,026
Gains on disposal of investments in associates		16,918	5,229
Gains on sale of loans		55,199	69,167
Gains on demand equity redemptions		79,661	8,750
Reversal of provisions		17,803	177,706
Income from construction business (*)		8,684,065	8,100,212
Others		138,738	521,750
		11,732,339	11,566,840
Other operating losses:			
Insurance losses		(3,310,137)	(3,213,133)
Losses on disposal of investments in associates		(29,482)	(10,622)
Losses on sale of loans		(203,485)	(417,758)
Losses on demand equity redemptions		(3,665)	(7,280)
Provisions		(929,652)	(65,591)
Cost of construction business (*)		(8,328,449)	(7,342,471)
Others		(465,763)	(647,597)
		(13,270,633)	(11,704,452)
	₩	(1,538,294)	(137,612)

(*) The amounts are related to Engineering & Construction Co., Ltd.

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36. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Payroll costs:			
Short-term employee benefits	₩	432,290	445,718
Defined benefit costs		58,283	46,656
Defined contribution costs		309	79
Termination benefits		9,461	3,953
		500,343	496,406
Depreciation and amortization:			
Depreciation of property and equipment		43,729	37,751
Amortization of intangible assets		243,626	240,993
		287,355	278,744
Other:			
Employee welfare benefits		78,548	75,093
Rent expenses		60,153	59,049
Taxes and dues		31,219	28,219
Advertising expenses		25,910	55,268
Others (*)		409,990	335,617
		605,820	553,246
	₩	1,393,518	1,328,396

(*) Others consist of electronic data processing expenses, fees and charges, etc.

37. NON-OPERATING INCOME AND EXPENSE

Non-operating income and expense for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Non-operating income:			
Interest income of non-financial business	₩	33,362	41,596
Reversal of impairment loss on noncurrent assets held for sale		-	5,460
Gain on disposal of non-current assets held for sale		1,298	90,927
Gain on disposal of property and equipment		4,786	1,435
Rental income on investment property		4,989	5,700
Gain on disposal of intangible assets		672	3
Others		58,566	100,536
		103,673	245,657
Non-operating expense:			
Interest expense of non-financial business		(118,598)	(130,501)
Impairment loss of non-current assets held for sale		(6,106)	(9,301)
Loss on disposal of non-current assets held for sale		(6,953)	(22,703)
Loss on disposal of property and equipment		(4,360)	(5,321)
Impairment loss of property and equipment		-	(44)
Depreciation of investment property		(3,387)	(3,179)
Impairment losses on investment property		-	(32)
Impairment losses on intangible assets		(90,445)	(1,684)
Donations		(17,826)	(17,380)
Others		(78,178)	(145,962)
		(325,853)	(336,107)
	₩	(222,180)	(90,450)

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38. INCOME TAX EXPENSE (BENEFIT)

(1) Income tax expense (benefit) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Current income tax(*)	₩	305,372	427,644
Changes in deferred income taxes on temporary differences		(852,775)	(231,193)
Deferred income taxes recognized directly to equity		(82,677)	(29,680)
Changes in income taxes due to consolidated tax return		(1,918)	(5,424)
Others		26,571	49,980
Income tax expense (benefit)	₩	(605,427)	211,327

(*) Includes changes such as those that arise from final tax returns

(2) Profit (loss) before income taxes and income tax expense (benefit) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Profit (loss) before income taxes	₩	(2,256,392)	1,113,084
Income taxes calculated using enacted tax rates (24.2%)		(546,047)	269,366
Adjustments:			
Non-deductible losses and tax free gains		2,436	35,426
Non-recognition effect of deferred income taxes		32,015	(29,921)
Tax credit		(20,926)	(16,292)
Change in income taxes due to consolidated tax return		(1,918)	(5,424)
Net adjustments for prior years		(34,210)	(66)
Others		(36,777)	(41,762)
		(59,380)	(58,039)
Income tax expense (benefit)	₩	(605,427)	211,327
Effective tax rate	%	26.83	18.99

(3) Deferred income taxes recognized directly to equity for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013				
		December 31, 2013	Deferred tax assets (liabilities)	December 31, 2012	Deferred tax assets (liabilities)	Changes in deferred tax assets (liabilities)
Valuation gain on availablefor- sale financial assets	₩	544,878	(148,527)	768,928	(209,575)	61,048
Changes in equity adjustments from equity method valuation		314,289	(76,043)	305,025	(73,816)	(2,227)
Exchange differences on translation of foreign operations		(293,586)	70,996	(242,144)	58,595	12,401
Remeasurements of defined benefit liabilities		4,487	(1,086)	50,424	(12,202)	11,116
Other accumulated other comprehensive income		1,351	(303)	2,653	(642)	339
	₩	571,419	(154,963)	884,886	(237,640)	82,677

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(In millions of won)

		2012				
		December 31, 2012	Deferred tax assets (liabilities)	December 31, 2011	Deferred tax assets (liabilities)	Changes in deferred tax assets (liabilities)
Valuation gain on availablefor- sale financial assets	₩	768,928	(209,575)	707,178	(190,103)	(19,472)
Changes in equity adjustments from equity method valuation		305,025	(73,816)	333,577	(80,726)	6,910
Exchange differences on translation of foreign operations		(242,144)	58,595	(41,971)	10,154	48,441
Remeasurements of defined benefit liabilities		50,424	(12,202)	27,487	(6,652)	(5,550)
Other accumulated other comprehensive income		2,653	(642)	(30)	7	(649)
	₩	884,886	(237,640)	1,026,241	(267,320)	29,680

(4) Changes in temporary differences and deferred tax assets(liabilities) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013			
		January 1, 2013	Increase/ Decrease	December 31, 2012	Deferred tax assets (liabilities)
Derivative	₩	(1,108,677)	652,695	(455,982)	(110,348)
Investments in associates		(663,003)	1,085,267	422,264	102,188
Net gain (loss) on fair value hedged items		250,641	(484,177)	(233,536)	(56,516)
Valuation gain (loss) on available-for-sale financial assets		768,928	(224,050)	544,878	(148,527)
Impairment losses on investment bonds		404,652	72,019	476,671	115,354
Impairment losses on investment securities		880,156	445,816	1,325,972	320,885
Other		584,442	1,791,488	2,375,930	574,975
		1,117,139	3,339,058	4,456,197	798,011
Temporary differences from unrecognized deferred tax assets and liabilities:					
Investments in associates		50,417	77,655	128,072	-
	₩	1,167,556	3,416,713	4,584,269	798,011

(In millions of won)

		2012			
		January 1, 2012	Increase/ Decrease	December 31, 2012	Deferred tax assets (liabilities)
Derivative	₩	(1,329,182)	220,505	(1,108,677)	(268,300)
Investments in associates		(855,580)	130,989	(724,591)	(175,351)
Net gain (loss) on fair value hedged items		906,762	(656,121)	250,641	60,655
Valuation gain (loss) on available-for-sale financial assets		707,178	61,750	768,928	(209,575)
Impairment losses on investment bonds		429,598	6,655	436,253	105,573
Impairment losses on investment securities		739,874	120,132	860,006	208,122
Other		(1,344,606)	1,929,048	584,442	141,435
		(745,956)	1,812,958	1,067,002	(137,441)
Temporary differences from unrecognized deferred tax assets and liabilities:					
Investments in associates		22,852	27,565	50,417	-
	₩	(723,104)	1,840,523	1,117,419	(137,441)

(5) Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current income tax liabilities and assets, and they relate to income tax levied by the same tax authority and they intend to settle current income tax liabilities and assets on a net basis.

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39. EARNINGS (LOSS) PER SHARE

(1) Basic earnings (loss) per share

The Group's basic earnings (loss) per share for the years ended December 31, 2013 and 2012 are computed as follows:

(i) Basic earnings (loss) per share

(In millions of won)

		2013	2012
Profit (loss) attributable to ordinary shareholders of the Bank (A)	₩	(1,218,642,064,412)	918,748,592,513
Weighted-average number of ordinary shares outstanding (B)		1,850,454,427	1,850,372,235
Basic earnings (loss) per share (A/B)	₩	(659)	497

(ii) Weighted-average number of shares of common stocks outstanding

(In millions of won)

	2013		
	Number of ordinary shares	Days	Cumulative shares
Number of ordinary shares outstanding (A)	1,850,372,235	365	675,385,865,775
Increased paid-in capital (B)	2,000,000	15	30,000,000
Cumulative shares (C=A+B)			675,415,865,775
Weighted-average number of ordinary shares outstanding (C/365)			1,850,454,427

(In millions of won)

	2012		
	Number of ordinary shares	Days	Cumulative shares
Number of ordinary shares outstanding	1,850,372,235	366	677,236,238,010
Cumulative shares (A)			677,236,238,010
Weighted-average number of ordinary shares outstanding (A/366)			1,850,372,235

(2) Diluted earnings (loss) per share

Diluted and basic earnings (loss) per share for the years ended December 31, 2013 and 2012 are equal because there is no potential dilutive instrument.

40. PLEDGED ASSETS

Assets pledged by the Group as collateral as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013		December 31, 2012	
		Pledged assets	Related liabilities	Pledged assets	Related liabilities
Cash and due from banks(*1)	₩	146,573	1,068	23,399	1,068
Available-for-sale financial assets(*2)		8,765,572	3,950,854	9,247,382	1,647,768
Others(*3)		56,697	-	361,101	158,242
	₩	8,968,842	3,951,922	9,631,882	1,807,078

(*1) Pledged as collateral for bidding deposits and others.
(*2) Pledged as collateral for bonds sold under repurchase agreements, BOK loans and back overdrafts.
(*3) Pledged as collateral for new business.

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41. GUARANTEES AND COMMITMENTS

Guarantees and commitments as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Confirmed acceptances and guarantees:			
Acceptances in foreign currencies	₩	784,787	740,161
Guarantees for bond issuance		989,822	682,447
Guarantees for loans		566,581	872,996
Acceptances for foreign loans		2,087	2,940
Acceptances for letter of guarantee		42,374	46,664
Others		8,611,798	9,635,947
		10,997,449	11,981,155
Unconfirmed acceptances and guarantees:			
Letter of guarantee		2,900,931	2,670,440
Others		1,365,043	1,883,861
		4,265,974	4,554,301
Commitments:			
Commitments on loans		5,566,162	7,913,583
Commitments on purchase of securities		25,617	20,979
Others		239,183	227,179
		5,830,962	8,161,741
Bills endorsed:			
With recourse		-	266
	₩	21,094,385	24,697,463

42. DAY ONE PROFIT OR LOSS

Changes in deferred day one profit or loss for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Beginning balance	₩	(5,999)	(2,716)
New deferrals		(1,056)	(2,634)
Amortization		2,039	4,669
Others (end of transaction, etc)		753	(5,318)
Ending balance	₩	(4,263)	(5,999)

Deferred day one profit or loss arose from derivative financial instruments at level 3 on the fair value hierarchy.

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43. TRUST ACCOUNTS

(1) Trust accounts as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013	December 31, 2012
Accrued trust management fee	₩ 3,560	3,467
Deposits	1,592,582	2,004,818
Trust accounts payable	357,183	219,622
Accrued interest on deposits	20,367	30,284

(2) Transactions with trust accounts for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Fees on trust accounts	₩ 21,074	16,415
Gains from trading of derivative instruments	1,808	1,521
Losses from trading of derivative instruments	-	(8,321)
Interest expenses on deposits	(67,015)	(90,004)
Interest expenses of trust accounts payable	(8,184)	(7,635)

44. RELATED PARTY TRANSACTIONS

(1) The Group's related parties as of December 31, 2013 are as follows:

Classification	Corporate name
Ultimate controlling party	KoFC
Controlling entities	KDBFG Inc.
Entities under common control	Daewoo Securities Co., Ltd., KDB Capital Corporation, KDB Asset Management Co., Ltd., KDB Infrastructure Investments Asset Management Co., Ltd.
Associates	Daewoo Shipbuilding & Marine Engineering Co., Ltd., GM Korea Company and 115 others, Troika Resource Investment PEF and 6 others, National Pension Service 06-2 Neoplux Corporate Restructuring Fund and 10 others
Others	Key management personnel

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(2) Significant balances with related parties as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	Account	December 31, 2013	December 31, 2012
Ultimate controlling party:			
KoFC	Loans	₩ -	63,390
	Derivative financial assets	106,760	13,079
	Deposits	643,415	615,081
	Borrowings	713,012	826,299
	Derivative financial liabilities	26,031	44,625
	Other liabilities	18,188	3,456
Controlling entities:			
KDBFG Inc.	Deposits	4,992	28,074
	Other liabilities	23,544	173,613
Entities under common control:			
Daewoo Securities Co., Ltd.	Loans	-	78,496
	Derivative financial assets	53,058	78,496
	Other assets	5,089	4,522
	Deposits	5,530	5,571
	Bonds	380,069	431,936
	Derivative financial liabilities	44,658	56,985
	Other liabilities	4,185	3,060
KDB Capital Corporation	Derivative financial assets	329	9
	Deposits	11,248	27,850
	Derivative financial liabilities	9,771	6,530
	Other liabilities	535	561
KDB Asset Management Co., Ltd.	Deposits	41	608
	Other liabilities	-	13
KDB Infrastructure Investments Asset Management Co., Ltd.	Loans	-	2,200
	Deposits	2,254	6,378
Associates:			
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	Loans	1,365,249	1,510,475
	Allowance for loan losses	(1,550)	(2,335)
	Derivative financial assets	-	2,506
	Other assets	3,259	610
	Deposits	204,097	7,124
	Derivative financial liabilities	145,638	89,058
	Other liabilities	363	136
Others	Securities	33,632	350,370
	Loans	2,615,343	1,280,646
	Allowance of other assets	(12,754)	(12,012)
	Derivative financial assets	20,212	28,236
	Other assets	191	300
	Deposits	197,844	-
	Borrowings	1,000	-
	Derivative financial liabilities	126,512	42,952
	Other liabilities	396	781
		₩ 6,752,141	5,769,679

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(3) Significant transactions with related parties for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	Account	2013	2012
Ultimate controlling party:			
KoFC	Interest income	₩ 1,057	3,834
	Fees and commission income, other income	132,284	35,573
	Interest expenses	(35,830)	(45,967)
	Other operating expenses	(56,182)	(49,948)
Controlling entities:			
KDBFG Inc.	Fees and commission income, other income	7,165	5,670
	Interest expenses	(634)	(2,109)
	Other operating expenses	(17,690)	(17,690)
Entities under common control:			
Daewoo Securities Co., Ltd.	Interest income	-	238
	Fees and commission income, other income	4,902	80,511
	Interest expenses	(10,306)	(15,737)
	Other operating expenses	(20,910)	(81,208)
KDB Capital Corporation	Interest income	-	112
	Reversal of allowance for loan losses	-	1
	Fees and commission income, other income	1,560	1,257
	Interest expenses	(114)	-
	Other operating expenses	(10,160)	(6,824)
KDB Asset Management Co., Ltd.:	Fees and commission income, other income	20	2
	Interest expenses	(3)	(49)
KDB Infrastructure Investments Asset Management Co., Ltd.	Fees and commission income, other income	-	13
	Interest expenses	(106)	(88)
	General and administrative expenses	-	(21)
	Other operating expenses	-	(19)
Associates:			
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	Interest income	46,815	29,319
	Reversal of allowance for loan losses	785	-
	Fees and commission income, other income	22,212	6,951
	Interest expense	(1,650)	(1,193)
	Provision for loan losses	-	(366)
	Other operating expenses	(82,692)	(141,146)
Others	Interest income	119,624	67,483
	Fees and commission income, other income	404,507	312,655
	Interest expenses	(3,560)	(6,892)
	Provision for loan losses	(266,508)	(2,013)
	Other operating expenses	(517,223)	(100,307)
Key management personnel:	General and administrative expenses	(1,444)	(1,677)
		₩ (284,081)	70,365

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(4) Details of guarantees and commitments to the related parties as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	Account	2013	2012
Associates:			
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	Confirmed acceptances and guarantees	₩ 729,560	501,672
	Unconfirmed acceptances and guarantees	134,992	461,944
Others	Confirmed acceptances and guarantees	663,110	202,280
	Unconfirmed acceptances and guarantees	616,920	-
		₩ 2,144,582	1,165,896

(5) Details of changes to commitments on loans to the related parties for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Ultimate controlling party	Entities under common control	Associates	Total
Beginning balance	₩ 63,390	80,696	2,791,121	2,935,207
Increase	32,268	-	2,335,188	2,367,456
Decrease	(95,658)	(80,696)	(1,145,717)	(1,322,071)
Ending balance	₩ -	-	3,980,592	3,980,592

(In millions of won)

	2012			
	Ultimate controlling party	Entities under common control	Associates	Total
Beginning balance	₩ 136,509	706	1,006,882	1,144,097
Increase	-	79,990	2,103,559	2,183,549
Decrease	(73,119)	-	(319,320)	(392,439)
Ending balance	₩ 63,390	80,696	2,791,121	2,935,207

(6) Details of changes to commitments on borrowings to the related parties for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		
	Ultimate controlling party	Associates	Total
Beginning balance	₩ 826,299	-	826,299
Increase	713,012	1,000	714,012
Decrease	(826,299)	-	(826,299)
Ending balance	713,012	1,000	714,012

(In millions of won)

	2012		
	Ultimate controlling party	Associates	Total
Beginning balance	₩ -	2,051	2,051
Increase	826,299	-	826,299
Decrease	-	(2,051)	(2,051)
Ending balance	826,299	-	826,299

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(7) Details of assets pledged as collaterals to the related parties as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013			
		Carrying amounts	Amounts collateralized	Secured party
Available-for-sale debt securities	₩	16,064	16,000	Daewoo Securities Co., Ltd.

(In millions of won)

	December 31, 2012			
		Carrying amounts	Amounts collateralized	Secured party
Available-for-sale debt securities	₩	25,104	24,900	Daewoo Securities Co., Ltd.

45. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

(1) Commitments to financial support for consolidated structured entities

The Bank has a commitment on loans for consolidated structured entities. According to the commitment, the Bank guarantees loans to subsidiaries when a subsidiary has insufficient working capital.

(In millions of won)

Consolidated structured entities		Commitment amounts
U-BEST 2nd Securitization Specialty Co., Ltd.	₩	189,800
K-Five 2nd Securitization Specialty Co., Ltd.		245,900
K-Five 3rd Securitization Specialty Co., Ltd.		110,600
	₩	546,300

(2) Nature and scope of interests in unconsolidated structured entities

Details of unconsolidated structured entities as of December 31, 2013 are as follows:

(In millions of won)

Type	Characteristics and objective	Financing method		Total assets
Investment funds and investment trusts(*1)	Investment and distribution	Equity investment and fund operations, etc	₩	3,619,817
Real estate finance(*2)	Real estate development and infrastructure investment, etc	Equity investment and credit reinforcement, etc		21,694,959
Asset securitization	Securitization of underlying assets	Issuance of ABL and ABCP, etc		86,388,389
Shipping and acquisition finance	Providing funds for acquisition of corporate or ships	Equity investment and credit reinforcement, etc		13,204,224

(*1) PEF, investment association, beneficiary certificates, etc.

(*2) PF, SOC etc.

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(3) Nature of related risks

Carrying amounts and maximum exposure to loss from interests in unconsolidated structured entities as of December 31, 2013 are as follows:

(In millions of won)

	2013					
		Investment funds and investment trusts	Real estate finance	Asset securitization	Shipping and acquisition finance	Total
Assets:						
Securities	₩	5,103,990	218,599	-	-	5,322,589
Loans		242,413	4,267,698	1,302,954	2,551,907	8,364,972
Derivatives		-	6,997	1,279	5	8,281
Others		3,030	15,485	7,879	8,577	34,971
		5,349,433	4,508,779	1,312,112	2,560,489	13,730,813
Liabilities:						
Provisions		-	150	848	-	998
Financial guarantees		-	-	17,211	-	17,211
Derivatives		-	53	-	6,560	6,613
		-	203	18,059	6,560	24,822
Granting of credit and other contracts		-	360,986	3,742,599	-	4,103,585
Maximum exposure to loss(*)	₩	5,349,433	4,869,765	5,054,711	2,560,489	17,834,397

(*) Maximum exposure to loss is calculated by summarizing related assets(after adjusting impairment loss on securities, allowance for loan losses, etc.) granting of credit and other contracts.

(4) Significant non-controlling interests

Details of significant non-controlling interests as of December 31, 2013 are as follows:

- Non-controlling interests

(In millions of won)

	December 31, 2013		
		Net loss on non-controlling interests	Non-controlling interests
KDB Value VI PEF	₩	(426,606)	1,927,680

- Summary of financial information

(In millions of won)

	December 31, 2013							
	Assets	Liabilities	Operating revenue	Net income (loss)	Total comprehensive income (loss)	Cash flows from operating activities (*)	Cash flows from investing activities (*)	Cash flows from financing activities (*)
KDB Value VI PEF	₩ 11,976,687	8,497,564	9,070,118	(532,624)	(582,550)	(505,454)	273,938	344,319

(*) Cash flows are based on Daewoo Engineering & Construction Co., Ltd., a subsidiary of KDB Value VI PEF.

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46. STATEMENTS OF CASH FLOWS

(1) Cash and cash equivalents in the statements of cash flows as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Cash and due from banks:			
Cash and foreign currencies	₩	786,514	504,860
Due from banks denominated in Korean won		2,570,649	706,759
Due from banks denominated in foreign currencies/off-shores		4,079,366	2,794,905
		7,436,529	4,006,524
Less: Restricted due from banks, others		(2,918,725)	(1,292,091)
Add: Financial instruments reaching maturity within three months from date of acquisition			
Financial assets held for trading:			
Government and public bonds		90,360	2,416
Loans:			
Call-loans		3,980,568	4,060,214
Inter-bank loans		209,057	224,929
		4,189,625	4,285,143
		4,279,985	4,287,559
Cash and cash equivalents		8,797,789	7,001,992

(2) Significant transactions not involving cash flows for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Decrease in loans due to write-offs	₩	362,825	487,217
Increase in available-for-sale financial assets due to debt-to-equity swap		179,596	116,830
Increase (decrease) in accumulated other comprehensive income due to securities valuation		(253,534)	55,583
Reclassification of available-for-sale financial assets to investments in associates		9,141	243,082
Reclassification of held-to-maturity financial assets to available-for-sale financial assets		1,332,536	-
Reclassification of loans to available-for-sale financial assets		242,452	-
Reclassification of investments in associates to available-for-sale financial assets		13,464	18,018
Transfer from property and equipment to investment property		(10,757)	14,206

47. TRANSFER OF FINANCIAL INSTRUMENTS

Details of financial assets and liabilities related to repurchase agreements sold and loaned debt securities that do not qualify for de-recognition as of December 31, 2013 and 2012 are as follows:

(In millions of won)

Characteristics of transactions		December 31, 2013		December 31, 2012	
		Carrying amounts for transferred assets	Carrying amounts for related liabilities	Carrying amounts for transferred assets	Carrying amounts for related liabilities
Repurchase agreements sold	₩	6,590,367	4,124,630	6,726,327	2,037,387
Loaned debt securities		59,527	-	29,359	-
	₩	6,649,894	4,124,630	6,755,686	2,037,387

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48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

(1) Fair value hierarchy of financial instruments measured at fair value

(i) The fair value hierarchy of financial instruments measured at fair value as of December 31, 2013 and 2012 is as follows:

(In millions of won)

		December 31, 2013			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets held for trading	₩	1,084,675	772,459	-	1,857,134
Financial assets designated at FVTPL		1,257	-	239,555	240,812
Available-for-sale financial assets		4,872,331	26,939,915	2,442,695	34,254,941
Derivative financial assets		5	4,271,755	92,330	4,364,090
	₩	5,958,268	31,984,129	2,774,580	40,716,977
Financial liabilities:					
Financial liabilities designated at FVTPL	₩	-	668,627	9,289	677,916
Derivative financial liabilities		-	3,882,590	33,451	3,916,041
	₩	-	4,551,217	42,740	4,593,957

(In millions of won)

		December 31, 2012			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets held for trading	₩	1,375,405	1,384,014	-	2,759,419
Financial assets designated at FVTPL		1,419	-	250,454	251,873
Available-for-sale financial assets		4,225,229	23,886,513	2,881,864	30,993,606
Derivative financial assets		45	5,045,021	159,486	5,204,552
	₩	5,602,098	30,315,548	3,291,804	39,209,450
Financial liabilities:					
Financial liabilities designated at FVTPL	₩	-	864,427	10,770	875,197
Derivative financial liabilities		-	4,069,684	51,880	4,121,564
	₩	-	4,934,111	62,650	4,996,761

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(ii) Changes in the fair value of level 3 financial instruments for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013						
		January 1, 2013	Profit or loss	Other comprehen -sive income	Acquisition/ Issue	Sale/ Settlement	Transfer levels(*1)	December 31, 2013
Financial assets:								
Financial assets designated at FVTPL	₩	250,454	6,068	-	-	(16,967)	-	239,555
Available-forsale financial assets		2,881,864	(186,661)	(110,627)	1,260,178	(849,649)	(552,410)	2,442,695
Derivative financial assets		159,486	35	-	41,744	(108,935)	-	92,330
	₩	3,291,804	(180,558)	(110,627)	1,301,922	(975,551)	(552,410)	2,774,580
Financial liabilities:								
Financial liabilities designated at FVTPL	₩	10,770	230	-	5,788	(7,499)	-	9,289
Derivative financial liabilities		51,880	(22,714)	-	14,720	(10,435)	-	33,451
	₩	62,650	(22,484)	-	20,508	(17,934)	-	42,740

(*1) Upon the adoption of K-IFRS No. 1113 Fair Value Measurement for the year ended December 31, 2013, available-for-sale financial assets with restrictions on disposals of publicly traded stocks are measured by quoted prices in active markets, since the restrictions are applicable to characteristics of the entity's holding, and therefore transfer levels occur.

(In millions of won)

		2012					
		January 1, 2012	Profit or loss	Other comprehen -sive income	Acquisition/ Issue	Sale/ Settlement	December 31, 2012
Financial assets:							
Financial assets designated at FVTPL	₩	69,588	3,604	-	300,000	(122,738)	250,454
Available-forsale financial assets		4,187,920	75,763	(110,978)	483,492	(1,754,333)	2,881,864
Derivative financial assets		159,974	35,441	-	31,941	(67,870)	159,486
	₩	4,417,482	114,808	(110,978)	815,433	(1,944,941)	3,291,804
Financial liabilities:							
Financial liabilities designated at FVTPL	₩	798	(1,006)	-	13,569	(2,591)	10,770
Derivative financial liabilities		83,309	(89)	-	19,931	(51,271)	51,880
	₩	84,107	(1,095)	-	33,500	(53,862)	62,650

(iii) Details of valuation technique and inputs used in the fair value measurement categorized within level 2 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2013 are as follows:

	December 31, 2013	
	Valuation technique	Input
Financial assets held for trading:		
Equity securities	Net asset value approach	Underlying asset price
Debt securities	Discounted cash flow method	Discount rate
Available-for-sale financial assets:		
Equity securities	Net asset value approach	Underlying asset price
Debt securities	Discounted cash flow method	Discount rate
Derivatives financial assets:		
Interest rate swaps	Discounted cash flow method,	Discount rate,
Currency forwards, swaps	Black-Scholes model,	Volatility,
Currency options	Modified Black model,	Exchange rate,
Commodities options	Black-Scholes model	Commodity index
Financial liabilities designated at FVTPL:		
Bonds	Discounted cash flow method	Discount rate

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(iv) Details of valuation technique and quantitative information about unobservable inputs used in the fair value measurement categorized within level 3 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2013 are as follows:

	December 31, 2013		
	Valuation technique	Unobservable input	Range (%)
Financial assets designated at FVTPL:			
Derivatives linked securities	Black-Scholes model,	Volatility	15.90 ~ 17.11
	Monte Carlo Simulation,	Correlation coefficient	1.00
	Tree Method,	Discount rate	2.60 ~ 5.19
	Hull and White model	Exchange rate volatility	12.83 ~ 12.98
Available-for-sale financial assets:			
Equity securities	Discounted cash flow	Discount rate	5.05 ~ 27.10
	method,	Growth rate	0.00
	Risk- adjusted discount rate method,	Rate of increase in liquidation value	0.00
	Relative value approach	Discount rate of rent cash flow	8.01
		Rate of increase in property disposal price	0.92
Derivatives financial assets:			
Interest rate swaps	Discounted cash flow	Volatility	9.50 ~ 16.00
	method	Correlation coefficient	(-)0.90 ~ 0.99
Interest rate options	Modified Black model	Volatility	9.50 ~ 16.00
Stock index options	Black-Scholes model	Volatility	15.40 ~ 57.00
Equity options	Finite difference	Volatility	15.40 ~ 57.00
	method	Correlation coefficient	0.001 ~ 0.49
Financial liabilities designated at FVTPL:			
Borrowings	Finite difference	Volatility	15.40 ~ 57.00
	method	Correlation coefficient	0.001 ~ 0.49

(v) The sensitivity analysis on changes in unobservable inputs for financial instruments categorized within level 3 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2013 is as follows:

		Profit (loss) for the year		Comprehensive income (loss)	
		Favorable change	Unfavorable change	Favorable change	Unfavorable change
Financial assets designated at FVTPL(*1)	₩	8,929	(8,109)	-	-
Available-for-sale financial assets(*2)		-	-	128,434	(66,061)
Derivatives financial instruments(*1)		8,642	(7,704)	-	-
Financial liabilities designated at FVTPL(*1)		136	(132)	-	-
	₩	17,707	(15,945)	128,434	(66,061)

(*1) Sensitivity amounts of derivatives financial instruments, financial assets and liabilities designated at FVTPL are calculated by increasing and decreasing the correlation coefficient and volatility(-10~10%) which are significant unobservable inputs.

(*2) Sensitivity amounts of equity securities are calculated by increasing and decreasing the correlations between the discount rates(-1~1%) and the growth rates(0~1%) or the rate of increase in liquidation value(-1~1%) which are significant unobservable inputs. Sensitivity amounts for beneficiary certificates are calculated by increasing and decreasing the correlations between the discount rate of rent cash flow(-1~1%) and the rate of increase in property disposal price(-1~1%), only when it is consists of real property. Other than that, it is difficult to measure the sensitivity amounts of beneficiary certificates for practical reasons.

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(2) Fair value hierarchy of financial instruments disclosed by fair value

(i) The fair value hierarchy of financial instruments disclosed by fair value as of December 31, 2013 is as follows:

(In millions of won)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from banks(*)	₩ 4,517,804	2,918,624	-	7,436,428
Loans(*)	-	4,107,095	95,282,267	99,389,362
Held-to-maturity financial assets	7,703	100,825	-	108,528
Other financial assets(*)	-	3,488,492	909,934	4,398,426
	₩ 4,525,507	10,615,036	96,192,201	111,332,744
Financial liabilities:				
Deposits(*)	₩ -	3,100,180	36,254,050	39,354,230
Borrowings(*)	-	1,550,950	24,231,332	25,782,282
Bonds	-	58,039,791	-	58,039,791
Other financial liabilities(*)	-	2,921,472	2,288,460	5,209,932
	₩ -	65,612,393	62,773,842	128,386,235

(*) For financial instruments categorized as level 2, the carrying amount is considered a reasonable approximation of the fair value and is thus, disclosed as the fair value.

(ii) Details of valuation technique and inputs used in the fair value measurement categorized within level 2 and 3 of the fair value hierarchy of financial instruments disclosed by fair value as of December 31, 2013 are as follows:

	December 31, 2013	
	Valuation technique	Input
Level 2		
Financial assets:		
Held-to-maturity financial assets	Discounted cash flow method	Discount rate
Financial liabilities:		
Bonds	Discounted cash flow method	Discount rate
Level 3		
Financial assets:		
Loans	Discounted cash flow method	Credit spread, Other spread, Prepayment rate
Other financial assets	Discounted cash flow method	Other spread
Financial liabilities:		
Deposits	Discounted cash flow method	Other spread
Borrowings	Discounted cash flow method	Other spread
Other financial liabilities	Discounted cash flow method	Other spread

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49. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013								
	Cash and cash equivalents	Financial instruments held for trading	Financial instruments designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity financial instruments	Loan and receivables	Financial liabilities measured at amortized cost	Hedging purpose derivatives instruments	Total
Financial assets:									
Cash and due from banks	₩ 4,517,804	-	-	-	-	2,918,624	-	-	7,436,428
Financial assets heldfor- trading	90,360	1,766,774	-	-	-	-	-	-	1,857,134
Financial assets designated at FVTPL	-	-	240,812	-	-	-	-	-	240,812
Available-forsale financial assets	-	-	-	34,254,941	-	-	-	-	34,254,941
Held-tomaturity financial assets	-	-	-	-	107,733	-	-	-	107,733
Loans	4,189,625	-	-	-	-	93,869,566	-	-	98,059,191
Derivative financial assets	-	3,676,878	-	-	-	-	-	687,212	4,364,090
Other financial assets	-	-	-	-	-	4,448,118	-	-	4,448,118
	₩ 8,797,789	5,443,652	240,812	34,254,941	107,733	101,236,308	-	687,212	150,768,447
Financial liabilities:									
Financial liabilities designated at FVTPL	-	-	677,916	-	-	-	-	-	677,916
Deposits	-	-	-	-	-	-	39,335,843	-	39,335,843
Borrowings	-	-	-	-	-	-	25,910,911	-	25,910,911
Bonds	-	-	-	-	-	-	57,221,273	-	57,221,273
Derivative financial liabilities	-	3,546,178	-	-	-	-	-	369,863	3,916,041
Other financial liabilities	₩ -	-	-	-	-	-	5,212,007	-	5,212,007
		3,546,178	677,916				127,680,034	369,863	132,273,991

(In millions of won)

	December 31, 2012								
	Cash and cash equivalents	Financial instruments held for trading	Financial instruments designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity financial instruments	Loan and receivables	Financial liabilities measured at amortized cost	Hedging purpose derivatives instruments	Total
Financial assets:									
Cash and due from banks	₩ 2,714,433	-	-	-	-	1,291,988	-	-	4,006,421
Financial assets heldfor- trading	2,416	2,757,003	-	-	-	-	-	-	2,759,419
Financial assets designated at FVTPL	-	-	251,873	-	-	-	-	-	251,873
Available-forsale financial assets	-	-	-	30,993,606	-	-	-	-	30,993,606
Held-tomaturity financial assets	-	-	-	-	1,494,007	-	-	-	1,494,007
Loans	4,285,143	-	-	-	-	88,762,014	-	-	93,047,157
Derivative financial assets	-	4,307,065	-	-	-	-	-	897,487	5,204,552
Other financial assets	-	-	-	-	-	10,858,186	-	-	10,858,186
	₩ 7,001,992	7,064,068	251,873	30,993,606	1,494,007	100,912,188	-	897,487	148,615,221
Financial liabilities:									
Financial liabilities designated at FVTPL	-	-	875,197	-	-	-	-	-	875,197
Deposits	-	-	-	-	-	-	40,039,975	-	40,039,975
Borrowings	-	-	-	-	-	-	24,473,003	-	24,473,003
Bonds	-	-	-	-	-	-	48,473,995	-	48,473,995
Derivative financial liabilities	-	3,992,353	-	-	-	-	-	129,211	4,121,564
Other financial liabilities	₩ -	-	-	-	-	-	11,766,324	-	11,766,324
		3,992,353	875,197				124,753,297	129,211	129,750,058

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50. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Details of financial instruments subject to offsetting, enforceable master netting agreements or similar agreements as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013					
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial asset	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial assets(*1)	₩ 4,364,090	-	4,364,090	2,825,869	68,550	1,469,671
Receivable spot exchange(*1)	2,636,819	-	2,636,819	2,629,457	-	7,362
Security deposits for repurchase agreements sold	6,590,367	-	6,590,367	4,117,740	-	2,472,627
Repurchase agreements bought	326,927	-	326,927	326,927	-	-
Loaned debt securities	59,527	-	59,527	59,527	-	-
Receivables from securities transaction	5,695	-	5,695	5,695	-	-
Reinsurance receivables	10,944	-	10,944	9,241	-	1,703
	₩ 13,994,369	-	13,994,369	9,974,456	68,550	3,951,363

(In millions of won)

	December 31, 2013					
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial liabilities(*1)	₩ 3,916,041	-	3,916,041	2,509,832	-	1,406,209
Outstanding spot exchange(*1)	2,635,507	-	2,635,507	2,629,409	-	6,098
Repurchase agreements sold	4,117,740	-	4,117,740	4,117,740	-	-
Payables from securities transaction	3,595	-	3,595	3,595	-	-
Reinsurance payables	9,706	-	9,706	9,241	-	465
	₩ 10,682,589	-	10,682,589	9,269,817	-	1,412,772

(In millions of won)

	December 31, 2012					
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial asset	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial assets(*)	₩ 5,204,552	-	5,204,552	3,447,322	268,620	1,488,610
Receivable spot exchange(*)	7,435,915	-	7,435,915	7,435,031	-	884
Security deposits for repurchase agreements sold	6,726,327	-	6,726,327	2,034,340	-	4,691,987
Repurchase agreements bought	674,974	-	674,974	674,974	-	-
Loaned debt securities	29,359	-	29,359	29,359	-	-
Receivables from securities transaction	104,285	-	104,285	104,285	-	-
Reinsurance receivables	11,435	-	11,435	11,397	-	38
	₩ 20,186,847	-	20,186,847	13,736,708	268,620	6,181,519

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(In millions of won)

	December 31, 2012					
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial liabilities(*)	₩ 4,121,564	-	4,121,564	3,130,157	-	991,407
Outstanding spot exchange(*)	7,435,456	-	7,435,456	7,435,031	-	425
Repurchase agreements sold	2,034,340	-	2,034,340	2,034,340	-	-
Payables from securities transaction	109,571	-	109,571	109,571	-	-
Reinsurance payables	12,215	-	12,215	11,397	-	818
	₩ 13,713,146	-	13,713,146	12,720,496	-	992,650

(*) For the derivatives covered by the ISDA derivative contracts, all contracts are settled and the net amount of derivative contracts is measured and paid based on the liquidation value if the counterparty files for bankruptcy or has any credit issues.

51. OPERATING SEGMENTS

(1) The Group has seven reportable segments, as described below, which are the Group's strategic business units. The following summary describes the operations in each of the Group's reportable segments:

Industry	General information
Corporate finance	Loans to or deposits from corporations
Investment finance	Provides consulting services to corporate such as capital finance, restructuring, etc.
Asset management	Provides asset management services to individual and corporate customers
Others	Any other segments not mentioned above
Overseas	Subsidiaries located in foreign countries
Insurance	Subsidiaries that conduct insurance business(KDB Life Insurance Co., Ltd.)
Other subsidiaries	Subsidiaries except for overseas subsidiaries and subsidiaries conducting insurance business

(2) Details of segment results for each reportable segments for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013								
	Banking industry								
	Corporate finance	Investment finance	Asset manage -ment	Others	Overseas	Insurance	Other subsidiaries	Adjustment	Total
Operating revenues:									
Net interest income	₩ 1,434,723	(31,083)	2,208	324,617	59,156	321,763	(28,255)	5,593	2,088,722
Non-interest income (loss), net	298,971	248,007	30,399	(190,982)	35,109	(392,648)	(769,438)	(14,047)	(754,629)
Income (loss) related to securities(*1)	(137,024)	(163,522)	-	85,344	(37,005)	67,440	(7,499)	(25,657)	(217,923)
	1,596,670	53,402	32,607	218,979	57,260	(3,445)	(805,192)	(34,111)	1,116,170
General administrative expenses	(345,913)	(81,225)	(11,098)	(108,640)	(43,890)	(5,359)	(797,393)	-	(1,393,518)
Provision for loan losses and others(*2)	(1,719,408)	(490,550)	-	(2,950)	(8,231)	4,552	597,192	(821)	(1,620,216)
Operating income (loss)	(468,651)	(518,373)	21,509	107,389	5,139	(4,252)	(1,005,393)	(34,932)	(1,897,564)

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		December 31, 2012(*3)								
		Banking industry								
		Corporate finance	Investment finance	Asset manage -ment	Others	Overseas	Insurance	Other subsidiaries	Adjustment	Total
Operating revenues:										
Net interest income	₩	1,517,933	39,342	1,126	187,769	62,444	334,233	(397,405)	329,892	2,075,334
Non-interest income (loss), net		319,071	412,237	34,144	(122,653)	30,033	(399,025)	939,654	(560,715)	652,746
Income (loss) related to securities(*1)		(114,185)	86,636	-	162,949	3,042	91,637	2,021	(61,286)	170,814
		1,722,819	538,215	35,270	228,065	95,519	26,845	544,270	(292,109)	2,898,894
General administrative expenses		(326,165)	(83,771)	(11,685)	(97,413)	(46,523)	(4,350)	(751,402)	(7,087)	(1,328,396)
Provision for loan losses and others(*2)		(647,810)	(15,885)	-	(1,237)	(1,347)	(10,034)	214,583	1,158	(460,572)
Operating income (loss)		748,844	438,559	23,585	129,415	47,649	12,461	7,451	(298,038)	1,109,926

(*1) Income (loss) related to securities comprises losses (gains) related to financial assets and liabilities held for trading, available-for-sale financial assets and held-to-maturity financial assets.
(*2) Provision for loan losses and others comprises provision for loan losses, provision for derivative credit risks, losses (gains) on sales of loans, and provision for other losses.
(*3) The prior period amounts reflect the effects of accounting policy changes, as described in note 3.(30).

(3) Geographical revenue information about the Group's operating segments for the years ended

December 31, 2013 and 2012, and the geographical non-current assets information as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		Revenues(*2)		Non-current assets(*3)	
		December 31, 2013	December 31, 2012(*1)	December 31, 2013	December 31, 2012(*1)
Domestic	₩	25,294,921	26,757,807	7,377,535	7,972,667
Overseas(*4)		1,071,288	1,003,470	15,714	15,714
	₩	26,366,209	27,761,277	7,393,249	7,988,381

(*1) The prior period amounts reflect the effects of accounting policy changes, as described in note 3.(30).
(*2) Revenues consist of interest income, fees and commission income, income related to securities, foreign currency transaction gain, gain on derivative and other operating income. Operating revenues are not reconciled to the income statement which discloses net amounts of some accounts.
(*3) Non-current assets consist of investments in associates, property and equipments, investment properties, intangible assets.
(*4) Overseas operating segments include subsidiaries and representative offices in foreign countries.

52. COMBINATIONS OF ENTITIES UNDER COMMON CONTROL

(1) Summary of combinations of entities under common control

On March 25, 2013, the deal to merge UzKDB and RBS Uz, both components of the Group, was signed to form 'KDB Bank Uzbekistan'. The merger falls under the condition of the combination of entities or businesses under common control pursuant to K-IFRS No.1103 Business Combinations and, thus, accounted for using the carrying amount method, by the Group's choice.

The method used throughout the merger was the exchange of stocks between UzKDB and RBS Uz; the exchange ratio was 20.75 shares of RBS Uz to 1 share of UzKDB. The main reasons for the combination of UzKDB and RBS Uz were to achieve a synergy effect in the operations sector, cut costs, and broaden marketing power within Uzbekistan.

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(2) Identifiable assets and liabilities

Recognized assets and liabilities of RBS Uz as of the date of merger are as follows:

(In millions of won)

			March 25, 2013
Assets	Cash and cash equivalents	₩	6,024
	Due from banks		504,901
	Loans		522
	Property and equipment		3,837
	Other assets		206
			515,490
Liabilities	Deposits		374,642
	Other liabilities		111,561
			486,203
Net assets		₩	29,287

(3) Changes in ratio of shareholding

Significant changes in the ratio of shareholding through the merger are as follows:

	Investee			
	Uz KDB		RBS Uz	
Before Merger	Number of shares	Ratio	Number of shares	Ratio
The Bank	141,394	88.88%	1,759,740	82.35%
NBU	8,838	5.56%	377,160	17.65%
Turon Bank	8,838	5.56%	-	-
	159,070	100.00%	2,136,900	100.00%

	Investee	
	KDB Bank Uzbekistan	
After Merger	Number of shares	Ratio
The Bank	226,211	86.32%
NBU	27,017	10.31%
Turon Bank	8,838	3.37%
	262,066	100.00%

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53. RISK MANAGEMENT

(1) Introduction

(i) Objectives and policies

The Group's risk management aims to maintain financial soundness and effectively manage various risks pertinent to the nature of the Group's business. The Group has set up and fulfilled policies to manage risks timely and effectively. Pursuant to the policies, the Group's risks shall be:
- managed comprehensively and independently,
- recognized timely, evaluated exactly and managed effectively,
- maintained to the extent that the risks balance with profit,
- diversified appropriately to avoid concentration on specific segments,
- managed to prevent excessive exposure by the setting up and managing of tolerance limits and guidelines.

(ii) Risk management strategy and process

The Group's risk management business is separated into two different stages; the 'metrification stage,' in which risks are estimated and monitored, and the 'integration stage,' in which information gained during the risk management process is integrated and used in management strategies. Risk management is recognized as a key component of the Group's management and seeks to change from its previously adaptive and limited role to more leading and comprehensive role.

Furthermore, the Group focuses on consistent communication among different departments in order to establish a progressive consensus on risk management.

(iii) Risk management governance

Risk Management Committee

The Group's Risk Management Commitee (the "Committee") is composed of the President of the committee (an outside director) and four other commissioners including the CEO of the Bank. The Committee functions to establish policies of risk management, evaluate the capital adequacy of the Group, discuss material issues relating to risk management and present preliminary decisions on such matters.

The CEO of the Bank and the head of Risk Management Department

The CEO of the Bank, according to the policies of risk management, performs his or her role to manage and direct risk management in order to sustain efficiency and internal control. The head of the Risk Management Department is responsible for supervising the overall administration of the Group's risk management business and providing risk-related information to members of the board of directors and the Group's management.

Risk Management Practice Committee

The Group's Risk Management Practice Committee is composed of the main leaders of business segments and exercises its role to review matters for decision on allocation by segment of internal capital limits and other material risk-related matters.

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(iv) Performance of Risk Management Committee

The Risk Management Committee performs comprehensive reviews of all the affairs related to risk management and deliberates the decisions of the board of directors. For the year ended December 31, 2013 the key activities of the Risk Management Committee are as follows:
- Major deliberation and resolution
·Issuance plan and planning of subordinated Industrial Financial Debentures
· Emergency funding plan for 2014
· BIS capital ratio management objectives and internal capital planning for 2014

- Major reporting
· Report on simulation of Business Continuity Planning (BCP)
· Assessment and approval standards of franchise loans
· Credit Committee's Investment Committee's quarterly decisions
· Allocation and management standards of internal capital limits for 2013
· Issuance and amendments to assessment and approval standards of household loans by instruments
· Integrated crisis analysis on first half-year for 2013
· Corporate credit ratings for 2013
· Strengthening risk management capabilities for large exposures
· Changes in credit risk premiums for household loans
· Compatibility evaluation for the credit rating model and default rates for 2013

(v) Improvement of risk management system

For the continuous improvement of risk management, financial soundness and capital adequacy, the Group performs the following:

- Continuous improvement of Basel
· Improvements in the internal capital adequacy assessment system, in line with the guidelines set by the Financial Supervisory Service ("FSS") in 2008, to manage capital adequacy more effectively
· Improvements in the credit assessment system on Low Default Portfolio ("LDP")
· Elaboration of risk measuring criteria including credit risk parameters and measurement logics
· Pre-operation of the Advanced Measurement Approach ("AMA") since 2009, in arrangement with the FSS, to apply the risk management AMA

- Expansion of risk management infrastructure to the global IB level
· Establishment of the RAPM system in order to reflect risks to the Bank's business and support decision-making upon management, and application of performance assessment at the branch level since 2010
· Enforcement of risk management related to irregular compound derivatives and validation of the derivative pricing model developed by the Bank's Front Office

- Risk management of retail banking
· On-going planning of asset expansion in the retail banking risk management operations sector of the department of risk management since the introduction of retail loan business in 2010
· Establishment and application of assessment and approval standards by retail loan instruments, and expansion of retail banking risk management infrastructure such as accumulating databases in order to support analytic decision-making and develop a personal credit assessment model through the establishment of a "retail banking Data Mart"
· To supplement the limit of a evaluation process with computerized system, the group adopted 'relationship manager' which compensate the evaluation system in sophisticated level

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(vi) Risk management reporting and measuring system

The Group endeavours consistently to objectively and rationally measure and manage all significant risks considering the characteristics of operational areas, assets and risks. In relation to reporting and measurement, the Group has developed application systems as follows:

Application system	Approach	Completion date	Major function
Corporate Credit Rating System	Logit Model	Jun. 2004 Mar. 2008 Mar. 2010	Calculate corporate credit rating
Credit Risk Measurement System	CreditRisk+ Credit Metrics	Jul. 2003 Nov. 2007	Summarize exposures, manage exposure limits and calculate Credit VaR
Market Risk Management System	Risk Watch	Jun. 2002	Summarize position, manage exposure limits and calculate Market VaR
Interest/Liquidity Risk Management System	OFSA	Feb. 2006	Calculate repricing gap, duration gap, VaR and EaR
Operational Risk Management System	Standardized Approach AMA	May 2006 May 2009	Manage process and calculate CSA, KRI, OP and VaR Pre-operate the AMA

(vii) Response to Basel

The Korean authority implemented Basel II as of January 2008 and adopted the Standardized Approach and the Foundation Internal Ratings-Based Approach. The Advanced Approaches were adopted later in 2009.

In conformity with the implementation roadmap of Basel II, the Group obtained the approval to use the Foundation Internal Ratings-Based Approach on credit risk from the FSS in July 2008 and has applied the approach since late June 2008. The Group applies the Standardized Approach on market risks and operational risks.

To establish credibility and maintain financial soundness, the Group plans to adopt the Advanced Approaches (Credit risk: Advanced Internal Ratings-Based Approach, Operational risk: Advanced Measurement Approach etc) by continuously improving related systems and policies. Furthermore, the Group completed the "Basel III standard risk management system" in preparation of the adoption of the Basel III regulations announced on December 1, 2013. Starting from 2013 year-end, the BIS capital adequacy ratio was measured in accordance to the Basel III regulations.

(viii) Internal capital adequacy assessment process

Internal capital adequacy assessment process is defined as the process that the Group aggregates significant risks, calculates its internal capital, compares the internal capital with the available capital and assesses its internal capital adequacy.

- Internal capital adequacy assessment
  For the purpose of the internal capital adequacy assessment, the Group calculates its aggregated internal capital and available capital by evaluating all significant risks and taking into account the quality and components of capital, and then assesses the internal capital adequacy by comparing the aggregated internal capital with the available capital.

- Goal setting of internal capital management
  The Group sets up and manages an internal capital limit on an annual basis, through the approval of the Risk Management Committee, in order to maintain internal capital adequacy by managing internal capital (integrated risks) within the extent of available capital.

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The prior year's internal capital, analysis of domestic and foreign environment changes in the current year, and the direction and size of operations are all reflected in the goal setting of internal capital management to calculate the integrated internal capital scale. Moreover, Bank for International Settlements("BIS") capital adequacy ratio and risk appetite are taken into consideration in the goal setting of internal capital management.

- Allocation of internal capital
  The Group's entire internal capital is allocated to each headquarter and department, according to the extent of possible risk faced and size of operations, after the Risk Management Committee's deliberation and the board of directors' approval. The allocated internal capital is monitored regularly and managed using various management methods. The results of monitoring and managing the allocated internal capital are reported to the Risk Management Committee. In case of any material changes in the Group's business plan or risk operation strategy, the Group adjusts the allocations elastically.

- Composition of internal capital
  Internal capital comprises all the significant risks of the Group and is composed of quantifiable and non-quantifiable risks. Quantifiable risks are composed of credit risk, market risk, interest rate risk, operational risk and credit concentration risk, and are risks measured quantitatively by applying reasonable methodology using objective data. Non-quantifiable risks are composed of strategy risk, reputation risk, residual risk on asset securitization and furthermore. Non-quantifiable risks are those risks that cannot be measured quantitatively because of lack of data or the absence of appropriate measuring methologies.

(2) Credit Risk

(i) Concept

Credit risk can be defined as potential loss resulting from the refusal to perform obligations or default of counterparties. More generally, it is used to refer to the possibility of loss from engaged bonds that cannot be redeemed properly or from substitute payments.

(ii) Approach to credit risk management

Summary of credit risk management

The Group regards credit risk as the most important risk area in its business operations, and accordingly, closely monitors its credit risk exposure. The Group manages both credit risks at portfolio level and at individual credit level. At portfolio level, the Group reduces credit concentration and restructures the portfolio in such a way to maximize profitability considering the risk level. To avoid credit concentration on a particular sector, the Group manages credit limits by client, group, and industry. The Group also resets exposure management directives for each industry by conducting an industry credit evaluation twice a year.

At the individual credit level, the relationship manager ("RM"), the credit officer ("CO") and the Credit Review Committee manage each borrower's credit risk.

Post management and insolvent borrower management

The Group monitors the borrower's credit rating from the date of the loan to the date of the final collection of debt consistently, and inspects the borrower's status regularly and frequently in order to prevent the generation of new bad debts and to stabilize the number of debt recoveries.

In addition, an early warning system is operated to spot borrowers that are highly likely to be insolvent. The early warning system provides financial information, financial transaction information, public information and market information of the borrower, and such information is used by the RM and the CO to monitor and manage changes in the borrower's credit rating.

Under the early warning system, a borrower that is highly likely to be insolvent is classified as an early warning borrower or a precautionary borrower. The Group sets up a specific and applicable stabilization plan for such a borrower considering the borrower's characteristics. Furthermore, substandard borrowers are classified as insolvent borrowers, and are managed intensively by the Group, which takes legal proceedings, disposals or corporate turnaround measures if necessary.

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Classification of asset soundness and provision of allowance for loss

Classification of asset soundness is fulfilled by the analysis and assessment of credit risk. The classification is used in order to provision an appropriate allowance, prevent further occurrences of insolvent assets and promote the normalization of existing insolvent assets to enhance the stabilization of asset operations.

Based on the Financial Supervisory Regulations of the Republic of Korea, the Group has established standards and guidelines on the classification of asset soundness, according to the Forward Looking Criteria ("FLC"), which reflects not only the borrower's past records of repayment but also their future debt repayment capability.

In conformity with these standards, the Group classifies the soundness of its assets as "normal", "precautionary", "substandard", "doubtful", or "estimated loss" and differentiates the coverage ratio by the level of classification.

Loans

Details of loans as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013	December 31, 2012
Neither past due nor impaired	₩	95,284,694	91,809,717
Past due but not impaired		143,414	121,521
Impaired		4,546,918	2,060,495
		99,975,026	93,991,733
Allowance for loan losses		(1,874,814)	(883,942)
Present value discount		(43,842)	(49,300)
Deferred loan fees		2,821	(11,334)
Net value	₩	98,059,191	93,047,157
Ratio of allowance for loan losses to total loans	%	1.88	0.94

Loans that are neither past due nor impaired

Loans that are neither past due nor impaired as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility developments	Others	Loans in foreign currencies	Private placed corporate bonds	Others	Total
AAA ~ B- (Normal)	₩	24,571,161	31,654,081	3,759,459	20,704,517	3,646,743	8,600,703	92,936,664
CCC (Precautionary)		904,132	420,820	-	351,995	26,493	201,321	1,904,761
CC (Substandard)		190,426	70,222	-	37,560	104,296	40,765	443,269
C (Doubtful)		-	-	-	-	-	-	-
D (Estimated loss)		-	-	-	-	-	-	-
	₩	25,665,719	32,145,123	3,759,459	21,094,072	3,777,532	8,842,789	95,284,694

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(In millions of won)

		December 31, 2012						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility developments	Others	Loans in foreign currencies	Private placed corporate bonds	Others	Total
AAA ~ B- (Normal)	₩	22,664,714	29,972,880	2,726,261	19,114,316	5,088,221	10,057,853	89,624,245
CCC (Precautionary)		924,434	291,950	-	413,479	76,078	283,690	1,989,631
CC (Substandard)		43,365	14,322	-	10,596	95,036	32,522	195,841
C (Doubtful)		-	-	-	-	-	-	-
D (Estimated loss)		-	-	-	-	-	-	-
	₩	23,632,513	30,279,152	2,726,261	19,538,391	5,259,335	10,374,065	91,809,717

Loans that are past due but not impaired

Loans that are past due but not impaired as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility developments	Others	Loans in foreign currencies	Private placed corporate bonds	Others	Total
Within 30 days	₩	48,459	35,477	2,946	29,250	12,200	11,326	139,658
Within 30 ~ 60 days		362	-	198	-	-	-	560
Within 60 ~ 90 days		1,181	991	-	1,024	-	-	3,196
	₩	50,002	36,468	3,144	30,274	12,200	11,326	143,414

(In millions of won)

		December 31, 2012						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility developments	Others	Loans in foreign currencies	Private placed corporate bonds	Others	Total
Within 30 days	₩	54,503	24,718	180	19,010	3,000	7,067	108,478
Within 30 ~ 60 days		7,572	183	-	-	-	-	7,755
Within 60 ~ 90 days		3,318	1,970	-	-	-	-	5,288
	₩	65,393	26,871	180	19,010	3,000	7,067	121,521

Impaired loans

Impaired loans as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility developments	Others	Loans in foreign currencies	Private placed corporate bonds	Others	Total
Impaired Loans:								
Individual	₩	2,459,903	583,176	5,107	96,835	706,576	491,821	4,343,418
Collective		103,942	59,652	305	18,636	3,780	17,185	203,500
	₩	2,563,845	642,828	5,412	115,471	710,356	509,006	4,546,918

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(In millions of won)

		December 31, 2012					
		Loans in Korean won		Other loans			
		Loans for working capital	Loans for facility developments	Loans in foreign currencies	Private placed corporate bonds	Others	Total
Impaired Loans:							
Individual	₩	931,241	428,059	93,808	351,433	131,767	1,936,308
Collective		60,434	16,439	39,817	4,280	3,217	124,187
	₩	991,675	444,498	133,625	355,713	134,984	2,060,495

(iii) Measurement methodology of credit risk

Pursuant to Basel II, the Group selects the measurement methodology of credit risk considering the complexity of measurement, measurement factors, estimating methods and others. Measurement approaches are divided into Standardized Approach and Internal Ratings-Based Approach.

Standardized Approach ("SA")

In the case of the Standardized Approach, the risk weights are applied according to the credit rating assessed by External Credit Assessment Institution ("ECAI"). Risk weights in each credit rating are as follows:

Credit rating(*)	Corporate	Country	Bank	Asset securitization
AAA ~ AA-	20.00%	0.00%	20.00%	20.00%
A+ ~ A-	50.00%	20.00%	50.00%	50.00%
BBB+ ~ BBB-	100.00%	50.00%	100.00%	100.00%
BB+ ~ BB-	100.00%	100.00%	100.00%	350.00%
B+ ~ B-	150.00%	100.00%	100.00%	Deducted from Equity (1,250%)
Below B-	150.00%	150.00%	150.00%	"
Unrated	100.00%	100.00%	100.00%	"

(*) Credit rating refer to those evaluated by global credit rating agencies such as S&P or Moody's

The OECD, S&P, Moody's and Fitch are designated as foreign ECAI and Korea Investors Service Co., Ltd., NICE Investors Services Co., Ltd. and the Korea Ratings Co., Ltd. are designated as domestic ECAI.

The Group applies the credit rating based on the corresponding loan and same borrower's unsecured senior loans. In the case the borrower's risk weight is higher than the unrated exposure's risk weight (100%), the higher weight is applied. In the case the borrower has more than one rating, the higher weight of the two lowest weights (second best criteria) is applied.

Internal Ratings-Based Approach ("IRB")

To use the Internal Ratings-Based Approach, the Group must be approved by the FSS and should also meet the requirement pre-set by the FSS.

In relation to Basel II that has been adopted domestically as of January 2008, the Group gained approval from the FSS to use the Foundation Internal Ratings-Based Approach in July 2008. The Group has calculated credit risk-weighted assets using the approach since late June 2008.

Measurement method of credit risk-weighted asset

The Group calculates credit risk-weighted assets of corporate exposures and asset securitization exposures using the Foundation Internal Ratings-Based Approach as of December 31, 2013.

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The Standardized Approach is applied to country exposures, public institution exposures and bank exposures according to the interpretation of the FSS permanently, and applied to overseas subsidiary and the Bank's branch pursuant to prior consultation with the FSS.

The Standard Approach is applied to special finance, non-residents, non-banking financial institutions currently, and will be replaced by the Internal Ratings-Based Approach in the future.

〈Approved measurement method〉

Measurement method		Exposure
Standardized Approach	Permanent SA(*1)	- Countries, public institutions and banks
	SA(*2)	- Overseas subsidiaries and branches, and other assets
Foundation Internal Ratings-Based Approach		- Corporate and small and medium enterprises and asset securitization (at each credit level)
Application of IRB by phase		- Special lending, non-residence, non-bank financial institutions

(*1) Pursuant to the interpretation of the FSS, the Standardized Approach is applied to the exposures of governments, banks and other public institutions.

(*2) The Standardized Approach is applied, pursuant to prior consultation with the FSS, in the case the credit risk-weighted assets of a specific business segment is less than 15% of the entire credit riskweighted assets.

The mitigated effect of credit risks reflects the related policies which consider eligible collateral and guarantees. The Group calculates the credit risk-weighted assets using the capital adequacy ratio.

Upon the calculation of credit risk-weighted assets for derivatives, the Group takes into consideration the set-off effects of transactions under legally enforceable rights to set-off to calculate exposures.

Exposure less credit risk mitigation by the asset type as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013		
		Exposure	Credit risk mitigation	Exposure less credit risk mitigation
Government	₩	6,316,470	-	6,316,470
Bank		7,755,382	-	7,755,382
Corporate		112,830,802	(89,317)	112,741,485
Stock		4,961,023	-	4,961,023
Indirect investment		4,011,423	-	4,011,423
Asset securitization		4,512,448	(4)	4,512,444
Over-the-counter derivatives		7,473,065	(4,101,307)	3,371,758
Retail assets		1,950,113	(41,619)	1,908,494
Others		31,298,951	(4,377,195)	26,921,756
	₩	181,109,677	(8,609,442)	172,500,235

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		December 31, 2012		
		Exposure	Credit risk mitigation	Exposure less credit risk mitigation
Government	₩	5,932,290	-	5,932,290
Bank		7,169,712	-	7,169,712
Corporate		106,973,907	(98,346)	106,875,561
Stock		4,752,912	-	4,752,912
Indirect investment		3,682,654	-	3,682,654
Asset securitization		7,199,355	-	7,199,355
Over-the-counter derivatives		8,159,498	(3,922,290)	4,237,208
Others		31,590,940	(139,137)	31,451,803
	₩	175,461,268	(4,159,773)	171,301,495

Credit rating model

The results of credit rating are presented as grades through an assessment of the debt repayment capacity that the principal and interest of debt securities or loans are redeemed while complying with contractual redemption schedule.

Using the Group's internal credit rating model, the Group classifies debtors' credit rating into 10 grades (AAA~D). Plus sign (+) and minus sign (-) are attached to the grades (AA~B) to distinguish the difference between credits in the same grade. As a result, the Group's credit rating model uses 20 grades.

The Group's regular credit rating process is carried out once a year and in the case of the change of debtor's credit condition, the credit rating is frequently adjusted as necessary to retain the adequacy of credit rating.

The results of credit rating is applied to various areas such as discrimination of loan processes, loan limit, loan interest rate, post loan management standard process, credit risk measurement and allowance for loan losses assessment.

Credit process control structure

According to the Principle of Checks and Balances the Group has established the credit process control structure by which the credit rating system operates appropriately.

. Independent assessment of credit rating: The Group's business segment (RM) and credit rating assessment segment (CO) are independently operated.

. Independent control of credit rating system: The control of credit rating system including the development of credit rating model is independently implemented by the Group's Risk Management Department.

. Independent verification of credit rating system: Credit rating system is independently verified by the validation team of the Consulting Service Department.

. Internal audit of credit rating process: Credit rating process is audited by the Group's internal audit department.

. Role of the Board of Directors and the Group's management: Major issues relating to credit process are approved by the Board of Directors and are regularly monitored by the Group's top management.

The Group reviews debt serviceability based on a credit analysis when handling loans. Depending on the results, credit loan preservation is adjusted as necessary using such methods as interest rate preservation due to credit risk.

The Group evaluates the value of the collateral, performing ability and legal validity of the guarantee at the initial acquisition. The Group re-evaluates the provided collateral and guarantees regularly for them to be reasonably preserved.

For guarantees, the Group demands a corresponding written guarantee according to loan handling standards and the guarantor's credit rating is independently calculated when in conformance with the credit rating endowment method.

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(iv) Credit exposure

Geographical information of credit exposure

Geographical information of credit exposure as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013									
		Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	USA	Others	Total
Due from banks (excluding due from BOK)	₩	3,228,934	2,365	90	67,777	41,411	50,254	14,020	83,377	1,031,622	4,519,850
Financial assets designated at FVTPL Bonds		239,555	-	-	-	-	-	-	-	-	239,555
Available-for-sale financial assets:											
Bonds (excluding government bonds)		16,960,787	61,417	-	-	-	-	615,908	504,034	511,062	18,653,208
Held-to-maturity financial assets:											
Bonds (excluding government bonds)		52,819	-	-	-	-	47,805	-	-	-	100,624
Loans		131,594,868	45,442	17,181	41,876	54,089	333,303	162,032	312,057	4,102,168	136,663,016
Derivative financial assets		676,855	-	-	-	-	-	2,670	3,571	149	683,245
Other assets		7,982,581	842	60	1,768	1,262	-	7,490	6,745	64,849	8,065,597
		160,736,399	110,066	17,331	111,421	96,762	431,362	802,120	909,784	5,709,850	168,925,095
Financial guarantees		32,074,802	3,998	-	27,668	775	15,037	-	5,071	305,144	32,432,495
Credit related commitment (commitments on loans and others)		5,655,219	-	-	7,472	-	80,103	228,875	759,216	3,226,630	9,957,515
		37,730,021	3,998	-	35,140	775	95,140	228,875	764,287	3,531,774	42,390,010
	₩	198,466,420	114,064	17,331	146,561	97,537	526,502	1,030,995	1,674,071	9,241,624	211,315,105

(In millions of won)

		December 31, 2012									
		Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	USA	Others	Total
Due from banks (excluding due from BOK)	₩	1,218,762	257	-	223,833	33,791	61,903	6,006	409,893	840,357	2,794,802
Financial assets designated at FVTPL Bonds		250,454	-	-	-	-	-	-	-	-	250,454
Available-for-sale financial assets: Bonds											
Bonds (excluding government bonds)		15,676,017	41,577	-	-	-	-	616,525	447,763	491,458	17,273,340
Held-to-maturity financial assets:											
Bonds (excluding government bonds)		1,030,542	-	-	-	-	56,111	-	-	-	1,086,653
Loans		121,304,736	44,876	17,103	37,099	103,032	359,047	281,007	302,105	3,272,084	125,721,089
Derivative financial assets		897,394	-	-	-	-	-	92	-	-	897,486
Other assets		15,225,927	787	78	1,373	1,203	6,170	3,536	3,781	20,003	15,262,858
		155,603,832	87,497	17,181	262,305	138,026	483,231	907,166	1,163,542	4,623,902	163,286,682
Financial guarantees		47,532,796	1,287	-	15,495	1,105	16,236	-	-	328,048	47,894,967
Credit related commitment (commitments on loans and others)		8,153,553	-	-	2,833	-	45,186	148,123	702,981	2,742,042	11,794,718
		55,686,349	1,287	-	18,328	1,105	61,422	148,123	702,981	3,070,090	59,689,685
	₩	211,290,181	88,784	17,181	280,633	139,131	544,653	1,055,289	1,866,523	7,693,992	222,976,367

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Industry information of credit exposure

Industry information of credit exposure as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013				
	Manufacturing	Service	Loans for households	Others	Total
Due from banks (excluding due from BOK)	₩ 2,013	1,375,074	-	3,142,763	4,519,850
Financial assets designated at FVTPL					
Bond	-	239,555	-	-	239,555
Available-for-sale financial assets:					
Bonds (excluding government bonds)	3,777,614	11,721,082	-	3,154,512	18,653,208
Held-to-maturity financial assets:					
Bonds (excluding government bonds)	-	67,806	-	32,818	100,624
Loans	68,678,099	54,527,547	1,072,427	12,384,943	136,663,016
Derivative financial assets	-	657,297	-	25,948	683,245
Other assets	32,414	66,794	-	7,966,389	8,065,597
	72,490,140	68,655,155	1,072,427	26,707,373	168,925,095
Financial guarantees	23,204,119	3,724,043	-	5,504,333	32,432,495
Credit related commitment (Commitments on loans and others)	2,605,940	6,638,055	67	713,453	9,957,515
	25,810,059	10,362,098	67	6,217,786	42,390,010
	₩ 98,300,199	79,017,253	1,072,494	32,925,159	211,315,105

(In millions of won)

	December 31, 2012				
	Manufacturing	Service	Loans for households	Others	Total
Due from banks (excluding due from BOK)	₩ -	1,342,142	-	1,452,660	2,794,802
Financial assets designated at FVTPL					
Bond	-	250,454	-	-	250,454
Available-for-sale financial assets:					
Bonds (excluding government bonds)	3,836,883	10,956,340	-	2,480,117	17,273,340
Held-to-maturity financial assets:					
Bonds (excluding government bonds)	58,127	818,440	-	210,086	1,086,653
Loans	64,209,310	49,236,301	1,051,101	11,224,377	125,721,089
Derivative financial assets	-	881,191	-	16,295	897,486
Other assets	4,242	51,175	-	15,207,441	15,262,858
	68,108,562	63,536,043	1,051,101	30,590,976	163,286,682
Financial guarantees	37,305,233	3,618,766	-	6,970,968	47,894,967
Credit related commitment (Commitments on loans and others)	2,365,162	8,687,982	82	741,492	11,794,718
	39,670,395	12,306,748	82	7,712,460	59,689,685
	₩ 107,778,957	75,842,791	1,051,183	38,303,436	222,976,367

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Credit rating information of credit exposure

Credit rating information of credit exposure as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013				
	Due from banks	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA ~ AA-	₩ 1,053,863	239,555	5,997,112	-	7,290,530
A+ ~ A-	53,611	-	4,201,762	20,000	4,275,373
BBB+ ~ BB-	383,997	-	7,026,452	-	7,410,449
Less than BB-	24,410	-	335,455	-	359,865
Unrated	3,003,969	-	1,092,427	80,624	4,177,020
	₩ 4,519,850	239,555	18,653,208	100,624	23,513,237

(In millions of won)

	December 31, 2012				
	Due from banks	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA ~ AA-	₩ 521,682	250,454	5,715,765	847,967	7,335,868
A+ ~ A-	56,808	-	1,430,274	-	1,487,082
BBB+ ~ BB-	610,841	-	5,029,783	87,770	5,728,394
Less than BB-	-	-	323,879	-	323,879
Unrated	1,605,471	-	4,773,639	150,916	6,530,026
	₩ 2,794,802	250,454	17,273,340	1,086,653	21,405,249

(3) Capital management activities

(i) Capital adequacy

The FSS approved the Bank's use of the Foundation Internal Ratings-Based Approach in July 2008. The Bank has been using the same approach when calculating credit risk-weighted assets since the end of June, 2008. The equity capital ratio and equity capital according to the standards of the Bank for International Settlements are calculated for the purpose of such disclosure. The equity capital ratio and equity capital are calculated on a consolidated basis. In conformity with the Banking Act, which is based on the implementation of Basel III on December 1, 2013, the regulatory capital is divided into the following two categories.

Tier 1 capital

- Common Equity Tier 1

Regulatory capital that represents the most subordinated claim in liquidation of the Bank, takes the first and proportionately greatest share of any losses as they occur, and which principal is never repaid outside of liquidation meets the criteria for classification as common equity, including capital stock, capital surplus, retained earnings, qualifying noncontrolling interest in subsidiaries, and accumulated other comprehensive income as common equity Tier 1.

- Additional Tier 1 Capital

Capital stock and capital surplus related to issuance of capital securities that are subordinated, have non-cumulative and conditional dividends or interests, and have no maturity or step-up conditions.

Tier 2 Capital (Supplementary Tier 2 Capital)

Regulatory capital that fulfills supplementary capital adequacy requirements, and includes subordinated debt with maturities over 5 years and allowance for loan losses in conformity with external regulatory standards and internal standards.

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

The BIS capital adequacy ratio and capital in accordance to Basel III standards as of December 31, 2013 are as follows:

BIS capital adequacy ratio

(In millions of won)

		December 31, 2013
Equity capital based on BIS (A):		
Tier 1 capital		
Common Equity Tier 1	₩	15,300,310
Additional Tier 1 Capital		14,679
		15,314,989
Tier 2 capital		2,890,445
		18,205,434
Risk-weighted assets (B):		
Credit risk-weighted assets		119,304,037
Market risk-weighted assets		523,154
Operational risk-weighted assets		4,515,292
	₩	124,342,483
BIS capital adequacy ratio (A/B):	%	14.64
Tier 1 capital ratio		12.32
Common Equity Tier 1 ratio		12.30
Additional Tier 1 Capital ratio		0.02
Tier 2 capital ratio		2.32

Equity capital based on BIS

(In millions of won)

		December 31, 2013
Equity capital (A+B)	₩	18,205,434
Tier 1 capital (A=C+D):		
Common Equity Tier 1 (C)		
Capital stock		9,261,811
Capital surplus		46,977
Retained earnings		5,687,488
Non-controlling interest		1,030
Other comprehensive income		446,657
Other capital adjustments		(1,238)
Common stock deductibles		(142,415)
		15,300,310
Additional Tier 1 Capital (D)		
Non-controlling interest		14,679
		15,314,989
Tier 2 capital (B):		
Allowance for doubtful accounts, etc.		567,543
Nonqualified capital securities		2,322,537
Non-controlling interest		365
	₩	2,890,445

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The BIS capital adequacy ratio and capital in accordance to Basel II standards as of December 31, 2012 are as follows:

BIS capital adequacy ratio

(In millions of won)

		December 31, 2012
Equity capital based on BIS (A):		
Tier 1 capital	₩	15,347,588
Tier 2 capital		1,648,534
		16,996,122
Risk-weighted assets (B):		
Credit risk-weighted assets		107,681,202
Market risk-weighted assets		938,405
Operational risk-weighted assets		4,581,928
	₩	113,201,535
BIS capital adequacy ratio (A/B):	%	15.01
Tier 1 capital ratio		13.55
Tier 2 capital ratio		1.46

Equity capital based on BIS

(In millions of won)

		December 31, 2012
Equity capital (A+B)	₩	16,996,122
Tier 1 capital (A) :		
Capital stock		9,251,861
Capital surplus		44,859
Retained earnings		8,584,659
Non-controlling interest		15,247
Deductions		(2,549,038)
		15,347,588
Tier 2 capital (B) :		
45% of unrealized gain on financial assets available for sale		285,310
Term subordinated liabilities		1,134,812
Others		775,700
Deductions		(547,288)
	₩	1,648,534

(4) Market risk

(i) Concept

Market risk is defined as the possibility of potential loss on a trading position resulting from fluctuations in interest rates, foreign exchange rates and the price of stocks and derivatives. Trading position is exposed to risks, such as interest rate, stock price and foreign exchange rate, etc. Non-trading position is mostly exposed to interest rates. Accordingly, the Group classifies market risks into those exposed from trading position or those exposed from non-trading position.

(ii) Market risks of trading positions

Management method on market risks arising from trading positions

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

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Market risk is managed using VaR limit and loss limit. VaR limit is calculated in the view of entire Group and the calculated VaR limit is distributed into each department and each type (stock price, interest rate, foreign exchange rate and option). The trading department regulates and operates terms of stop loss and investment limits.

Using the Standardized Approach and internal model of VaR, the Group's VaR is measured daily and the measured VaR is used for risk monitoring and limit management. In the estimation of VaR, the historical simulation and two other supplemental procedures are used: variance-covariance matrix and Monte Carlo simulation. Through the stress test and back test, the estimation of VaR is validated daily.

In estimating of market risk, the Standardized Approach and the internal model are used. The Standardized Approach is used in order to calculate the required capital from market risk and the internal model is used in order to manage risks internally.

Since July 2007 the Group has measured one-day VaR through the historical simulation method using the time series data of past 250 days under a 99% confidence level. The calculated VaR is monitored on a daily basis.

In the implementation of the stress test, the Group applies three scenarios based on the fluctuation of market index that occurred at the time of the historical events that resulted in the significant shock such as the IMF crisis and the 9/11 attacks. The stress test is implemented by the system daily in order to provide for crisis occurrences. Furthermore, the Group is conducting a contingency plan for market risk management. The plan distinguishes the crisis condition into three stages - precautious stage, precrisis stage and crisis stage - through the measurement of the market volatility.

For the validation of the market risk measurement methodology, the Group daily implements the back testing that compares the simulated loss, the actual loss and the previous day's VaR. In addition, the Group enforces the market risk management relating to irregular compound derivatives through the validation of the derivative pricing model developed by the Group's Front Office.

VaR of trading position

The Group's VaR of trading position as of December 31, 2013 and 2012 are as follows:

VaR of trading position as of December 31, 2013

KDB stand-alone

(In millions of won)

		December 31, 2013			
		Average	Max	Min	December 31, 2013
Interest rate	₩	2,701	4,483	1,079	3,937
Stock price		541	1,123	174	302
Foreign exchange rate(*)		591	5,375	202	841
Option		156	614	50	147
Diversification effect		(1,146)	(4,557)	(93)	1,163)
	₩	2,843	7,038	1,412	4,064

KDB Subsidiaries

(In millions of won)

		December 31, 2013			
		Average	Max	Min	December 31, 2013
Interest rate	₩	1,727	6,446	113	113
Foreign exchange rate(*)		1,408	3,125	203	203
	₩	3,136	9,571	316	316

KOREA DEVELOPMENT BANK AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

VaR of trading position as of December 31, 2012

KDB stand-alone

(In millions of won)

		December 31, 2012			
		Average	Max	Min	December 31, 2012
Interest rate	₩	3,322	4,251	2,364	3,229
Stock price		778	3,219	53	263
Foreign exchange rate(*)		687	4,789	167	573
Option		217	927	40	361
Diversification effect		(1,607)	(7,017)	(470)	(1,041)
	₩	3,397	6,169	2,154	3,385

KDB Subsidiaries

(In millions of won)

		December 31, 2012			
		Average	Max	Min	December 31, 2012
Interest rate	₩	10,913	18,769	217	8,781
Foreign exchange rate(*)		7,856	12,732	3,063	3,510
	₩	18,769	31,501	3,280	12,291

(*) The amount includes trading position and non-trading position.

(iii) Market risk management of non-trading positions

Measurement method on market risk arising from non-trading position

The most critical market risk that arises in non-trading position is the interest rate risk. Interest rate risk is defined as the likely loss resulting from the unfavorable fluctuation of interest rate in the Group's financial condition and is measured by interest rate VaR and interest rate EaR.

Interest rate VaR is the maximum amount of decrease in net asset value resulting from the unfavorable fluctuation of interest rate. Interest rate EaR is the maximum amount of decrease in net interest income resulting from the unfavorable fluctuation of interest rate for a year.

The Group's interest rate VaR and interest rate EaR are measured through the simulation of conclusive interest rate scenario with the Oracle Financial Services Application (OFSA) and are reported on a monthly basis to the Risk Management Committee. The Management's target of interest rate VaR and interest rate EaR are approved at the beginning of the year. Additionally, the interest rate VaR and interest rate EaR on consolidated basis are calculated using standard methodology provided by Bank for International Settlements (BIS) in order to retain the consistency in the methods used by the Group and its subsidiaries.

VaR/EaR of non-trading position

The Group's VaR and EaR of non-trading position as of December 31, 2013 and 2012 are as follows:

(In millions of won)

December 31, 2013			
Interest rate shock		Interest rate VaR	Interest rate EaR
2.00%	₩	70,413	147,218

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(In millions of won)

December 31, 2012		
Interest rate shock	Interest rate VaR	Interest rate EaR
2.00%	₩ 259,962	18,766

(4) Foreign currency risk

Outstanding balances by currency with significant exposure as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013						
	KRW	USD	EUR	JPY	GBP	Others	Total
Financial Assets:							
Cash and due from banks	₩ 2,797,367	3,882,915	148,714	96,857	1,657	508,918	7,436,428
Financial assets held for trading	1,835,976	20,894	-	-	-	264	1,857,134
Financial assets designated at FVTPL	240,812	-	-	-	-	-	240,812
Available-for-sale financial assets	28,832,184	4,810,817	171,925	224,025	-	215,990	34,254,941
Held-to-maturity financial assets	59,928	-	-	-	-	47,805	107,733
Loans	67,749,592	26,434,687	955,572	2,416,359	19,424	483,557	98,059,191
Derivative financial assets	3,566,274	717,752	55,207	22,275	-	2,582	4,364,090
Other assets	2,477,369	1,750,590	65,284	138,569	-	16,306	4,448,118
Total financial assets	₩ 107,559,502	37,617,655	1,396,702	2,898,085	21,081	1,275,422	150,768,447
Financial Liabilities:							
Financial liabilities designated at FVTPL	₩ 677,916	-	-	-	-	-	677,916
Deposits	32,103,068	5,948,092	167,115	580,214	618	536,736	39,335,843
Borrowings	11,318,361	12,027,928	612,680	1,905,264	-	46,678	25,910,911
Bonds	38,189,767	12,115,530	2,238,076	1,003,595	-	3,674,305	57,221,273
Derivative financial liabilities	3,272,166	621,640	4,137	12,355	-	5,743	3,916,041
Other liabilities	3,343,799	1,268,507	34,999	524,533	3,481	36,688	5,212,007
Total financial liabilities	88,905,077	31,981,697	3,057,007	4,025,961	4,099	4,300,150	132,273,991
Net financial position	₩ 18,654,425	5,635,958	(1,660,305)	(1,127,876)	16,982	(3,024,728)	18,494,456

(In millions of won)

	December 31, 2012						
	KRW	USD	EUR	JPY	GBP	Others	Total
Financial Assets:							
Cash and due from banks	₩ 1,223,132	2,094,227	40,728	56,210	-	592,124	4,006,421
Financial assets held for trading	2,728,320	18,181	9,920	-	-	2,998	2,759,419
Financial assets designated at FVTPL	251,873	-	-	-	-	-	251,873
Available-for-sale financial assets	26,022,414	4,169,882	207,732	316,867	-	276,711	30,993,606
Held-to-maturity financial assets	1,193,556	244,340	-	-	-	56,111	1,494,007
Loans	64,531,889	23,979,560	706,049	3,159,722	64,380	605,557	93,047,157
Derivative financial assets	3,582,796	1,485,970	94,342	29,285	-	12,159	5,204,552
Other assets	6,734,750	3,851,282	29,701	225,272	-	17,181	10,858,186
Total financial assets	₩ 106,268,730	35,843,442	1,088,472	3,787,356	64,380	1,562,841	148,615,221
Financial Liabilities:							
Financial liabilities designated at FVTPL	₩ 875,197	-	-	-	-	-	875,197
Deposits	34,154,968	4,422,301	462,786	459,927	763	539,230	40,039,975
Borrowings	10,259,299	11,547,467	297,280	1,999,870	83,979	285,108	24,473,003
Bonds	30,760,824	11,324,039	808,152	1,009,564	-	4,571,416	48,473,995
Derivative financial liabilities	2,699,456	1,307,400	77,382	20,981	-	16,345	4,121,564
Other liabilities	7,193,580	4,243,871	153,030	122,024	407	53,412	11,766,324
Total financial liabilities	85,943,324	32,845,078	1,798,630	3,612,366	85,149	5,465,511	129,750,058
Net financial position	₩ 20,325,406	2,998,364	(710,158)	174,990	(20,769)	(3,902,670)	18,865,163

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(5) Liquidity risk management

(i) Concept

Liquidity risk is defined as the possibility of potential loss due to a temporary shortage in funds caused by a maturity mismatch or an unexpected capital outlay. Liquidity risk soars when funding rates rise, assets are sold below a normal price, or a good investment opportunity is missed.

(ii) Approach to liquidity risk management

Since the methodology to quantifiably measure liquidity risk does not formally exist, the Group manages its liquidity risks as follows:

Allowable limit for liquidity risk

· The allowable limit for liquidity risk sets liquidity ratio and remaining maturity gap.

· The management standards with regards to the allowable limit for liquidity risk should be set using separate and stringent set ratios in accordance with the FSS guidelines.

〈Measurement Methodology〉

· Liquidity ratio : (Maturing liquidity asset in the interval / Maturing liquidity liability in the interval) X 100

· Remaining maturity gap : (Maturing liquidity asset in the interval - Maturing liquidity liability in the interval) / total assets X 100

Early Warning Indicator

In order to identify prematurely and cope with worsening liquidity risk trends, the Group has set up 13 indexes such as the "Foreign Exchange Stabilization Bond CDS Premium", and measures the trend monthly, weekly and daily as a means for establishing the allowable liquidity risk limit complementary measures.

Stress-Test analysis and contingency plan

The Group evaluates the effects on the liquidity risk and identifies the inherent flaws. In the case where an unpredictable and significant liquidity crisis occurs, the Group executes risk situation analysis quarterly based on crisis specific to the Group market risk, and complex emergency and reports to the Risk Management Committee for the purpose of the Group's solvency securitization.

(iii) Analysis on remaining contractual maturity of financial assets and liabilities

Remaining contractual maturity risks of non-derivative financial instruments including interest payment as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	December 31, 2013					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Financial Assets:						
Cash and due from banks	₩ 6,542,629	398,829	611,733	313,084	401	7,866,676
Financial assets held for trading	1,632,715	34,706	82,560	120,053	12,269	1,882,303
Financial assets designated at FVTPL	1,257	-	20,000	190,000	30,000	241,257
Available-for-sale financial assets	248,079	4,611,773	6,733,597	16,979,639	7,377,500	35,950,588
Held-to-maturity financial assets	50,965	5,017	22,995	25,150	7,759	111,886
Loans	10,317,411	10,835,286	31,836,186	42,785,518	11,456,020	107,230,421
Other assets	3,498,853	13,252	6,747,313	1,671,974	1,419,263	13,350,655
Total financial assets	₩ 22,291,909	15,898,863	46,054,384	62,085,418	20,303,212	166,633,786
Financial Liabilities:						
Financial liabilities designated at FVTPL	₩ -	-	5,155	215,119	1,024,216	1,244,490
Deposits	13,636,660	6,460,352	19,090,629	900,973	539,274	40,627,888
Borrowings	5,087,120	3,916,277	9,267,355	6,096,037	1,674,969	26,041,758
Bonds	3,114,281	2,582,567	15,181,648	33,323,937	10,153,754	64,356,187
Other liabilities	3,543,939	4,125	3,323,643	2,007,956	2,417,177	11,296,840
Total financial liabilities	₩ 25,382,000	12,963,321	46,868,430	42,544,022	15,809,390	143,567,163

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(In millions of won)

		December 31, 2012					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial Assets:							
Cash and due from banks	₩	3,729,112	93,001	453,461	179,389	-	4,454,963
Financial assets held for trading		1,953,681	40,114	524,994	171,374	83,573	2,773,736
Financial assets designated at FVTPL		-	-	41,977	367,543	-	409,520
Available-for-sale financial assets		299,781	4,382,779	6,070,597	16,409,414	5,683,728	32,846,299
Held-to-maturity financial assets		57,328	1,717	130,138	676,822	813,439	1,679,444
Loans		10,721,247	8,941,700	30,160,026	42,470,354	10,989,994	103,283,321
Other assets		9,809,769	13,626	17,177	20,835	837,922	10,699,329
Total financial assets	₩	26,570,918	13,472,937	37,398,370	60,295,731	18,408,656	156,146,612
Financial Liabilities:							
Financial liabilities designated at FVTPL	₩	-	2,081	160,483	225,910	1,102,915	1,491,389
Deposits		13,250,159	5,554,046	21,696,265	568,238	447,341	41,516,049
Borrowings		6,189,642	2,975,387	7,459,849	6,816,972	1,618,138	25,059,988
Bonds		1,786,709	3,105,797	13,958,324	28,958,923	6,765,133	54,574,886
Other liabilities		9,751,293	10,484	21,951	44,025	2,526,542	12,354,295
Total financial liabilities	₩	30,977,803	11,647,795	43,296,872	36,614,068	12,460,069	134,996,607

Remaining contractual maturity risks of derivatives instruments as of December 31, 2013 and 2012 are as follows:

Net settlement of derivative instruments

(In millions of won)

		December 31, 2013					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Trading purpose derivatives:							
Currency	₩	(35,885)	(71,251)	(10,942)	521	-	(117,557)
Interest rate		2,193	185,839	146,450	369,453	1,543,637	2,247,572
Stock		(314)	(7,088)	(6,750)	(12,016)	-	(26,168)
Trading purpose derivatives:							
Interest rate		-	177,537	(10,651)	(708,151)	(652,305)	(652,305)
	₩	(34,006)	285,037	118,107	(350,193)	1,451,542	1,451,542

(In millions of won)

		December 31, 2012					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Trading purpose derivatives:							
Currency	₩	410	(403,228)	(860,632)	(10,241)	-	(1,273,691)
Interest rate		270	(369,218)	1,041,549	218,111	1,531,877	2,422,589
Stock		(954)	7,328	(4,907)	(8,959)	-	(7,492)
Trading purpose derivatives:							
Interest rate		-	906,839	-	(817,562)	(34,431)	54,846
	₩	W (274)	141,721	176,010	(618,651)	1,497,446	1,196,252

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Gross settlement of derivative instruments

(In millions of won)

		December 31, 2013					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Trading purpose derivatives:							
Currency							
Inflow	₩	10,325,212	7,673,216	15,921,369	9,979,423	245,199	44,144,419
Outflow		10,230,246	7,627,332	16,074,751	10,305,617	247,038	44,484,984
Trading purpose derivatives:							
Currency							
Inflow		96,964	482,909	1,315,919	3,391,868	168,027	5,455,687
Outflow		96,143	471,782	1,283,893	3,462,864	168,377	5,483,059
Total							
Inflow	₩	10,422,176	8,156,125	17,237,288	13,371,291	413,226	49,600,106
Outflow	₩	10,326,389	8,099,114	17,358,644	13,768,481	415,415	49,968,043

(In millions of won)

		December 31, 2012					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Trading purpose derivatives:							
Currency							
Inflow	₩	1,232,827	8,773,377	14,930,391	9,429,236	659,643	35,025,474
Outflow		1,227,548	8,769,071	14,936,752	9,743,988	645,799	35,323,158
Trading purpose derivatives:							
Currency							
Inflow		593,688	123,000	1,931,621	2,964,845	393,795	6,006,949
Outflow		629,971	118,535	1,833,031	2,934,474	362,428	5,878,439
Total							
Inflow	₩	1,826,515	8,896,377	16,862,012	12,394,081	1,053,438	41,032,423
Outflow	₩	1,857,519	8,887,606	16,769,783	12,678,462	1,008,227	41,201,597

Remaining contractual maturity risks of guarantees and commitments as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		December 31, 2013					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Off-Balance:							
Guarantees	₩	724,682	1,687,818	3,634,333	4,436,379	4,780,211	15,263,423
Commitments		25,937	146,861	2,044,762	2,929,428	683,974	5,830,962
	₩	750,619	1,834,679	5,679,095	7,365,807	5,464,185	21,094,385

(In millions of won)

		December 31, 2012					
		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Off-Balance:							
Guarantees	₩	629,285	1,080,586	4,863,685	4,809,682	5,152,218	16,535,456
Commitments		16,002	357,133	2,677,207	4,394,345	717,054	8,161,741
	₩	645,287	1,437,719	7,540,892	9,204,027	5,869,272	24,697,197

ORGANIZATION

- BOARD OF DIRECTORS
  - RISK MANAGEMENT COMMITTEE
- CHAIRMAN
  - CHIEF EXECUTIVE COMMITTEE
- VICE CHAIRMAN
  - SECRETARIAT
  - SPOKESMAN
- AUDITOR
  - AUDIT DEPARTMENT

- PLANNING & ADMINISTRATION DIVISION
  - PLANNING DEPARTMENT
  - PERSONNEL DEPARTMENT
  - GENERAL SERVICES DEPARTMENT
  - PUBLIC RELATIONS DEPARTMENT
  - SECURITY CONTROL DEPARTMENT
- FINANCE DIVISION
  - LOAN & DEPOSIT PLANNING DEPARTMENT
  - TREASURY DEPARTMENT
  - FINANCIAL ACCOUNTING DEPARTMENT
  - OPERATIONS DEPARTMENT
- CORPORATE BANKING DIVISION
  - CORPORATE BANKING DEPARTMENT I
  - CORPORATE BANKING DEPARTMENT II
  - CORPORATE BANKING DEPARTMENT III
  - CORPORATE BANKING DEPARTMENT IV
  - CORPORATE BANKING DEPARTMENT V
- REGIONAL BANKING DIVISION
  - REGIONAL BANKING DEPARTMENT
  - CORPORATE IMPROVEMENT DEPARTMENT
- CONSUMER BANKING DIVISION
  - CONSUMER BANKING DEPARTMENT
  - KDBDIRECT DEPARTMENT
- CAPITAL MARKET DIVISION
  - DEBT CAPITAL MARKETS DEPARTMENT
  - M&A DEPARTMENT
  - CONSULTING SERVICE DEPARTMENT
- INVESTMENT BANKING DIVISION
  - VENTURE BUSINESS DEPARTMENT
  - TECHNOLOGY BANKING DEPARTMENT
  - CORPORATE RESTRUCTURING DEPARTMENT

- INTERNATIONAL BANKING DIVISION
  - INTERNATIONAL BANKING DEPARTMENT
  - TRADE FINANCE DEPARTMENT
  - TRADING DEPARTMENT
  - F/X & DERIVATIVES TRADING DEPARTMENT
  - OVERSEAS NETWORK
- CREDIT REVIEW DIVISION
  - CREDIT REVIEW DEPARTMENT I
  - CREDIT REVIEW DEPARTMENT II
  - RESEARCH DEPARTMENT
  - TECHNOLOGY EVALUATION DEPARTMENT
- RISK MANAGEMENT DIVISION
  - RISK MANAGEMENT DEPARTMENT
  - LOAN REVIEW DEPARTMENT
- COMPLIANCE & LEGAL CENTER
  - COMPLIANCE DEPARTMENT
  - LEGAL AFFAIRS DEPARTMENT
- IT(INFORMATION TECHNOLOGY) CENTER
  - INFORMATION SYSTEMS DEPARTMENT
  - CORE BANKING SYSTEM DEPARTMENT
  - E-BANKING SYSTEM DEPARTMENT
- PROJECT FINANCE CENTER
  - PROJECT FINANCE DEPARTMENT I
  - PROJECT FINANCE DEPARTMENT II
  - REGIONAL DEVELOPMENT BANKING DEPARTMENT
- PENSION&TRUST BUSINESS CENTER
  - TRUST DEPARTMENT
  - PENSION BUSINESS DEPARTMENT
- PRIVATE EQUITY CENTER
  - PRIVATE EQUITY DEPARTMENT I
  - PRIVATE EQUITY DEPARTMENT II

GLOBAL NETWORK OF THE BANK

DOMESTIC: 82 Branches

OVERSEAS: 8 Branches (New York, London, Tokyo, Singapore, Shanghai, Guangzhou, Beijing, Shenyang)

5 Subsidiaries (Hong Kong, Hungary, Brazil, Ireland, Uzbekistan)

6 Representative Offices (Frankfurt, Ho Chi Minh, Abu Dhabi, Yangon, Moscow, Bangkok)

NUMBER OF EMPLOYEES: 3,583 (Korea 2,890, Overseas 693)

Note: as of Dec 2013

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