

IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS OUTSIDE THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the “Offering Circular”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE “FSCMA”). ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD, DELIVERED OR TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA (“KOREA”) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA AND ITS ENFORCEMENT DECREE), FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE SECURITIES, EXCEPT (I) WHERE RELEVANT REQUIREMENTS ARE SATISFIED, THE SECURITIES MAY BE OFFERED, SOLD, DELIVERED OR TRANSFERRED, TO OR FOR THE ACCOUNT OR BENEFIT OF A KOREAN RESIDENT WHICH FALLS WITHIN CERTAIN CATEGORIES OF QUALIFIED INSTITUTIONAL INVESTORS AS SPECIFIED IN THE FSCMA, ITS ENFORCEMENT DECREE AND THE REGULATION ON SECURITIES ISSUANCE AND DISCLOSURE, OR (II) AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES SET FORTH IN THE OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States or be a non-U.S. person (within the meaning of Regulation S under the Securities Act). The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Managers (as described below) that you and any customers you represent are a non-U.S. person and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States, its territories or possessions and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the Offering Circular to any other person. If this is not the case, you must return the Offering Circular to the Issuer immediately.

The materials relating to the issue of the securities described herein do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

You should not reply by e-mail to this distribution, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



Woori Card Co., Ltd.

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

US\$100,000,000 Floating Rate Notes due October 16, 2025

The US\$100,000,000 Floating Rate Notes due October 16, 2025 (the “Notes”) of Woori Card Co., Ltd. (the “Company” or “Woori Card”) will mature on October 16, 2025. The Notes will bear interest at the rate of 3-month U.S.\$ LIBOR + 1.00% per annum from, and including, October 16, 2020 (the “Issue Date” or the “Closing Date”) to, but excluding, October 16, 2025. Interest will be payable in arrears on January 16, April 16, July 16 and October 16 of each year, commencing on January 16, 2021. The Issuer may, at the Issuer’s option, redeem all, but not some only, of the Notes at any time at their principal amount plus accrued interest in the event of certain changes in tax law as described under “Terms and Conditions of the Notes — Optional Redemption Due to Changes in Tax Treatment.”

The Notes will be unsecured and will be the direct, unconditional and unsubordinated general obligations of the Issuer and will rank *pari passu* among themselves and at least equally with all of the Issuer’s other outstanding unsecured and unsubordinated general obligations, except as may be required by mandatory provisions of law.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Notes.

Application will be made to the Taipei Exchange (“TPEX”) of the Republic of China (the “ROC” or “Taiwan”) for the listing of, and permission to sell or resell, the Notes to “professional investors” as defined under Paragraph 1 of Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the Republic of China (the “TPEX Rules”) only and such permission is expected to become effective on or about October 16, 2020. No assurance can be given that such application will be approved, or that the TPEX listing will be maintained. If the Notes fail to, or cease to, be listed on the TPEX, certain investors may not invest in, or continue to hold or invest in, the Notes.

The TPEX is not responsible for the content of this Offering Circular and/or any supplement or amendment thereto and no representation is made by the TPEX as to the accuracy or completeness of this Offering Circular and/or any supplement or amendment thereto. The TPEX expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this Offering Circular and/or any supplement or amendment thereto. The admission to the listing and trading of the Notes on the TPEX shall not be taken as an indication of the merits of the Issuer or the Notes.

The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, to investors other than “professional investors” as defined under Paragraph 1 of Article 2-1 of the TPEX Rules as amended from time to time. Purchasers of the Notes are not permitted to sell or otherwise dispose of the notes except by transfer to the aforementioned professional investors.

The Notes will be evidenced by a global note (the “Global Note”) in registered form, which will be registered in the name of a nominee of, and deposited with a common depository for, Euroclear System Bank S.A./N.V. (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). Beneficial interests in the Global Note will not be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective accountholders. Except as described herein, individual certificates for Notes will not be issued in exchange for beneficial interests in the Global Note.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or the securities laws of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States and to non-U.S. persons in offshore transactions in reliance on Regulation S, in compliance with applicable laws, regulations and directives. For further details about eligible offers and resale restrictions, see “Plan of Distribution” and “Transfer Restrictions.”

Investing in the Notes involves risks. See “Risk Factors” beginning on page 9 to read about certain risk factors you should consider before buying the Notes.

Delivery of the Notes in book-entry form will be made on or about October 16, 2020.

Sole Bookrunner and Lead Manager

BNP PARIBAS SA, TAIPEI BRANCH

Co-Managers

**CATHAY UNITED BANK CAPITAL SECURITIES TAISHIN INTERNATIONAL SINOPAC SECURITIES
BANK**

The date of this Offering Circular is September 29, 2020.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| CERTAIN DEFINED TERMS AND CONVENTIONS..... | iii |
| ENFORCEABILITY OF CIVIL LIABILITIES | iv |
| PRESENTATION OF FINANCIAL INFORMATION | iv |
| FORWARD-LOOKING STATEMENTS | iv |
| SUMMARY OF THE ISSUER..... | 1 |
| THE OFFERING..... | 2 |
| SUMMARY FINANCIAL INFORMATION..... | 6 |
| RISK FACTORS | 9 |
| USE OF PROCEEDS | 25 |
| EXCHANGE RATES..... | 25 |
| CAPITALIZATION | 26 |
| SELECTED FINANCIAL DATA | 27 |
| BUSINESS..... | 30 |
| MANAGEMENT AND EMPLOYEES | 41 |
| WOORI FINANCIAL GROUP..... | 46 |
| THE KOREAN CREDIT CARD INDUSTRY..... | 49 |
| SUPERVISION AND REGULATION | 52 |
| TERMS AND CONDITIONS OF THE NOTES | 57 |
| FORM OF THE NOTES..... | 69 |
| TAXATION..... | 72 |
| PLAN OF DISTRIBUTION | 76 |
| TRANSFER RESTRICTIONS..... | 82 |
| LEGAL MATTERS | 85 |
| INDEPENDENT AUDITORS | 85 |
| INDEX TO FINANCIAL STATEMENTS | 1 |

You should rely only on the information contained in this Offering Circular or to which the Issuer has referred you. The Issuer has not authorized anyone to provide you with information that is different. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate on the date of this Offering Circular.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES HAVE NOT BEEN AND WILL NOT BE OFFERED, DELIVERED, OR SOLD DIRECTLY OR INDIRECTLY IN KOREA OR TO OR FOR THE ACCOUNT OR BENEFIT OF ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE REGULATIONS THEREUNDER) EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, WITHIN ONE YEAR FOLLOWING THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (OR A “QIB”, AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION (THE “KOFIA”) AS A QIB AND SUBJECT TO THE REQUIREMENT OF MONTHLY REPORTS WITH THE KOFIA OF ITS HOLDING OF QIB BONDS AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA, PROVIDED THAT (A) THE NOTES ARE DENOMINATED, AND THE PRINCIPAL AND INTEREST PAYMENTS THEREUNDER ARE MADE, IN A CURRENCY OTHER THAN KOREAN WON, (B) THE AMOUNT OF THE NOTES ACQUIRED BY SUCH QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20 PER CENT OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES, (C) THE NOTES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE NOTES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF NOTES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE NOTES, THE RELEVANT UNDERWRITING AGREEMENT, SUBSCRIPTION AGREEMENT, AND THE OFFERING CIRCULAR AND (E) THE ISSUER AND THE INITIAL PURCHASERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR.

No person has been authorized in connection with any offering of the Notes to give any information or make any representation other than as contained in this Offering Circular and, if given or made, that information or representation must not be relied upon as having been authorized by the Issuer or by the Initial Purchasers (as defined in “Plan of Distribution”). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Notes by any person except in compliance with all applicable laws and regulations. No representation or warranty, express or implied, is made, and no responsibility or liability is accepted, by the Initial Purchasers or any of their directors, employees, affiliates or advisers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchasers or their directors, employees, affiliates or advisers. Neither the delivery of this Offering Circular nor any sale made in connection with this Offering Circular shall under any circumstances imply that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in the Issuer’s affairs since the date of this Offering Circular.

We, having made all reasonable inquiries, confirm that this Offering Circular contains all information with respect to the Issuer and the Notes which is material in the context of the issue and offering of the Notes, that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, and that there are no other facts, the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any information or the expression of any opinions or intentions expressed in this Offering Circular misleading in any material respect. The Issuer accepts responsibility accordingly. Information provided in this Offering Circular with respect to Korea and its political status and economy, has been derived from information published by the Korean government and other public sources, and the Issuer accepts responsibility only for the accurate extraction of information from such sources.

The Notes have not been registered with or approved or disapproved by the United States Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

This Offering Circular does not constitute, and may not be used for purposes of, an offer, invitation or solicitation by anyone in any jurisdiction or in any circumstances in which such offer, invitation or solicitation is not authorized or to any person to whom it is unlawful to make such offer, invitation or solicitation. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come are required by the Issuer and the Initial Purchasers to inform themselves about and to observe the relevant restrictions. For a description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Plan of Distribution” and “Transfer Restrictions.” No action is being taken in any jurisdiction to permit an offering to the general public of Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the terms of the offering of the Notes, including the merits and risks involved. The Issuer and the Initial Purchasers are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”) or in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “Prospectus Regulation”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation. This Offering Circular has been prepared on the basis that any offer of Notes in any member state of the EEA or in the UK will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. This Offering Circular is not a prospectus for the purposes of the Prospectus Regulation.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE “SFA”) – the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to “Woori Card”, the “Issuer” or the “Company” herein are references to Woori Card Co., Ltd. All references to “we” or “us” herein are references to the Issuer or to the Issuer and its subsidiaries, as the context requires. All references to “Woori Financial Group” herein are references to Woori Financial Group Inc., of which the Issuer is a wholly-owned subsidiary.

All references to “Korea” or the “Republic” herein are references to The Republic of Korea. All references to the “ROC” or “Taiwan” herein are references to The Republic of China. All references to the “Government” herein are references to the Government of The Republic of Korea. The “Financial Services Commission” or the “FSC”

shall mean the Financial Services Commission of Korea, and the “Financial Supervisory Service” or the “FSS” shall mean the Financial Supervisory Service of Korea, the executive body of the FSC.

In this Offering Circular, references to “Won” or “₩” are to the currency of Korea and all references to “U.S. dollars”, “Dollars”, “\$” or “US\$” are to the currency of the United States of America. The Issuer maintains its accounts in Won. This Offering Circular contains translations of certain Won amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Won amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at any particular rate, or at all. Unless otherwise specified, all conversions were made at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul for U.S. dollars against Won (the “Market Average Exchange Rate”). Unless otherwise stated, the translations of Won into U.S. dollars as of June 30, 2020 were made at the Market Average Exchange Rate in effect on such date, which was ₩1,200.7 = US\$1.00. The Market Average Exchange Rate has been highly volatile recently and the U.S. dollar amounts referred to in this offering circular should not be relied upon as an accurate reflection of the Issuer’s results of operations. The Issuer expects this volatility to continue in the near future. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. The Market Average Exchange Rate on September 16, 2020 was ₩1,180.5 = US\$1.00. See “Exchange Rates.”

Any discrepancies in the tables included in this Offering Circular between the listed amounts and totals thereof are due to rounding.

ENFORCEABILITY OF CIVIL LIABILITIES

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

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019, and as of and for the six months ended June 30, 2019 and 2020, included in this Offering Circular, have been prepared in accordance with the Korean International Financial Reporting Standards (“K-IFRS”), which may differ in certain respects from International Financial Reporting Standards (“IFRS”) applied in other countries. In making an investment decision, investors must rely upon their own independent examination of us, the terms of this offering and the most recent financial information, including the risks involved. Potential investors should consult their own professional advisers for an understanding of the differences between K-IFRS and IFRS, and how these differences affect the financial information contained in this Offering Circular. This Offering Circular should not be considered as a recommendation by any of the Initial Purchasers that any recipient of this Offering Circular should purchase the Notes.

All financial information in this Offering Circular has been presented on a consolidated basis unless otherwise specified or the context otherwise requires.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes “forward-looking statements,” as defined in Section 27A of the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding the Issuer’s expectations and projections for future operating performance and business prospects. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “will,” “aim,” “will likely result,”

“will continue,” “intend,” “plan,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer’s products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer’s present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Issuer’s ability to successfully implement the Issuer’s business strategy and the Issuer’s safety policies, the condition of and changes in the Korean, Asian or global economies, the Issuer’s growth and expansion, including whether the Issuer succeeds in the Issuer’s capital investment program to increase the Issuer’s installed capacity, changes in interest rates and exchange rates and changes in government regulation and licensing of the Issuer’s businesses in Korea and in other jurisdictions where the Issuer may operate. Additional factors that could cause the Issuer’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors.” Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Issuer and the Initial Purchasers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

SUMMARY OF THE ISSUER

The Issuer

On April 1, 2013, the Issuer was established as a wholly-owned subsidiary of Woori Finance Holdings as a result of a horizontal spin-off of Woori Bank's credit card business (the "Spin-off"). On November 3, 2014, Woori Finance Holdings merged with and into Woori Bank, and the former subsidiaries of Woori Finance Holdings, including the Issuer, became Woori Bank's subsidiaries. On January 11, 2019, Woori Financial Group was established as a new financial holding company. In September 2019, the Issuer ceased to be Woori Bank's subsidiary and became Woori Financial Group's direct and wholly-owned subsidiary.

As a result of the Spin-off, the Issuer took over Woori Bank's credit card products and services, which are mainly targeted at consumers and corporate customers in Korea. The Issuer is wholly-owned by Woori Financial Group. As of June 30, 2020, the Issuer's market share based on transaction volume was approximately 8.4%, which ranked the Issuer as the sixth largest credit card issuer in Korea.

As of June 30, 2020, the Issuer also owned a 7.65% equity stake in BC Card Co., Ltd. ("BC Card"), a Korean credit card company co-owned by KT Corporation, which is one of Korea's largest telecommunications companies, as well as a private equity fund and other Korean financial institutions. BC Card operates the largest merchant payment network in Korea as measured by transaction volume. The Issuer's ownership of BC Card allows the Issuer to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for the Issuer's credit card operations.

The Issuer is a specialized credit card company and offers its products and services through a network of 887 nationwide branches of Woori Bank and 35 branches of its own located throughout Korea as of June 30, 2020.

The Issuer's card sales branches recruit new Accountholders (as defined below) and conduct marketing activities in Korea. The Issuer's installment sales branches also conduct marketing activities and provide installment finance services. Although the Issuer's card sales branches recruit new Accountholders and provide credit card related services, such branches do not provide installment finance related services. As of June 30, 2020, the Issuer had 26 card sales branches and 11 installment sales branches throughout Korea. As of December 31, 2017, 2018 and 2019, and as of June 30, 2020, personal credit cardholders of Woori Card amounted to 5.75 million, 6.06 million, 6.25 million and 6.38 million, respectively.

The Issuer's total assets was ₩8,611 million, ₩9,987 million and ₩10,087 million as of December 31, 2017, 2018 and 2019, respectively, and ₩10,784 million as of June 30, 2020. The Issuer's net income was ₩92,734 million, ₩126,534 million and ₩114,179 million for the years ended December 31, 2017, 2018 and 2019, respectively, and ₩66,501 million and ₩79,654 million, respectively, for the six months ended June 30, 2019 and 2020, respectively. As of June 30, 2020, the Issuer's capital adequacy ratio, determined in accordance with FSC requirements, was 19.97%.

As of June 30, 2020, the Issuer had 714 full-time, permanent employees and 111 contract and part-time employees who are employed on a temporary basis. The Issuer's headquarters are located at 50, Jong-Ro 1-Gil, The-K Twin Towers, Jongno-gu, Seoul 03142, Korea.

THE OFFERING

The following is a brief summary of some of the terms of the Notes. This summary is derived from, and is qualified in its entirety by, the full text of the terms of the Notes. For a more detailed description of the terms of the Notes, see “Terms and Conditions of the Notes.” Terms used in this summary and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes.”

| | |
|------------------------------|--|
| Issuer..... | Woori Card Co., Ltd. (Legal Entity Identifier: 988400VJNXKQV9MVEM68) |
| Offering | US\$100,000,000 Floating Rate Notes due October 16, 2025. |
| Issue Price..... | 100% of principal amount of the Notes. |
| Issue Date | October 16, 2020 |
| Maturity Date..... | October 16, 2025 |
| Ranking..... | The Notes will be unsecured and will be the direct, unconditional, unsubordinated and general obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of us, except as may be required by mandatory provisions of law. |
| Interest | 3-month US\$ LIBOR + the Margin (as defined below), from (and including) the Issue Date up to (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date up to the Maturity Date. |
| Margin | 1.00% per annum (the “Margin”) |
| Interest Payment Dates | Interest will be payable quarterly in arrears on January 16, April 16, July 16 and October 16 of each year, commencing on January 16, 2021, up to and including the Maturity Date. For a further description of payments of interest on the Notes, see “Terms and Conditions of the Notes — Payments.” |
| Tax Redemption | We may redeem the Notes at the Issuer’s option, in whole but not in part, at their principal amount plus accrued interest to, but excluding, the date fixed for redemption, if the Issuer has or would become obligated to pay Additional Amounts in respect of certain Korean taxes imposed in respect of payments of principal of or interest on the Notes. See “Terms and Conditions of the Notes — Optional Redemption Due to Changes in Tax Treatment.” |

Korean Taxes

Payments in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Korea or by or within any political subdivision of Korea or any authority or agency of Korea having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will (subject to certain exceptions) pay such Additional Amounts as will result in the holders of the Notes (the “Holders”) receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required, except in certain circumstances. See “Terms and Conditions of the Notes — Additional Amounts” and “Taxation — Korean Taxation.”

Denominations and Form

The Notes will be deliverable only in registered form and only in denominations in principal amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will initially be represented by the Global Note in registered form deposited on the Closing Date with, and registered in the name of a nominee of, The Bank of New York Mellon, London Branch, as common depository for Euroclear and Clearstream. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream and their respective accountholders. Except as described herein, definitive certificates representing the Notes (each a “Certificated Note”) will not be issued in exchange for beneficial interests in the Global Note. See “Form of the Notes.” The Notes may not be sold or otherwise transferred except in accordance with the restrictions described under “Transfer Restrictions.”

Negative Pledge

The terms of the Notes will contain a negative provision as further described in Condition 9 of the Terms and Conditions of the Notes.

Listing and Trading.....

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

An application will be made by the Issuer for the Notes to be listed and admitted for trading on the TPEX. No assurance can be given that such application will be

approved, or that the TPEX listing will be maintained. Admission to the listing and trading of the Notes on the TPEX shall not be taken as an indication of the merits of the Issuer or the notes. If the Notes fail to, or cease to be listed on the TPEX, certain investors may not invest in, or continue to hold or invest in the Notes. The Notes will be traded on the TPEX pursuant to the applicable rules of the TPEX. Effective date of listing of and trading of the Notes shall be on or about the Issue Date.

| | |
|---|--|
| Korean Transfer Restrictions | The Notes may not be transferred to any resident of Korea other than “qualified institutional buyers” (as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea) until the expiration of one year after the issuance of the Notes. |
| Governing Law | The Notes and the Fiscal Agency Agreement will be governed by, and construed in accordance with, the laws of the State of New York. |
| Fiscal Agent, Registrar, Transfer Agent and Calculation Agent | The Bank of New York Mellon, London Branch will act as the fiscal agent (the “Fiscal Agent”), The Bank of New York Mellon SA/NV, Luxembourg Branch will act as the registrar and the transfer agent, and The Bank of New York Mellon, London Branch shall act as the calculation agent (the “Calculation Agent”) under the Fiscal Agency Agreement for the Notes to be dated on or about October 16, 2020. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for Definitive Certificates, the Issuer will appoint and maintain a paying agent in Singapore, where the Definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for Definitive Certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore. |
| Use of Proceeds | The net proceeds from the sale of the Notes, which are expected to be approximately US\$99,720,000, after deduction of commission to the Initial Purchasers but before out-of-pocket expenses related to this offering, will be used for repayment of certain existing debt, capital expenditures and other general corporate purposes. |
| ISIN | XS2236381476 |
| Common Code..... | 223638147 |

LISTING APPLICATION

Application will be made on behalf of the Issuer to the TPEX for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors as defined under Paragraph 1 of Article 2-1 of the TPEX Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC. The Notes will be listed and traded on the TPEX pursuant to the applicable rules of TPEX. Effective date of listing and trading of the Notes is on or about the Issue Date. The TPEX is not responsible for the content of this Offering Circular and/or any supplement or amendment thereto and no representation is made by the TPEX to the accuracy or completeness of this Offering Circular and/or any supplement or amendment thereto. The TPEX expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this Offering Circular and/or any supplement or amendment thereto. Admission to the listing and trading of the Notes on the TPEX shall not to be taken as an indication of the merits of the Issuer or the Notes. No assurances can be given as to whether the Notes will be, or will remain, listed on the TPEX. If the Notes fail to, or cease to, be listed on the TPEX, certain investors may not invest in, or continue to hold or invest in, the Notes.

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Notes.

NOTICES

If and for so long as the Notes are listed on the TPEX and for so long as the rules of the TPEX so require, all notices regarding the Notes and the Issuer required by the rules of TPEX shall also be published on a website designated by the Taiwan Financial Supervisory Commission (currently, <http://mops.twse.com.tw/T113.htm>).

ROC SETTLEMENT AND TRADING

The Issuer has not entered into any settlement agreement with Taiwan Depository & Clearing Corporation (“TDCC”) and has no intention to do so.

In the future, if the Issuer enters into a settlement agreement with TDCC, an investor, if it has a securities book-entry account with a Taiwan securities broker and a foreign currency deposit account with a Taiwanese bank, may settle the Notes through the account of TDCC with Euroclear or Clearstream if it applies to TDCC (by filing in a prescribed form) to transfer the Notes in its own account with Euroclear or Clearstream to such TDCC account with Euroclear or Clearstream for trading in the domestic market or vice versa for trading in overseas markets. For settlement through TDCC, TDCC will allocate the respective Notes position to the securities book-entry account designated by such investor in the ROC. The Notes will be traded and settled pursuant to the applicable rules and operating procedures of TDCC and the TPEX as domestic bonds. For such investors who hold their interest in the Notes through an account opened and held by TDCC with Euroclear or Clearstream, distributions of principal and/or interest for the Notes to such holders may be made by payment services banks whose systems are connected to TDCC to the foreign currency deposit accounts of the holders. Such payment is expected to be made on the second Taiwanese business day following TDCC's receipt of such payment (due to time difference, the payment is expected to be received by TDCC one Taiwanese business day after the distribution date). However, when the holders actually receive such distributions may vary depending upon the daily operations of the Taiwanese banks with which the holder has the foreign currency deposit account.

SUMMARY FINANCIAL INFORMATION

The following tables summarize certain financial information of the Issuer. The summary financial information set forth below as of and for the years ended December 31, 2017, 2018 and 2019 (excluding U.S. dollar amounts) have been derived from the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019, and the summarize certain financial information set forth below as of June 30, 2020 and for the six months ended June 30, 2019 and 2020 have been derived from the Issuer's unaudited consolidated interim financial statements as of June 30, 2020 and for the six months ended June 30, 2019 and 2020, in each case prepared in accordance with K-IFRS and included elsewhere in this Offering Circular.

Beginning on January 1, 2018, the Issuer has adopted K-IFRS 1109 'Financial Instruments' which has replaced in entirety previous guidance in K-IFRS 1039. In accordance with the guidance in K-IFRS 1109, the Issuer has not restated its financial information for previous periods. Accordingly, certain of the Issuer's historical financial information as of and for the year ended December 31, 2017 is not directly comparable against that of the Issuer's financial information after January 1, 2018. See Note 2 to the Issuer's consolidated financial statements as of and for the years ended December 31, 2017 and 2018 included elsewhere in this Offering Circular.

The Issuer's results of operations for the six months ended June 30, 2020 may not be indicative of the Issuer's results of operations for any future interim period or for the full year 2020.

| | For the Year Ended December 31, | | | For the Six months ended June 30, | | |
|--|---|-----------|-----------|-----------------------------------|-----------|---------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 ⁽¹⁾ |
| | (in millions of Won and thousands of U.S. dollars, except per share data) | | | | | |
| Interest income..... | 559,550 | 668,906 | 725,320 | 355,510 | 362,651 | 302,033 |
| Interest expense..... | (135,947) | (161,116) | (172,740) | (88,217) | (82,359) | (68,592) |
| Net interest income..... | 463,603 | 507,790 | 552,580 | 267,293 | 280,292 | 233,441 |
| Fees and commissions income..... | 1,061,812 | 612,109 | 548,793 | 268,331 | 251,030 | 209,070 |
| Fees and commissions expense..... | (1,031,375) | (599,811) | (566,461) | (284,647) | (280,040) | (233,231) |
| Net fees and commissions income (expense) | 30,437 | 12,298 | (17,668) | (16,316) | (29,010) | (24,161) |
| Dividend income..... | 8,709 | 10,154 | 5,836 | 5,836 | 6,752 | 5,623 |
| Net gain on financial instruments at FVTPL (K-IFRS 1109)..... | - | 2,749 | 1,375 | 655 | 754 | 628 |
| Net gain on financial instruments at FVTPL (K-IFRS 1039)..... | 1,514 | - | - | - | - | - |
| Net gain on AFS financial assets (K-IFRS 1039)..... | 254 | - | - | - | - | - |
| Impairment losses due to credit loss..... | 221,863 | 244,762 | 254,823 | 129,327 | 109,450 | 91,155 |
| General and administrative expenses..... | 163,536 | 170,765 | 190,062 | 91,177 | 96,684 | 80,523 |
| Other net operating income (expense)..... | 2,744 | 49,308 | 32,623 | 30,988 | 50,236 | 41,839 |
| Operating income..... | 122,862 | 166,772 | 129,861 | 67,952 | 102,890 | 100,683 |
| Non-operating income (expenses)..... | 780 | (259) | 20,160 | 19,539 | 1,393 | 1,160 |
| Net income before income tax expense..... | 122,082 | 166,513 | 150,021 | 87,491 | 104,283 | 86,852 |

| | | | | | | |
|--|---------------|----------------|----------------|----------------|----------------|----------------|
| Income tax expense..... | <u>29,348</u> | <u>39,979</u> | <u>35,824</u> | <u>20,990</u> | <u>24,629</u> | <u>20,512</u> |
| Net income | <u>92,734</u> | <u>126,534</u> | <u>114,197</u> | <u>66,501</u> | <u>79,654</u> | <u>66,340</u> |
| (Net income after the provision of regulatory reserves for credit loss)..... | 31,588 | 81,908 | 93,475 | 51,213 | 76,186 | 63,451 |
| Remeasurement of the net defined benefit liability | <u>310</u> | <u>(1,125)</u> | <u>1,004</u> | <u>(2,611)</u> | <u>(1,654)</u> | <u>(1,378)</u> |
| Items that will not be reclassified to profit or loss | 310 | (1,125) | 1,004 | (2,611) | (1,654) | (1,378) |
| Net gain on valuation of financial assets at FVTOCI | - | (1,531) | (2,120) | (880) | (18,540) | (15,441) |
| Net gain on valuation of AFS financial assets | 4,808 | - | - | - | - | - |
| (Continued)..... | | | | | | |
| Cash flow hedging gains or losses on valuation of derivatives..... | 1,822 | (5,370) | (2,222) | (1,452) | (11,339) | (9,444) |
| Gain(loss) on foreign currency translation of foreign operations..... | <u>(212)</u> | <u>(224)</u> | <u>923</u> | <u>554</u> | <u>1,908</u> | <u>1,589</u> |
| Items that may be reclassified to profit or loss | 6,418 | (7,125) | (3,419) | (1,778) | (9,431) | (7,855) |
| Other comprehensive income, net of tax ... | 6,108 | (8,250) | (2,415) | (4,389) | (29,625) | (24,673) |
| Total comprehensive income | <u>98,842</u> | <u>118,284</u> | <u>111,782</u> | <u>62,112</u> | <u>50,029</u> | <u>41,667</u> |
| Net income attributable to: | | | | | | |
| Owners..... | 92,734 | 126,534 | 114,197 | 66,501 | 79,654 | 66,340 |
| Non-controlling interests..... | - | - | - | - | - | - |
| Total comprehensive income attributable to: | | | | | | |
| Owners..... | 98,842 | 118,284 | 111,782 | 62,112 | 50,029 | 41,667 |
| Non-controlling interests..... | - | - | - | - | - | - |
| Net income per share..... | 530 | 706 | 637 | 372 | 444 | 370 |

| As of December 31, | | | As of June 30, | |
|--------------------|------|------|----------------|---------------------|
| 2017 | 2018 | 2019 | 2020 | 2020 ⁽¹⁾ |

(in millions of Won and thousands of U.S. dollars, except per share data)

Assets

| | | | | | |
|--|-----------|-----------|-----------|------------|-----------|
| Cash and cash equivalents..... | 626,061 | 362,202 | 116,201 | 419,011 | 348,972 |
| Financial assets at fair value through other comprehensive income ("FVTOCI") | - | 87,753 | 85,086 | 59,599 | 49,637 |
| AFS financial assets | 87,633 | - | - | - | - |
| Financial assets at amortized cost..... | - | 9,425,657 | 8,646,971 | 10,119,755 | 8,428,213 |
| Loans and receivables | 7,793,507 | - | - | - | - |
| Premises and equipment..... | 20,193 | 22,565 | 56,868 | 52,939 | 44,090 |
| Intangible assets..... | 33,856 | 35,768 | 43,338 | 42,160 | 35,113 |
| Deferred tax assets | 28,049 | 32,382 | 41,377 | 45,431 | 37,837 |
| Derivatives assets | 1,193 | 263 | 9,366 | 20,855 | 17,369 |

| | | | | | |
|---|------------------|------------------|-------------------|-------------------|------------------|
| Net defined benefit assets..... | 1,487 | 343 | 887 | - | - |
| Other assets..... | 19,259 | 20,467 | 87,248 | 23,900 | 19,905 |
| Total assets..... | <u>8,611,238</u> | <u>9,987,400</u> | <u>10,087,342</u> | <u>10,783,650</u> | <u>8,981,136</u> |
| Liabilities | | | | | |
| Borrowings | - | 4,485 | 4,631 | 214,803 | 178,898 |
| Debentures | 6,121,803 | 7,039,929 | 7,075,968 | 7,381,220 | 6,147,431 |
| Provisions | 41,964 | 55,042 | 56,815 | 58,071 | 48,364 |
| Net defined benefit liabilities | - | - | - | 4,401 | 3,665 |
| Current tax liabilities..... | 13,485 | 23,623 | 38,279 | 23,359 | 19,454 |
| Derivative liabilities..... | 55,651 | 33,754 | 6,839 | 16,973 | 14,136 |
| Other financial liabilities..... | 626,044 | 1,014,051 | 915,988 | 900,717 | 750,160 |
| Other liabilities | 131,771 | 134,552 | 200,655 | 195,997 | 163,236 |
| Total liabilities | <u>6,990,718</u> | <u>8,305,436</u> | <u>8,299,175</u> | <u>8,795,541</u> | <u>7,325,344</u> |
| Equity | | | | | |
| Owner's equity..... | 1,620,520 | 1,681,964 | 1,788,167 | 1,988,109 | 1,655,792 |
| Capital stock | 896,331 | 896,331 | 896,331 | 896,331 | 746,507 |
| Hybrid securities | - | - | - | 149,913 | 124,855 |
| Capital surplus | 127,097 | 127,097 | 121,518 | 121,518 | 101,206 |
| Other equity | 32,542 | 24,292 | 21,876 | (7,701) | (6,414) |
| Retained earnings..... | 564,550 | 634,244 | 748,442 | 828,048 | 689,638 |
| Regulatory reserves for credit loss | 342,131 | 403,277 | 387,181 | 407,903 | 339,721 |
| Planned provisions for regulatory reserve (reversal) for credit loss | 61,146 | (16,096) | 20,722 | 3,468 | 2,888 |
| Non-controlling interests | - | - | - | - | - |
| Total equity..... | <u>1,620,520</u> | <u>1,681,964</u> | <u>1,788,167</u> | <u>1,988,109</u> | <u>1,655,792</u> |
| Total liabilities and equity..... | <u>8,611,238</u> | <u>9,987,400</u> | <u>10,087,342</u> | <u>10,783,650</u> | <u>8,981,136</u> |

Note:

- (1) The U.S. dollar amounts have been translated into Won at ₩1,200.7 to US\$1.00, the Market Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on June 30, 2020.

RISK FACTORS

An investment in the Notes is subject to numerous risks, including those listed below. Investors should carefully consider the following risks as well as the other information contained in this Offering Circular before purchasing the Notes. These risks could materially affect the Issuer's ability to meet the Issuer's obligations under the Notes. In such case, investors may lose all or part of their original investment in, and the expected return on, the Notes.

Risks Relating to the Issuer

The recent global outbreak of COVID-19 may adversely affect the Issuer's business, financial condition or results of operations.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, has spread globally and was declared a "pandemic" by the World Health Organization on March 11, 2020. The global outbreak of COVID-19 has led to global economic and financial disruptions and has adversely affected the Issuer's business operations in recent months. Risks associated with a prolonged outbreak of COVID-19 may include:

- adverse impacts on the creditworthiness of the Issuer's customers and other counterparties and an increase in defaults on payments from them, which may lead to an increase in delinquency ratios and a deterioration in asset quality, resulting in increased charge-offs, higher provisioning and reduced interest and fee income;
- widespread changes to, and significant and rapid reductions in, household and business activity and consumer and business spending, as well as economic contraction and a rise in unemployment;
- adverse impacts on the Issuer's cobrand and other partners, particularly those in the travel and airline industries, and on the Issuer's third-party service providers, merchants, customer acquisition channels, processors, aggregators, network partners and other third parties that the Issuer relies on for services that are integral to its operations;
- Adverse impacts on capital and credit market conditions and the Issuer's deposit base, which may limit the Issuer's access to funding, increase its cost of capital and affect its ability to meet liquidity needs.
- impairments in the fair value of the Issuer's investments in companies that may be adversely affected by the pandemic;
- disruption in the normal operations of the Issuer's business resulting from the contraction of the disease by the Issuer's employees or customers, which may necessitate the Issuer's employees to be quarantined; and
- disruption resulting from the necessity for social distancing, including, for example, temporary arrangements for employees to work remotely, which may lead to a reduction in labor productivity.

While the exact nature and magnitude of the impact of the COVID-19 pandemic on the Issuer's business, financial condition and results of operations are continuing to be assessed by its management, the Issuer believes that the COVID-19 pandemic has had, and are expected to continue to have, a material adverse impact on Issuer's business, financial condition and results of operations.

During the second quarter of 2020, the Issuer has recomputed the forward-looking information used to estimate expected credit losses in accordance with K-IFRS 1109 'Financial Instruments', thereby setting aside an additional loan-loss allowance of ₩9,764 million. See Note 3 to the Issuer's unaudited consolidated interim financial statements as of June 30, 2020 and for the six months ended June 30, 2019 and 2020 included elsewhere in this Offering Circular.

Although the Issuer will continue to monitor the impact of COVID-19, it is not possible to predict the duration or the full magnitude of the overall harm that may result from the COVID-19 outbreak in the long term. In response to the outbreak, the Issuer has implemented various measures, such as distributing masks to protect its workforce. The Issuer has also established an emergency management committee to accurately assess the relevant risks, proactively develop countermeasures and enhance reporting and communication systems on a group-wide basis. Notwithstanding such efforts, in the event that COVID-19 or other types of widespread infectious diseases cannot be effectively and timely contained, the Issuer's business, financial condition, results of operations and cash flows may continue to be adversely affected.

Unfavorable changes in the global financial markets could adversely affect the Issuer's results of operations and financial condition.

The overall prospects for the Korean and global economy in 2020 and beyond remain uncertain. In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

- the occurrence of severe health epidemics, such as the ongoing COVID-19 pandemic;
- interest rate fluctuations as well as changes in policy rates by the U.S. Federal Reserve and other central banks;
- financial and social difficulties affecting many countries worldwide, in particular in Latin America and Europe;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- the slowdown of economic growth in China and other major emerging market economies;
- increased uncertainties resulting from the United Kingdom's exit from the European Union; and
- political and social instability in various countries in the Middle East, including Syria, Iraq and Egypt.

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

Future changes in market conditions as well as other factors may lead to an increase in delinquency levels.

In recent years, credit card and other consumer debt has increased significantly in Korea. The Issuer's total assets was ₩8,611 million, ₩9,987 million and ₩10,087 million as of December 31, 2017, 2018 and 2019, respectively, and ₩10,784 million as of June 30, 2020. The Issuer's net income was ₩92,734 million, ₩126,534 million and ₩114,179 million for the years ended December 31, 2017, 2018 and 2019, respectively, and ₩66,501 million and ₩79,654 million, respectively, for the six months ended June 30, 2019 and 2020, respectively. The Issuer's large exposure to credit card and other consumer debt means that it is exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for the Issuer's credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of the Issuer's credit card assets and increased difficulties in recovering written-off assets from which a significant portion of the Issuer's revenues is derived. Any of these developments could have a material adverse effect on the Issuer's business, financial condition and results of operations and consequently on the ability of the Note Issuer to make timely payments of principal and interest on the Notes.

Competition in the Korean credit card industry is intense and the growing market saturation in the credit card industry may adversely affect the growth prospects and profitability of the Issuer.

The Issuer competes principally with existing “monoline” credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently credit card service providers that have allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers, such as KB Kookmin Card Co., Ltd., spun off from KB Financial Group in March 2011, have made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with the Issuer for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products, such as mobile cards, gift cards and low-interest consumer loan products. As a result, the Issuer may lose customers or service opportunities while competing with other credit card issuers and/or incur higher marketing expenses. In addition, recent government regulations mandating lower merchant fees chargeable to small and medium-sized businesses are likely to reduce the revenues of credit card companies, including the Issuer. See “—The Issuer’s fee income may be adversely affected by the Guidelines on Adjustment of Credit Card Merchants Commission Rates or other Governmental measures or policies.” Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or more extensive marketing and promotional campaigns that the Issuer might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of the Issuer’s customers may decline if customers with higher credit quality borrow from the Issuer’s competitors rather than from the Issuer.

As a result, banks are beginning to compete for new customers and it is likely that competition among bank-operated credit card companies and independent credit card companies will increase substantially. As the market further saturates as a result of this common focus and as the volume of transactions as well as the number of cardholders reaches maturity, it is expected that the market growth will significantly decrease. As a result, it may become increasingly difficult for the Issuer to attract new customers who meet the credit criteria set by the Issuer. Due to these market factors, the Issuer may have to focus even further on obtaining and retaining high credit quality customers. All in all, the growth and profitability of the Issuer’s credit card operations may decline as a result of intense competition and growing market saturation in this sector.

The ability of the Issuer to preserve or continue to grow its assets in the future will depend on, among other things, its success in developing and marketing new products and services, its capacity to generate funding at commercially reasonable rates and in amounts sufficient to support preservation of assets and further asset growth, its ability to develop the personnel and system infrastructure necessary to manage its growth and increasingly diversified business operations and its ability to manage increasing delinquencies. In addition, external factors such as competition and government regulations in Korea may limit the Issuer’s ability to maintain its growth. Also, economic and social developments in Korea, such as changes in consumer confidence levels, spending patterns or the public perception of credit card usage and consumer debt, could have an adverse impact on the growth rate of the Issuer’s asset portfolio in the future. Furthermore, if the Issuer fails to simultaneously manage its asset quality and its asset growth or sacrifices asset quality in exchange for asset growth, its delinquency ratio may be adversely affected. If the growth rate of the Issuer’s assets declines or becomes negative or its delinquency ratio increases, its results of operations and financial condition may be adversely affected. See “Business—Competition.”

The Issuer may not be able to increase consumer and business spending and borrowing on its card products or manage the costs of its cardholder benefits intended to stimulate the use of its card products.

Increasing consumer and business spending and borrowing on its card products and growth in card lending balances depend in part on the Issuer’s ability to develop and issue new or upgraded card and prepaid products and increase revenue from such products and services. It also depends on the Issuer’s ability to attract new cardholders, reduce cardholder attrition, increase merchant coverage and capture a greater share of customers’ total spending on its cards both in Korea and internationally. The Issuer may not be able to manage and expand cardholder benefits in a cost-effective manner, such as not being able to contain the growth of marketing, promotion and reward expenses.

If the Issuer is not successful in increasing consumer and business spending or in managing costs or cardholder benefits, its revenue and profitability could be negatively affected.

The Issuer's fee income may be adversely affected by the Guidelines on Adjustment of Credit Card Merchants Commission Rates or other Governmental measures or policies.

The FSC, in addressing strong demands from a substantial number of merchants accepting credit cards (the "Credit Card Merchants") in Korea, formulated "Guidelines on Adjustment of Credit Card Merchants Commission Rates" (the "Guidelines") in August 2007 and recommended that credit card companies adjust the applicable commission rates for their Credit Card Merchants from November 2007. The Guidelines adjusted commission rates applicable to small size Credit Card Merchants, defined as merchants with annual sales of ₩48 million or less, to a fixed rate of 2.2%. Prior to the Guidelines coming into effect, commission rates applicable to small-sized Credit Card Merchants ranged from 2.3% to 4.5%. In respect of medium-sized Credit Card Merchants, defined as merchants with annual sales between ₩48 million and ₩96 million, the applicable maximum commission rates applicable decreased from 4.5% to 3.3%. In October 2009, the FSS stated that the adjusted applicable commission rates for Credit Card Merchants were still high and recommended again that credit card companies adjust the rates to a lower level. The Issuer further lowered the applicable commission rates for small-sized Credit Card Merchants, in April 2010 and October 2010, and for medium-sized Credit Card Merchants, in April 2010 and January 2011, to 2.05%. Also, in April 2010, the Issuer lowered the applicable commission rates for the Credit Card Merchants operating business in traditional markets, from 2.0% to 1.6%. In March 2012, the National Assembly of Korea amended the Specialized Credit Financial Business Act (the "Amended Credit Business Act") to lower the commission rate applicable to small and medium-sized Credit Card Merchants from 1.8% to 1.5%. The Amended Credit Business Act expanded the definition of small and medium-sized Credit Card Merchants to those with annual sales of up to ₩200 million and the revised commission rate became applicable beginning in September 2012, ahead of the enforcement of the Amended Credit Business Act in December 2012.

In 2017, the FSC cut credit card processing fees for small merchants starting from July 2017. The move was in line with a campaign pledged by the Government that it aims to ease financial burdens on consumers by assessing commission fees charged on banking and financial services. Credit card processing fees for small merchants with an annual revenue of between ₩300 million and ₩500 million were reduced by 0.7 percentage point to 1.3% per transaction. For small merchants with an annual revenue between ₩ 200 million and ₩300 million, the merchant fees were cut by 0.5 percentage point to 0.8% per transaction. The cut affected about 267,000 small merchants and cut revenues of credit card firms by about ₩305 billion a year.

In 2019, the FSC cut credit card commission fee for small merchants again. Credit card commission fee for small merchants was lowered starting from February 2019, as the Government sought to ease financial burdens on self-employed business owners. Credit card processing fees for small merchants with an annual revenue of between ₩500 million and ₩1 billion was lowered by 0.65 percentage point to 1.4% per transaction. For merchants with an average revenue of between ₩1 billion and ₩3 billion, credit card processing fees was cut by 0.61 percentage points to 1.6% per transaction.

In addition, since the implementation of the Improper Solicitation and Graft Act in September 2016, revenue growth for corporate cards and service related industries such as dining, floral and entertainment have shown signs of decline, and additional regulations on loans reducing maximum interest rates chargeable from 27.9% to 24% came into effect in February 2018. These developments have put further downward pressure on the results of operations for credit card companies, including the Issuer. Furthermore, the Government's recent guidelines to bolster consumer protection and protect customers' personal data in the aftermath of data leaks at certain credit companies (not including the Issuer) may result in additional compliance costs for the Issuer.

The implementation of the Government's privatization plan may have an adverse effect on the Issuer and the price of the Notes.

In June 2013, the Government, through the Public Funds Oversight Committee of the FSC, announced an updated plan to privatize Woori Finance Holdings Co., Ltd. ("Woori Finance Holdings"), the Issuer's former parent company, and its former subsidiaries. The privatization plan provided for the segregation of such entities into three groups and the disposal of the Government's interest in these entities held through the Korea Deposit Insurance

Corporation (the “KDIC”) in a series of transactions, many of which have been completed. Such transactions included the following:

- *Kwangju Bank and Kyongnam Bank.* In May 2014, Woori Finance Holdings established KJB Financial Group and KNB Financial Group through a spin-off of its businesses related to the holding of the shares and thereby controlling the business operations of Kwangju Bank and Kyongnam Bank, respectively. As a result of such spin-off, KJB Financial Group became the owner of the shares of Kwangju Bank previously held by Woori Finance Holdings and KNB Financial Group became the owner of the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies are its subsidiaries after the spin-off. Following such spin-off, each of these banks was merged with its respective holding company, and, in October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively.
- *Woori Investment & Securities and Other Subsidiaries.* In March 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group. In May 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities and sold its 100.0% ownership interest in Woori F&I to Daishin Securities. In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group in a collective sale. As a result of such sales, Woori Investment & Securities, Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial are no longer subsidiaries of Woori Finance Holdings, and Woori Finance Holdings no longer owns any shares in such former subsidiaries.
- *Woori Bank Co., Ltd. (“Woori Bank”).* In November 2014, Woori Finance Holdings merged with and into Woori Bank. As a result of the merger, the other former subsidiaries of Woori Finance Holdings, including Issuer, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became Woori Bank’s subsidiaries. In December 2014, the KDIC sold 40,143,022 shares of Woori Bank’s common stock (representing 5.9% of its outstanding common stock) in a private sale in Korea. In addition, in December 2016 and January 2017, the KDIC sold an aggregate of 200,685,395 shares of Woori Bank’s common stock (representing 29.7% of its outstanding common stock) in stakes ranging from 3.7% to 6.0% to seven financial companies through a bidding process. Pursuant to a commitment made by the KDIC in connection with such bidding process, five persons, each nominated by one of the winning bidders, were elected as new outside directors at an extraordinary general meeting of Woori Bank’s shareholders held in December 2016. In December 2018, five persons, each nominated by one of such winning bidders, were elected at an extraordinary general meeting of the Issuer’s shareholders to serve as Woori Financial Group’s outside directors upon its establishment. In 2017, pursuant to a series of transactions related to call options previously granted in connection with the KDIC’s sale of Woori Bank’s common stock in December 2014, the KDIC sold an aggregate of 19,852,364 shares of Woori Bank’s common stock (representing 2.94% of its outstanding common stock). As a result of such transactions, the KDIC’s ownership interest in the Issuer was reduced to 18.43%.

In connection with Woori Financial Group’s establishment in January 2019 as a new financial holding company pursuant to a “comprehensive stock transfer” under Korean law, the KDIC received the common stock of Woori Financial Group in exchange for the common stock of Woori Bank it owned, as a result of which the KDIC currently owns 17.25% of the outstanding common stock of Woori Financial Group. The Issuer expects that the KDIC will sell all or a portion of such common stock in multiple transactions by 2022 in accordance with its plan that was approved by the FSC in June 2019.

The implementation of the Government’s privatization plan, including the expected sale of the KDIC’s remaining ownership interest in Woori Financial Group to third parties, is likely to have a significant impact on the Issuer. For example, the KDIC’s sale of its ownership interest in Woori Financial Group to a small number of third parties may affect the Issuer’s business, management, strategy, capital structure and assets and liabilities and lead to diversion of management attention, a loss of customers and labor unrest. Accordingly, the implementation of the

privatization plan may have a material adverse effect on the business, financial condition and results of operations of the Issuer and the price of the Notes.

The risk management policies and procedures of the Issuer may not be effective.

The Issuer must effectively manage credit risk related to consumer debt, merchant bankruptcies and other credit trends and the rate of delinquencies, which can affect spending on credit card products, debt payments by customers and businesses that accept the Issuer's credit card products. Credit risk is the risk of loss resulting from an obligor or counterparty default. The Issuer is exposed to consumer credit risk, principally from credit card receivables, cash advances and card loans. While consumer credit risk is more closely linked to general economic conditions rather than borrower-specific events, it exposes the Issuer to the risk of loss. Third parties may default on their obligations to the Issuer due to bankruptcy, lack of liquidity, operational failure or other reasons. National, regional and political risks are components of credit risk. Rising delinquencies and rising rates of bankruptcy are often precursors of future write-offs and may require the Issuer to increase its allowance for doubtful accounts. Higher write-off rates and an increase in its allowance for doubtful accounts may adversely affect the Issuer's profitability and the performance of its securitizations, and may increase its cost of funds. Although the Issuer makes estimates to provide for credit losses in its outstanding portfolios of loans and receivables, these estimates may not be accurate. In addition, the information that the Issuer uses in managing credit risk may be inaccurate or incomplete. Although the Issuer regularly reviews its credit exposures, default risk may arise from events or circumstances that are difficult to foresee or detect, such as the effects of COVID-19 pandemic or fraud. The Issuer may also fail to receive full information with respect to the credit risks of its customers.

The Issuer must also effectively manage market risk to which it is exposed. Market risk represents the loss in value of portfolio and financial instruments due to adverse changes in market variables. The Issuer is exposed to market risk from interest rates. Changes in the interest rates at which the Issuer borrows and lends money affect the value of its assets and liabilities. If the rate of interest it pays on its borrowings increases more than the rate of interest it earns on its receivables and loans, its net finance charge revenue, and consequently its net income, could fall.

Finally, the Issuer must also manage the operational risks to which it is exposed. The Issuer considers operational risk to be the risk of not achieving its business objectives due to failed processes, people or information systems, or from the external environment, such as natural disasters. Operational risks include the risk that it may not accurately estimate the provision for the cost of its reward program, as well as the risk that it is unable to manage a downturn in its businesses and/or negative changes in its credit ratings, which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs.

Although the Issuer has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future, its hedging strategies and other risk management techniques may not be fully effective in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Management of credit, market and operational risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

The Issuer is a subsidiary of Woori Financial Group, and the decisions and policies implemented by Woori Financial Group may not be in the Issuer's best interest as a stand-alone company.

The Issuer is the second largest subsidiary of Woori Financial Group, a financial holding company established in January 2019. While the Issuer believes that Woori Financial Group will improve the overall financial condition and the operations of its subsidiaries as a whole, the group-wide management decisions and policies that Woori Financial Group implements in the future may not necessarily be in the Issuer's best interest when thinking of itself as a separate company. For example, subject to certain limitations under the Financial Holding Company Act, Woori Financial Group may:

- require the Issuer to engage in various transactions, including mergers and acquisitions, investments, joint ventures or dispositions, either with other subsidiaries or with third parties, or to expand or restrict the Issuer's operations, for the benefit of the group;
- require the Issuer to provide direct or indirect support, financial, operational, technical or otherwise, to it or to other subsidiaries;
- make changes to the Issuer's management personnel or employees, including for the purpose of seconding individuals with particular skills or expertise to it or to other subsidiaries or as a result of policy disagreements; and
- implement group-wide initiatives, policies or strategies that require significant expenditures from the Issuer or significant time and attention of the Issuer's management.

Accordingly, there is no guarantee that the benefits to the Issuer of being a part of Woori Financial Group will outweigh the costs in any instance.

The Issuer's operations may be subject to increasing and continually evolving cybersecurity and other technological risks.

With the proliferation of new technologies and the increasing use of the Internet and mobile devices to conduct financial transactions, the Issuer's operations as a financial institution have been, and will continue to be, subject to an increasing risk of cyber incidents relating to these activities, the nature of which is continually evolving. The Issuer's computer systems, software and networks are subject to cyber incidents, such as disruptions, delays or other difficulties affecting the Issuer's information technology systems, computer viruses or other malicious codes, loss or destruction of data (including confidential client information), unauthorized access, account takeover attempts and cyberattacks. A significant portion of the Issuer's daily operations relies on its information technology systems, including customer service, billing, the secure processing, storage and transmission of confidential and other information as well as the timely monitoring of a large number of complex transactions.

The public is developing heightened awareness about the importance of keeping their personal data private, and the financial regulators are placing greater emphasis on data protection by financial service providers. For example, under the Personal Information Protection Act, financial institutions, as personal information manager, may not collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically request or permit the management of resident registration numbers. Further, under the Use and Protection of Credit Information Act, a financial institution has a higher duty to protect credit information, meaning information necessary to assess the creditworthiness of the counterparty to financial transactions and other commercial transactions. Such regulations have considerably restricted a financial institution's ability to transfer or provide the information to its affiliate or holding company, and treble damages can be imposed on a financial institution for a leakage of such information. In addition, under the Electronic Financial Transaction Act, a financial institution is primarily responsible for compensating its customers harmed by the financial institution's cyber security breach, even if the breach is not directly attributable to the financial institution. Recently, on January 9, 2020, the Korean National Assembly passed amendments to three major data privacy laws (the Personal Information Protection Act, the Act on the Promotion of Information and Communications Network Utilization and Information Protection and the Act on the Use and Protection of Credit Information), expanding the scope of personal information that may be shared among financial institutions provided such personal information is pseudonymized. With this, although the Issuer expects to see more diverse use of customers' information, it nevertheless expects cyber security and ensuring confidentiality of customers' information to become more important than ever for financial institutions.

The Issuer maintains an integrated system that closely monitors customer information to ensure compliance with data protection laws and regulations as well as our internal policies. Although the Issuer has made substantial and continuous investments to build systems and defenses to address cybersecurity and other technological risks, there is no guarantee that such measures or any other measures can provide adequate security and stability. In addition, because methods used to cause cyberattacks change frequently or, in some cases, are not recognized until launched, the Issuer may be unable to implement effective preventive measures or proactively address these

methods. Furthermore, these cyber threats may arise from human errors, accidental technological failures and third parties with whom the Issuer does business. If the Issuer were to be subject to a system failure or other cyber incident, it could result in the disclosure of confidential client information, damages to the Issuer's reputation with its customers and in the market, customer dissatisfaction, additional costs to the Issuer, regulatory penalties, exposure to litigation and other financial losses to both the Issuer and its customers, which could have an adverse effect on its business and results of operations.

The Issuer is generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including the Issuer, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. There may also be less publicly available information about Korean companies, such as the Issuer, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

Risks Relating to Korea

If economic conditions in Korea deteriorate, the Issuer's current business and future growth could be materially and adversely affected.

The Issuer is incorporated in Korea, and a substantial majority of its operations are located in Korea. As a result, the Issuer is subject to political, economic, legal and regulatory risks specific to Korea, and its performance and successful fulfillment of its operational strategies are dependent to a large extent on the overall Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, in early 2020, the overall Korean economy and the economies of Korea's major trading partners have shown signs of deterioration due to the debilitating effects of the COVID-19 pandemic. See "Risk Factors – Risks relating to the Issuer – The recent global outbreak of COVID-19 may adversely affect the Issuer's business, financial condition or results of operations." As a result, future growth of the Korean economy is subject to many factors beyond the Issuer's control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the increasing weakness of the global economy, including those due to the COVID-19 pandemic, have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See "Risk Factors – Risks relating to the Issuer – Unfavorable changes in the global financial markets could adversely affect the Issuer's results of operations and financial condition." The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of deteriorating global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies recently. Further declines in the Korea Composite Stock Price Index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect the Issuer's business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;
- deterioration in economic and diplomatic relations between Korea and Japan, including the reciprocal removal by Japan and South Korea from each other's so-called "whitelist" of favored trading partners of Japan, followed by a boycott of Japanese products by Korean consumers;

- adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainties in the wake of Brexit;
- the occurrence of severe health epidemics in Korea and other parts of the world, including the recent coronavirus (COVID-19) outbreak, as well as the Ebola, Middle East Respiratory Syndrome (MERS) and Zika virus outbreaks;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Yuan and the overall impact of Brexit on the value of the Won), interest rates, inflation rates or stock markets;
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;
- investigations of large Korean business groups and their senior management for possible misconduct;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea, including due in part to the Government's policies to increase minimum wages and limit working hours of employees;
- potential escalation of the ongoing trade war between the U.S. and China as each country introduces tariffs on goods traded with the other;
- social and labor unrest;
- decreases in the market prices of Korean real estate;
- the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;
- a decrease in tax revenue and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geo-political uncertainty and the risk of attacks by terrorist groups around the world;
- the occurrence of natural or man-made disasters in Korea (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months) and other parts of the world, particularly in trading partners of Korea;
- political uncertainty or increasing strife among or within political parties in Korea and political gridlock within the Government or in the legislature, which prevents or disrupts timely and effective policy making;

- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China); and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on the Issuer and the market value of the Issuer's common shares.

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

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and has conducted several rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the EU have also expanded their sanctions applicable to North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army reinitiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North Korea and Korea subsequently met for discussions intending to diffuse military tensions and released a joint statement whereby, among other things, North Korea expressed regret over the landmine explosions that wounded the Korean soldiers.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification.

President Moon Jae-in and Kim Jong-un met in summits on each of April 27, 2018, May 26, 2018 and September 18, 2018 to discuss, among other matters, denuclearization of the Korean peninsula. On June 12, 2018, U.S. President Donald Trump and Kim Jong-un had an official summit in Singapore, the first ever meeting between leaders of the United States and North Korea. Subsequent to the Singapore summit, they signed a joint statement, which stated, among others, new peaceful relations and the denuclearization of the Korean peninsula. A second official summit between U.S. President Donald Trump and Kim Jong-un was held in Vietnam on February 27 and 28, 2019. However, on February 28, 2019 the White House announced that the summit was cut short and no

agreement was reached. On June 30, 2019, U.S. President Donald Trump and Kim Jong-un had a third summit meeting at a border village within the Korean Demilitarized Zone, marking the first time an incumbent U.S. President laid foot on North Korean territory. In the aftermath of these summits and continuous discussions among Korea, North Korea and the U.S., there still remains significant uncertainty regarding peace talks and the denuclearization of the Korean peninsula.

There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on the Issuer's business, financial condition and results of operations.

Labor unrest in Korea may adversely affect the Issuer's operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate was 3.7%, 3.8% and 3.8% in 2017, 2018 and 2019. Any further increases in unemployment and any resulting labor unrest in the future could adversely affect the Issuer's operations, as well as the operations of many of its customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. Furthermore, the Government's privatization plan with respect to Woori Financial Group and its subsidiaries contemplates the sale of its remaining ownership interest in Woori Financial Group to one or more third parties, which may lead to labor unrest among the Issuer's employees. Any of these developments may have an adverse effect on the Issuer's financial condition and results of operations.

Class action lawsuits related to securities transactions may expose the Issuer to additional litigation risk.

The Securities-related Class Action Act of Korea permits class action lawsuits to be instituted by one or more representative plaintiffs on behalf of 50 or more persons who collectively hold 0.01% or more shares of a listed company in Korea and who claim to have been damaged in a capital markets transaction involving securities issued by the company. Applicable causes of action with respect to such suits include, among others, claims for damages caused by misleading information contained in a securities registration statement or offering circular, the filing of a misleading business report, insider trading or market manipulation and claims instituted against auditors for damages caused by accounting irregularities. There can be no assurance that the Issuer will not become subject to class action lawsuits in the future. If such class action lawsuits are instituted against us, it could result in substantial costs and divert the Issuer's management's attention and resources from the Issuer's core business.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

As the Issuer is a Korean company, there are risks associated with investing in the Issuer's securities that are not typical for investments in securities of companies in other jurisdictions. As a Korean company, the Issuer operates in a business and cultural environment that is different from that of other countries.

Under the Foreign Exchange Transaction Act of Korea, if the Government determines that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Economy and Finance of Korea for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange.

In addition, the Issuer prepare and present the Issuer's financial statements in accordance with K-IFRS, which differs in material respects from accounting principles applicable to companies in certain other countries. The Issuer also will make public disclosures regarding other aspects of the Issuer's business in accordance with the rules and regulations of the Korea Exchange and accepted practice in Korea. These disclosure rules and practices differ in material respects from those applicable to companies in certain other countries. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. In making an investment decision, investors must rely upon their own examination of the Issuer's company, the terms of the Global Offering and the financial information contained in this offering circular.

The Issuer is incorporated in Korea, and it may be more difficult to enforce judgments obtained in courts outside Korea.

The Issuer is incorporated in Korea. A majority of its directors are non-U.S. residents, and a substantial majority of the Issuer's assets and the personal assets of the Issuer's directors and executive officers are located outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process in the United States upon the Issuer or to enforce against us, the Issuer's directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal or state securities laws of the United States or similar judgments obtained in other courts outside Korea. There is doubt as to the enforceability in Korean courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the United States. In Korea, the procedure and requirements for the recognition of legal effect of foreign judgments are set forth in the Civil Procedure Act. Under Article 217(1) of the Civil Procedure Act, enforcement of foreign judgments by Korean courts require that: (1) the judgment must be a final and conclusive judgment, and the jurisdiction of the foreign court which rendered the judgment must be recognized under the principles of international jurisdiction pursuant to the statutes or treaties of Korea, (2) the defendant must have been served with proper notice and given sufficient time to defend the case, (3) the approval of such final judgment shall not undermine sound morals or other social order of Korea and (4) there must be a guarantee of mutual reciprocity. For compulsory execution of the judgment rendered by a foreign court, Article 26 of the Civil Execution Act requires an execution judgment by a Korean court. A foreign judgment may not be enforceable in Korea if it does not meet the requirements set forth in the Civil Procedure Act and the Civil Execution Act.

The Issuer's transactions with related parties are subject to close scrutiny by the Korean tax authorities.

Under Korean tax law, there is an inherent risk that the Issuer's transactions with the Issuer's subsidiary, affiliates or other members of Woori Financial Group or any other person or company that is related to the Issuer may be challenged by the Korean tax authorities if such transactions are viewed as having been made on terms that were not on an arm's-length basis. If the Korean tax authorities determine that any of the Issuer's transactions with related parties were not on an arm's-length basis, the Issuer would not be permitted to deduct as expenses, or would be required to include as taxable income, the amount equivalent to such undue financial support as expenses, which may have adverse tax consequences for the Issuer and, in turn, may adversely affect the Issuer's business, financial condition and results of operations.

Risks Relating to the Notes

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Notes may only be sold to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth in the Fiscal Agency Agreement (as defined in "Terms and Conditions of the Notes"), a Note may be transferred only if the principal amount of Notes transferred is at least US\$200,000. For a further discussion of the transfer restrictions applicable to the Notes, see "Terms and Conditions of the Notes" and "Transfer Restrictions."

The Notes have not been and will not be registered under the FSCMA. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transaction Law of Korea and its Enforcement Decree), except as otherwise permitted under applicable Korean laws and regulations.

In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a “qualified institutional buyer” (a “Korean QIB”, as defined in the Regulation on Issuance, Public Disclosure, Etc. of Securities of Korea) who is registered with KOFIA for Korean QIB bond trading. Furthermore, any such Korean QIB must file monthly reports to KOFIA concerning Korean QIB bondholdings and the Notes acquired by all Korean QIBs at the time of issuance must be less than 20% of the aggregate principal amount of the Notes.

The Notes are subject to prescription regulations in Korea.

Failure to exercise a right of action for more than a certain period of time may operate as a bar to exercise of such right. Under Korean laws, claims against the issuer in respect of the payment of principal of notes or bonds are prescribed upon the expiry of ten years, and claims for payment of interest in respect of notes or bonds are prescribed upon the expiry of five years, in each case, from the relevant due date as adjusted by any acceleration or otherwise, in respect thereof. If the Note holders fail to exercise his or her right of payment for more than the period set forth above, the Korean courts may not enforce a claim for payment for principal or interest in respect of the Notes.

There is no existing trading market for the Notes and, therefore, the Notes offer limited liquidity.

The Notes constitute a new issue of securities for which there is no existing market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. Although the Initial Purchasers have advised the Issuer that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion. For a further discussion of the Initial Purchasers’ planned market-making activities, see “Plan of Distribution.”

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- our results of operations and financial condition;
- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in and affecting Korea and other regions;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial and other sectors.

No public market exists for the Notes. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST, and application for the listing of the Notes will be made to the TPEX. No assurances can be given as to whether the Notes will be, or will remain, listed on TPEX and the SGX-ST or whether a trading market for the Notes will develop or as to the liquidity of any such trading market. If the Notes fail to or cease to be listed on TPEX or the SGX-ST, certain investors may not invest in, or continue to hold or invest

in, the Notes. If any of the Notes are traded after their initial issue, they may be traded at a discount or premium from their initial offering price, depending on prevailing interest rates, the market for similar securities and the market for the Notes and other factors, including general economic conditions and the Issuer's financial condition, performance and prospects. No assurance can be given as to the future price level of the Notes after their initial issue.

The Notes may be sold to a limited number of investors and liquidity of the Notes may be adversely affected if a significant portion of the Notes is bought by limited investors.

The Notes are not protected by restrictive covenants.

The Fiscal Agency Agreement governing the Notes does not contain various restrictive financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, the sale of assets or the issuance or repurchase of securities by the Issuer.

Additional Considerations Relating to LIBOR and a Benchmark Event

The following discussion of risks should be read together with the terms of the Notes under "Terms and Conditions of the Notes—Calculation of Interest" and the benchmark transition provisions under "Terms and Conditions of the Notes—Alternative Benchmark Rate", which define and further describe a number of terms and concepts referred to below.

Uncertainty as to the future regulation and reform of LIBOR and other benchmarks may adversely affect three-month U.S. Dollar LIBOR and other benchmarks and therefore the return on and the market value of the Notes.

LIBOR and other interest rate, equity, foreign exchange rate and other types of indices which are deemed to be "benchmarks," including those in widespread and long-standing use, have been the subject of recent international, national and other regulatory scrutiny and initiatives and proposals for reform. Some of these reforms are already effective while others are still to be implemented or are under consideration. These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the return on, value of and market for the Notes. Any of the benchmark reforms which have been proposed or implemented, or the general increased regulatory scrutiny of LIBOR and other benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of such benchmarks and complying with regulations or requirements relating to benchmarks. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the disappearance of certain benchmarks. In particular, changes in the manner of administration of LIBOR could result in adverse consequences to the applicable interest rate on the Notes, which could adversely affect the return on, value of and market for the Notes.

The Rate of Interest will be calculated using alternative methods if three-month U.S. dollar LIBOR is not quoted on a particular day and will be calculated using a different reference rate if a Benchmark Event occurs.

The U.K. Financial Conduct Authority, which regulates LIBOR, announced in July 2017 that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the UK or elsewhere.

Under the terms of the Notes, the Rate of Interest on the Notes is based on three-month U.S. dollar LIBOR. If three-month U.S. dollar LIBOR is not quoted on the Reuters screen page as described in the Offering Circular on a relevant Interest Determination Date (but a Benchmark Event has not occurred), such rate will be determined using the applicable alternative method described under "Terms and Conditions of the Notes—Calculation of Interest." In such case, the final alternative method for determining such rate is to use the Interest Rate in respect of the immediately preceding Interest Period.

If the Issuer or its designee determines that a Benchmark Event has occurred with respect to three-month U.S. dollar LIBOR, then the Issuer or its designee, after consultation with the Issuer, will determine an Alternative Benchmark Rate in accordance with the benchmark transition provisions described below under “Terms and Conditions of the Notes—Alternative Benchmark Rate” (however, if the Issuer or its designee determines that a Benchmark Event has occurred with respect to three-month U.S. dollar LIBOR, but for any reason the Alternative Benchmark Rate has not been determined as of the relevant Interest Determination Date, the Rate of Interest for the applicable Interest Period will be equal to the Rate of Interest on the last Interest Determination Date for the relevant Notes, as determined by the Issuer or its designee). After such a Benchmark Event has occurred with respect to three-month U.S. dollar LIBOR, the Rate of Interest on the Notes will no longer be determined by reference to three-month U.S. dollar LIBOR, but instead will be determined by the Issuer or the Issuer’s designee to be, unless otherwise stipulated by the Issuer, the benchmark rate stipulated by ISDA to be the replacement to “USD-LIBOR-BBA” or, if no such benchmark rate has been stipulated, any benchmark rate with an equivalent term to three-month LIBOR as published, endorsed, approved or recognized as a replacement to LIBOR by the Bank of England, the Financial Conduct Authority of the United Kingdom or the Prudential Regulation Authority of the United Kingdom or any relevant committee or other body established, sponsored or approved by any of the foregoing or a benchmark rate with an equivalent term utilized in a material number of publicly-listed new issues of floating rate notes denominated in U.S. dollars in the preceding six months.

The interests of the Issuer or its designee in making the determinations described above may be adverse to your interests as a holder of the Notes. The selection of an Alternative Benchmark Rate, and any decisions, determinations or elections made by the Issuer or the Issuer’s designee in connection with implementing an Alternative Benchmark Rate with respect to the Notes could result in adverse consequences to the applicable Rate of Interest on the Notes, which could adversely affect the return on, value of and market for the Notes. Further, there is no assurance that the characteristics of an Alternative Benchmark Rate will be similar to three-month U.S. dollar LIBOR or will produce the economic equivalent of three-month U.S. dollar LIBOR.

The Rate of Interest may be determined by reference to an Alternative Benchmark Rate even if three-month U.S. dollar LIBOR continues to be published.

If a Benchmark Event occurs with respect to three-month U.S. dollar LIBOR, the Rate of Interest will thereafter be determined by reference to an Alternative Benchmark Rate. A Benchmark Event includes: (i) there being a material disruption to LIBOR, a material change in the methodology of calculating LIBOR or LIBOR ceasing to exist or be published, or the administrator of LIBOR having used a fallback methodology for calculating LIBOR for a period of at least 30 calendar days, (ii) there being a change in the generally accepted market practice in the floating rate notes market to refer to a benchmark rate endorsed in a public statement by the Bank of England, the Financial Conduct Authority of the United Kingdom or the Prudential Regulation Authority of the United Kingdom or any relevant committee or other body established, sponsored or approved by any of the foregoing despite the continued existence of LIBOR, or (iii) the reasonable expectation of the Issuer or its designee that any of the events specified in (i) or (ii) above will occur or exist within six months. The Rate of Interest may therefore cease to be determined by reference to three-month U.S. dollar LIBOR, and instead be determined by reference to an Alternative Benchmark Rate, even if three-month U.S. dollar LIBOR continues to be published. Such rate may be lower than three-month U.S. dollar LIBOR for so long as three-month U.S. dollar LIBOR continues to be published, and the return on, value of and market for the Notes may be adversely affected.

The Issuer or its designee will make determinations with respect to the Notes that could affect the return on, value of and market for the Notes.

The Issuer or its designee will make certain determinations with respect to the Notes as further described in this Offering Circular that may adversely affect the return on, value of and market for the Notes. In particular, if a Benchmark Event occurs, the Issuer or its designee will determine the Alternative Benchmark Rate and may make other amendments to the Terms and Conditions of the Notes as are necessary or advisable in the reasonable judgment of the Issuer or its designee in connection with the implementation of the Alternative Benchmark Rate envisaged pursuant to the provisions under “Terms and Conditions of the Notes—Alternative Benchmark Rate.” Moreover, certain determinations may require the exercise of discretion and the making of subjective judgments, such as with respect to the Alternative Benchmark Rate or the occurrence or non-occurrence of a Benchmark Event and any corresponding amendments in connection with the implementation of the Alternative Benchmark Rate. In

addition, notwithstanding anything to the contrary in this Offering Circular, the Fiscal Agency Agreement or the Notes, the Issuer may designate as its designee an entity, which may be the Issuer's affiliate, to make any determination, decision or election that the Issuer has the right to make in connection with the benchmark transition provisions set forth in this Offering Circular. Any determination, decision or election pursuant to the benchmark transition provisions not made by the Issuer's designee may be made by the Issuer.

When performing such functions, potential conflicts of interest may exist between the Issuer or the Issuer's designee and holders of the Notes. All determinations by the Issuer or the Issuer's designee in the Issuer's or its discretion will be conclusive for all purposes and binding on the Issuer and holders of the Notes absent manifest error. In making these potentially subjective determinations, the Issuer or its designee may have economic interests that are adverse to your interests, and such determinations may adversely affect the return on, value of and market for the Notes. Because the continuation of three-month U.S. dollar LIBOR on the current basis cannot and will not be guaranteed, and because the Alternative Benchmark Rate is uncertain, the Issuer or its designee is likely to exercise more discretion in respect of calculating the Rate of Interest than would be the case in the absence of a Benchmark Event.

USE OF PROCEEDS

We expect the net proceeds from the sale of the Notes of approximately US\$99,720,000, after deduction of commissions to the Initial Purchasers but before certain out-of-pocket expenses relating to this offering, will be used for general corporate purposes.

EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US\$1.00. No representation is made that the Won or the U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

| Year Ended December 31, | At End of Period | Average ⁽¹⁾ | High | Low |
|--|---------------------|------------------------|---------|---------|
| | | (Won per US\$1.00) | | |
| 2015 | 1,172.0 | 1,131.5 | 1,203.1 | 1,068.1 |
| 2016 | 1,208.5 | 1,160.5 | 1,240.9 | 1,093.2 |
| 2017 | 1,071.4 | 1,130.8 | 1,208.5 | 1,071.4 |
| 2018 | 1,118.1 | 1,100.3 | 1,142.5 | 1,057.6 |
| 2019 | 1,157.8 | 1,165.7 | 1,218.9 | 1,111.6 |
| 2020 (through September 16) | 1,180.5 | 1,202.4 | 1,280.1 | 1,153.1 |
| January | 1,183.5 | 1,164.3 | 1,183.5 | 1,153.1 |
| February | 1,215.9 | 1,193.8 | 1,217.7 | 1,179.8 |
| March | 1,222.6 | 1,220.1 | 1,280.1 | 1,185.0 |
| April | 1,225.2 | 1,225.2 | 1,237.6 | 1,212.3 |
| May | 1,239.4 | 1,228.7 | 1,242.0 | 1,217.7 |
| June | 1,200.7 | 1,210.0 | 1,237.6 | 1,192.8 |
| July | 1,191.4 | 1,198.9 | 1,206.4 | 1,191.4 |
| August | 1,185.1 | 1,186.9 | 1,193.7 | 1,182.3 |
| September (through September 16) | 1,180.5 | 1,186.2 | 1,190.2 | 1,180.5 |

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) Represents the average of the Market Average Exchange Rate over the relevant period.

CAPITALIZATION

The following table sets forth the Issuer's capitalization as derived from and should be read in connection with the Issuer's unaudited consolidated interim financial statements as of June 30, 2020 included in this Offering Circular.

| | As of June 30, 2020 ⁽¹⁾ | |
|--|--|----------------|
| | (in millions of Won and thousands of U.S. dollars ⁽²⁾) | |
| Liabilities | | |
| Borrowing | ₩ 4,627 | US\$ 3,854 |
| Debentures | 6,910,152 | 5,755,103 |
| Total Debt | ₩ 7,820,668 | US\$ 6,513,424 |
| Stockholder's equity | | |
| Common stock ₩5,000 par value..... | ₩ 896,331 | US\$ 746,507 |
| Authorized — 670,000,000 shares | | |
| Issued and outstanding — 179,266,200 shares | | |
| Capital surplus | 127,097 | 105,852 |
| Accumulated other comprehensive income..... | 19,903 | 16,576 |
| Retained earnings..... | 700,745 | 583,614 |
| Total stockholder's equity ⁽³⁾ | ₩ 1,744,076 | US\$ 1,452,549 |
| Total capitalization | ₩ 9,564,774 | US\$ 7,965,998 |

Notes:

- (1) Except as disclosed herein, there has been no material change in the Issuer's capitalization since June 30, 2020.
- (2) The exchange rate used to convert U.S. dollars into Won in the case of the Notes now being issued is ₩1,200.7 to US\$1.00, which was the Noon Buying Rate in effect as of June 30, 2020.
- (3) Total capitalization is defined as total debt plus total stockholder's equity.

SELECTED FINANCIAL DATA

The following tables set forth the Issuer's selected financial data. The selected financial data set forth below as of and for the years ended December 31, 2017, 2018 and 2019 (excluding U.S. dollar amounts) have been derived from the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019, and the selected financial data set forth below as of June 30, 2020 and for the six months ended June 30, 2019 and 2020 have been derived from the Issuer's unaudited consolidated interim financial statements as of June 30, 2020 and for the six months ended June 30, 2019 and 2020, in each case prepared in accordance with K-IFRS and included elsewhere in this Offering Circular.

Beginning on January 1, 2018, the Issuer has adopted K-IFRS 1109 'Financial Instruments' which has replaced in entirety previous guidance in K-IFRS 1039. In accordance with the guidance in K-IFRS 1109, the Issuer has not restated its financial information for previous periods. Accordingly, certain of the Issuer's historical financial information as of and for the year ended December 31, 2017 is not directly comparable against that of the Issuer's financial information after January 1, 2018. See Note 2 to the Issuer's consolidated financial statements as of and for the years ended December 31, 2017 and 2018 included elsewhere in this Offering Circular.

The Issuer's results of operations for the six months ended June 30, 2020 may not be indicative of the Issuer's results of operations for any future interim period or for the full year 2020.

| | For the Year Ended December 31, | | | For the Six months ended June 30, | | |
|--|---|-----------|-----------|-----------------------------------|-----------|---------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 ⁽¹⁾ |
| | (in millions of Won and thousands of U.S. dollars, except per share data) | | | | | |
| Interest income | 559,550 | 668,906 | 725,320 | 355,510 | 362,651 | 302,033 |
| Interest expense | (135,947) | (161,116) | (172,740) | (88,217) | (82,359) | (68,592) |
| Net interest income..... | 463,603 | 507,790 | 552,580 | 267,293 | 280,292 | 233,441 |
| Fees and commissions income..... | 1,061,812 | 612,109 | 548,793 | 268,331 | 251,030 | 209,070 |
| Fees and commissions expense | (1,031,375) | (599,811) | (566,461) | (284,647) | (280,040) | (233,231) |
| Net fees and commissions income (expense) | 30,437 | 12,298 | (17,668) | (16,316) | (29,010) | (24,161) |
| Dividend income | 8,709 | 10,154 | 5,836 | 5,836 | 6,752 | 5,623 |
| Net gain on financial instruments at FVTPL (K-IFRS 1109)..... | - | 2,749 | 1,375 | 655 | 754 | 628 |
| Net gain on financial instruments at FVTPL (K-IFRS 1039)..... | 1,514 | - | - | - | - | - |
| Net gain on AFS financial assets (K-IFRS 1039)..... | 254 | - | - | - | - | - |
| Impairment losses due to credit loss | 221,863 | 244,762 | 254,823 | 129,327 | 109,450 | 91,155 |
| General and administrative expenses..... | 163,536 | 170,765 | 190,062 | 91,177 | 96,684 | 80,523 |
| Other net operating income (expense) | 2,744 | 49,308 | 32,623 | 30,988 | 50,236 | 41,839 |
| Operating income | 122,862 | 166,772 | 129,861 | 67,952 | 102,890 | 100,683 |
| Non-operating income (expenses) | 780 | (259) | 20,160 | 19,539 | 1,393 | 1,160 |
| Net income before income tax expense | 122,082 | 166,513 | 150,021 | 87,491 | 104,283 | 86,852 |

| | | | | | | |
|---|--------|---------|---------|---------|----------|----------|
| Income tax expense | 29,348 | 39,979 | 35,824 | 20,990 | 24,629 | 20,512 |
| Net income | 92,734 | 126,534 | 114,197 | 66,501 | 79,654 | 66,340 |
| (Net income after the provision of regulatory reserves for credit loss) | 31,588 | 81,908 | 93,475 | 51,213 | 76,186 | 63,451 |
| Remeasurement of the net defined benefit liability | 310 | (1,125) | 1,004 | (2,611) | (1,654) | (1,378) |
| Items that will not be reclassified to profit or loss | 310 | (1,125) | 1,004 | (2,611) | (1,654) | (1,378) |
| Net gain on valuation of financial assets at FVTOCI | - | (1,531) | (2,120) | (880) | (18,540) | (15,441) |
| Net gain on valuation of AFS financial assets | 4,808 | - | - | - | - | - |
| (Continued) | | | | | | |
| Cash flow hedging gains or losses on valuation of derivatives | 1,822 | (5,370) | (2,222) | (1,452) | (11,339) | (9,444) |
| Gain(loss) on foreign currency translation of foreign operations | (212) | (224) | 923 | 554 | 1,908 | 1,589 |
| Items that may be reclassified to profit or loss | 6,418 | (7,125) | (3,419) | (1,778) | (9,431) | (7,855) |
| Other comprehensive income, net of tax ... | 6,108 | (8,250) | (2,415) | (4,389) | (29,625) | (24,673) |
| Total comprehensive income | 98,842 | 118,284 | 111,782 | 62,112 | 50,029 | 41,667 |
| Net income attributable to: | | | | | | |
| Owners | 92,734 | 126,534 | 114,197 | 66,501 | 79,654 | 66,340 |
| Non-controlling interests | - | - | - | - | - | - |
| Total comprehensive income attributable to: | | | | | | |
| Owners | 98,842 | 118,284 | 111,782 | 62,112 | 50,029 | 41,667 |
| Non-controlling interests | - | - | - | - | - | - |
| Net income per share | 530 | 706 | 637 | 372 | 444 | 370 |

| As of December 31, | | | As of June 30, | |
|--------------------|------|------|----------------|---------------------|
| 2017 | 2018 | 2019 | 2020 | 2020 ⁽¹⁾ |

(in millions of Won and thousands of U.S. dollars, except per share data)

Assets

| | | | | | |
|--|-----------|-----------|-----------|------------|-----------|
| Cash and cash equivalents | 626,061 | 362,202 | 116,201 | 419,011 | 348,972 |
| Financial assets at fair value through other comprehensive income ("FVTOCI") | - | 87,753 | 85,086 | 59,599 | 49,637 |
| AFS financial assets | 87,633 | - | - | - | - |
| Financial assets at amortized cost | - | 9,425,657 | 8,646,971 | 10,119,755 | 8,428,213 |
| Loans and receivables | 7,793,507 | - | - | - | - |
| Premises and equipment | 20,193 | 22,565 | 56,868 | 52,939 | 44,090 |
| Intangible assets | 33,856 | 35,768 | 43,338 | 42,160 | 35,113 |
| Deferred tax assets | 28,049 | 32,382 | 41,377 | 45,431 | 37,837 |
| Derivatives assets | 1,193 | 263 | 9,366 | 20,855 | 17,369 |

| | | | | | |
|---|------------------|------------------|-------------------|-------------------|------------------|
| Net defined benefit assets | 1,487 | 343 | 887 | - | - |
| Other assets..... | 19,259 | 20,467 | 87,248 | 23,900 | 19,905 |
| Total assets | <u>8,611,238</u> | <u>9,987,400</u> | <u>10,087,342</u> | <u>10,783,650</u> | <u>8,981,136</u> |
| Liabilities | | | | | |
| Borrowings | - | 4,485 | 4,631 | 214,803 | 178,898 |
| Debentures..... | 6,121,803 | 7,039,929 | 7,075,968 | 7,381,220 | 6,147,431 |
| Provisions | 41,964 | 55,042 | 56,815 | 58,071 | 48,364 |
| Net defined benefit liabilities..... | - | - | - | 4,401 | 3,665 |
| Current tax liabilities | 13,485 | 23,623 | 38,279 | 23,359 | 19,454 |
| Derivative liabilities..... | 55,651 | 33,754 | 6,839 | 16,973 | 14,136 |
| Other financial liabilities | 626,044 | 1,014,051 | 915,988 | 900,717 | 750,160 |
| Other liabilities | 131,771 | 134,552 | 200,655 | 195,997 | 163,236 |
| Total liabilities..... | <u>6,990,718</u> | <u>8,305,436</u> | <u>8,299,175</u> | <u>8,795,541</u> | <u>7,325,344</u> |
| Equity | | | | | |
| Owner's equity | 1,620,520 | 1,681,964 | 1,788,167 | 1,988,109 | 1,655,792 |
| Capital stock | 896,331 | 896,331 | 896,331 | 896,331 | 746,507 |
| Hybrid securities..... | - | - | - | 149,913 | 124,855 |
| Capital surplus | 127,097 | 127,097 | 121,518 | 121,518 | 101,206 |
| Other equity | 32,542 | 24,292 | 21,876 | (7,701) | (6,414) |
| Retained earnings | 564,550 | 634,244 | 748,442 | 828,048 | 689,638 |
| Regulatory reserves for credit loss..... | 342,131 | 403,277 | 387,181 | 407,903 | 339,721 |
| Planned provisions for regulatory reserve (reversal) for credit loss | 61,146 | (16,096) | 20,722 | 3,468 | 2,888 |
| Non-controlling interests | - | - | - | - | - |
| Total equity..... | <u>1,620,520</u> | <u>1,681,964</u> | <u>1,788,167</u> | <u>1,988,109</u> | <u>1,655,792</u> |
| Total liabilities and equity | <u>8,611,238</u> | <u>9,987,400</u> | <u>10,087,342</u> | <u>10,783,650</u> | <u>8,981,136</u> |

Note:

- (1) The U.S. dollar amounts have been translated into Won at ₩1,200.7 to US\$1.00, the Market Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on June 30, 2020.

BUSINESS

Introduction

On April 1, 2013, the Issuer was established as a wholly-owned subsidiary of Woori Finance Holdings as a result of a horizontal spin-off of Woori Bank's credit card business (the "Spin-off"). On November 3, 2014, Woori Finance Holdings merged with and into Woori Bank, and the former subsidiaries of Woori Finance Holdings, including the Issuer, became Woori Bank's subsidiaries. On January 11, 2019, Woori Financial Group was established as a new financial holding company. In September 2019, the Issuer ceased to be Woori Bank's subsidiary and became Woori Financial Group's direct and wholly-owned subsidiary.

As a result of the Spin-off, the Issuer took over Woori Bank's credit card products and services, which are mainly targeted at consumers and corporate customers in Korea. The Issuer is wholly-owned by Woori Financial Group. As of June 30, 2020, the Issuer's market share based on transaction volume was approximately 8.4%, which ranked the Issuer as the sixth largest credit card issuer in Korea.

As of June 30, 2020, the Issuer also owned a 7.65% equity stake in BC Card Co., Ltd. ("BC Card"), a Korean credit card company co-owned by KT Corporation, which is one of Korea's largest telecommunications companies, as well as a private equity fund and other Korean financial institutions. BC Card operates the largest merchant payment network in Korea as measured by transaction volume. The Issuer's ownership of BC Card allows the Issuer to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for the Issuer's credit card operations.

The Issuer is a specialized credit card company and offers its products and services through a network of 887 nationwide branches of Woori Bank and 35 branches of its own located throughout Korea as of June 30, 2020.

The Issuer's card sales branches recruit new Accountholders (as defined below) and conduct marketing activities in Korea. The Issuer's installment sales branches also conduct marketing activities and provide installment finance services. Although the Issuer's card sales branches recruit new Accountholders and provide credit card related services, such branches do not provide installment finance related services. As of June 30, 2020, the Issuer had 26 card sales branches and 11 installment sales branches throughout Korea. As of December 31, 2017, 2018 and 2019, and as of June 30, 2020, personal credit cardholders of Woori Card amounted to 5.75 million, 6.06 million, 6.25 million and 6.38 million, respectively.

The Issuer's total assets was ₩8,611 million, ₩9,987 million and ₩10,087 million as of December 31, 2017, 2018 and 2019, respectively, and ₩10,784 million as of June 30, 2020. The Issuer's net income was ₩92,734 million, ₩126,534 million and ₩114,179 million for the years ended December 31, 2017, 2018 and 2019, respectively, and ₩66,501 million and ₩79,654 million, respectively, for the six months ended June 30, 2019 and 2020, respectively. As of June 30, 2020, the Issuer's capital adequacy ratio, determined in accordance with FSC requirements, was 19.97%.

As of June 30, 2020, the Issuer had 714 full-time, permanent employees and 111 contract and part-time employees who are employed on a temporary basis. The Issuer's headquarters are located at 50, Jong-Ro 1-Gil, The-K Twin Towers, Jongno-gu, Seoul 03142, Korea.

Financial Holding Company Structure

Woori Financial Group was established as a new financial holding company on January 11, 2019 pursuant to a "comprehensive stock transfer" under Korean law, whereby holders of the common stock of Woori Bank and certain of its subsidiaries transferred all of their shares to Woori Financial Group and in return received shares of Woori Financial Group's common stock. The stock transfer was approved by the shareholders of the Issuer at an extraordinary general meeting held on December 28, 2018. In the stock transfer, each holder of one share of the Issuer's common stock recorded in its shareholder register as of November 15, 2018 received one share of Woori Financial Group's common stock. In addition, Woori Financial Group issued its common stock to the Issuer in

exchange for the outstanding common shares. For more information on the financial holding company structure, see “Woori Financial Group.”

Strategy

The Issuer strives to optimize its business strategies as a bank-affiliated credit card company, utilizing Woori Bank’s broad networks, sales power and customers, and actively seeks new business opportunities with potential to become future growth engines. The Issuer is seeking and developing products and services across multiple business areas to meet the increasing needs of its customers under the Issuer’s motto, “utmost value proposition,” and maintains diversified affiliations with various players and companies across industries. The Issuer also signed diverse mutual consignments with Woori Bank.

As the only specialized credit financial business operator within Woori Financial Group, the Issuer contributes in diversifying customer portfolio and increasing profit of the group. As a form of retail finance, credit card industry can lock customers into the group’s other linked services if it can expand the number of cardholders with attractive card products. The following are the Issuer’s main business strategies:

- Strengthen credit card business by continuously enrolling credit sales;
- Increase profit through card finance and associated businesses;
- Acquire new customers through installment finance; and
- Perform non-banking loan activities.

In furtherance of developing new growth engines, the Issuer acquired licenses for installment, rental, lease and new technology finance from the FSC and started installment finance in November 2015, lease finance in May 2016 and rental finance in July 2016. These new businesses allow the Issuer to cover new customers who are not existing cardholders of the Issuer and create synergies with Woori Bank. In October 2016, the Issuer acquired a micro-finance license in Myanmar and established TUTU Finance-WCI Myanmar, a wholly owned subsidiary of the Issuer that started business in December 2016. After recording net loss of US\$0.3 million in each of 2017 and 2018, TUTU Finance-WCI Myanmar recorded net income of US\$2.3 million in 2019. It recorded net income of US\$0.9 million and US\$ 1.5 million for the six months ended June 30, 2019 and 2020, respectively. The Issuer plans to further strengthen its Myanmar business by developing new financial products and promoting corporate social responsibilities. Furthermore, the Issuer plans to expand various credit card businesses in Southeast Asia in the near future.

As part of the strategic initiative to preemptively respond to the growing demands for digital finance as well as the declining profitability of the traditional credit card business, the Issuer plans to continuously promote digital transformation.

Business Overview

The Issuer’s Principal Activities

The Issuer’s principal business is the provision of credit card services. Revenue from credit card services accounted for approximately 91.4%, 87.1% and 86.6% of the Issuer’s operating revenue for the years ended December 31, 2017, 2018 and 2019, respectively, and 84.5% and 88.7% for the six months ended June 30, 2019 and 2020, respectively. Revenue from installment financing and lease operations accounted for approximately 0.7% and 0.1% of the Issuer’s operating revenue in 2017, respectively, 1.7% and 0.5% of the Issuer’s operating revenue in 2018, respectively, 1.4% and 0.9% of the Issuer’s operating revenue in 2019, respectively, 1.3% and 0.7% of the Issuer’s operating revenue for the six months ended June 30, 2019, respectively, and 1.9% and 1.3% of the Issuer’s operating revenue for the six months ended June 30, 2020, respectively.

Under the Issuer's business model, each new customer enters into one or more agreements (each, a "Card Agreement") with the Issuer, which governs their account with the Issuer (each, an "Account") and the issuance of credit cards and/or check cards to the customer (the "Accountholder"). The standard terms of each Card Agreement may vary depending on the type of card to be issued to the Accountholder. Although the Accountholder may nominate family members to receive the cards issued under the Account, the Accountholder remains the primary obligor under the Account. The Issuer may alter the terms of a Card Agreement by giving one month's notice to the Accountholder.

The Issuer offers the following services to holders of its credit cards:

- Credit card services providing the Accountholder with limited credit to purchase products and services, for which payment must be made either (i) in full at the end of a monthly billing cycle (the "Lump Sum Basis") or (ii) on a revolving basis subject to a minimum monthly payment which is the lesser of (x) 10.0% of the amount outstanding or (y) ₩50,000 (the "Revolving Payment"). The remaining outstanding balance generally accrues interest at the effective annual rates of approximately 5.4% to 22.9%.
- The option to purchase products and services on an installment basis for which payments in equal amounts must be made over a fixed term ranging from two months to 36 months and generally accrue interest at the effective annual rates of approximately 9.5% to 20.5%.
- Cash advances from most automatic teller machines ("ATM") in Korea (the "Cash Advance"), for which payment must be made by the Lump Sum Basis or the Revolving Payment. The Cash Advances on a Lump Sum Basis generally accrue interest at the effective annual rates of approximately 6.4% to 23.8%. Customers who have applied for the Revolving Payment option prior to March 5, 2009 can use Cash Advances on a revolving basis.
- Card loans, which may be unsecured, and for which payment must be made on an equal principal installment basis over an initial fixed term of 3 to 36 months, in full at maturity or for which interest- only payments may be made during the initial grace period and monthly principal and interest payments during the remaining period. The outstanding principal amount of card loans currently accrue interest at the effective annual rates of approximately 5.9% to 19.9%. Outstanding credit card receivables can also be restructured to loans for delinquent payment for which is made on an installment basis over the maximum term of 60 months. The outstanding principal amount of restructured card loans currently accrue interest at the effective annual rates of approximately 5.9% to 22.0%.

The Accounts

As a specialized credit card company and a subsidiary of Woori Bank, the Issuer is in a very strong position to attract existing Woori Bank customers through the existing network of Woori Bank's marketing channels. The Issuer offers a broad range of products to its customers, including insurance and travel services as well as more than 470 different personal credit and check cards as of June 30, 2020. The Issuer has responded to customer feedback by offering a more simplified and streamlined portfolio of credit cards, while also pursuing higher net worth individual customers with cards carrying enhanced premium benefits such as airport lounge services. In addition, the Issuer recently started offering installment finance for rental and lease payments to customers.

As a wholly-owned subsidiary operating Woori Bank's credit card business, the Issuer has the following principal brands of credit cards:

- Woori;
- BC Card; and
- VISA, MasterCard, JCB and UnionPay.

All international brands such as VISA, MasterCard, JCB and UnionPay cards are issued directly by the Issuer under a non-exclusive license agreement.

Each Accountholder is allocated a credit limit, and the Issuer evaluates the limits monthly and advises each Accountholder of the credit limit relating to its Card(s) in a monthly billing statement. A sub-limit is established for Cash Advances. The Cash Advances limit cannot exceed 40% of the overall credit limit established for the Account and is generally between 22% and 34% of the total credit limit established for the Account. Additionally, a separate limit for Installment Purchases is established with respect to Accountholders who have delinquency histories or other latent risks.

Accountholders are required to settle their outstanding balances in accordance with the Card Agreement. Accountholders may choose the monthly settlement date between the first and the twenty-seventh day of a month (both inclusive). Settlement dates on the first day of the month or around the end of each month are the most popular since salaries in Korea are commonly paid at the end of the month.

Origination

The Issuer markets and originates new accounts through the following five channels:

- **Marketing through Woori Bank:** Employees of Woori Bank branches are encouraged to engage with prospective customers. This marketing channel has consistently been the most significant source of new customers for the Issuer.
- **Marketing through Sales Agents:** The use of external sales agents from card agencies is a highly effective marketing channel for attracting new customers.
- **Co-branding and Affiliation-related Solicitation:** The Issuer attracts new customers through the officers and employees of affiliated vendors that have a strategic alliance with the Issuer.
- **Marketing through the Internet:** The Issuer's website is a valuable customer solicitation tool.
- **Telemarketing:** Employees of the Issuer are encouraged to find prospective customers. Currently, the referral commission is paid to the employee based on the number of new cards issued. The Issuer plans to amend the commission program to take into account other values in calculation of commission.

Potential customers complete an application form for a card, specifying personal details such as salary, employment, employer, address and residence status. The application will also specify the credit limit requested.

Underwriting

The Issuer reviews each new card application for completeness, accuracy and creditworthiness. It bases this review on various factors that assess the applicant's ability to repay borrowed amounts. The review process involves three stages:

- ***Initial Application Process.*** The Issuer verifies basic information by requesting certain documents from the applicant, initiates contact with the applicant (usually by telephone) and analyzes the applicant's personal credit history together with financial and default information gathered from third-party sources and its internal database using statistical methods. The analysis considers various factors including employment, default status and historical relationships with the Issuer and any delinquency history with other credit card companies. The Issuer also reviews information about an applicant obtained from external databases maintained by the Korea Federation of Banks and Nice Information Service Co., Ltd. ("NICE").
- ***Application Scoring System Process.*** The application scoring system of the Issuer is a standardized evaluation tool used to determine the probability of a credit card applicant defaulting during the one-year period following issuance. The application scoring system, using a statistical model, assigns risks to factors

that indicate a probability of non-payment. The model analyzes credit history, occupation and income data to develop a combined risk score. The applicant's eligibility to receive a credit card and credit limit is determined by its anticipated delinquency ratio over 90 days within one year.

- *Credit Assessment.* If the application is approved, then the application scoring system assessment is used to determine the applicant's credit limit. The aggregate credit limit for a new applicant who is an individual rarely exceeds ₩20 million. There is a separate but similar system for determining the credit limit available to corporate card applicants, which will generally be higher than limits available to individual applicants but will not provide for the ability to obtain cash advances.

The entire approval process generally takes two to three days, and the applicant generally receives the new card within one week after making an application. The Issuer evaluates and updates the application scoring system on a monthly basis (or more frequently as required) to incorporate new data or adjust the importance placed on existing data or market conditions.

Risk Analysis

Credit Card Review and Monitoring

The Issuer monitors its risk exposure to individual accounts on a regular basis. It monitors each customer's card usage trends and negative credit data, such as delinquency information, through both its own credit risk management system (which was developed with the assistance of an outside consultant) and BC Card's similar system (which BC Card maintains for its member banks). These systems monitor the behavior of users of the Issuer's credit cards, using both internally generated information and information from external sources. The Issuer uses a statistical method to analyze this information and estimate each customer's creditworthiness on a monthly basis. The credit risk management system is an integral part of the credit practices of the Issuer and is used to determine increases or decreases in credit limits, reset interest rates, set fee levels, authorize special transactions and approve card loans using criteria, such as:

- how much credit each customer has incurred in the past (i.e., frequency and amount of payments);
- whether a customer uses his card to make credit card purchases or to get cash advances;
- internal credit scores; and
- whether the customer has been delinquent in making payments.

After assigning appropriate weights to each factor, the system computes a behavior score and uses that score to classify each cardholder. Each customer's credit limit is subject to adjustment in accordance with the monthly updated score. The Issuer uses these results and the results of its application scoring system to evaluate its credit risk management system and make adjustments to its credit scoring formula based on the results of that process.

The Issuer's credit risk management system has also been able to run various simulations in connection with monitoring its operations, including:

- new product simulations, which predict the customer's likely spending pattern when using a new credit card product and analyze that pattern to predict the new product's costs, delinquencies and profitability; and
- credit use limit simulations, which test whether a customer's credit limit has been properly set by simulating an increase or decrease of that limit.

The Issuer's credit administration team manages customer credit risk for users of its credit cards. It reviews and updates its underwriting, credit evaluation, collection, servicing and write-off procedures, and the terms and

conditions of card agreements, from time to time in accordance with its business practices, applicable law and guidelines issued by regulatory authorities.

Early Warning Systems

The Issuer has developed early warning systems that monitor the status of both commercial and retail borrowers and evaluate all of a customer's outstanding credits. These systems monitor various factors, including the financial status, financial transaction status, industry rating and management status of borrowers. They enable the Issuer to find defaults and signs of potential delinquency in advance, monitor those problematic credits properly before any default or delayed payment occurs and keep track of information on the credit status of borrowers. Updated information is inputted when it becomes available, either automatically from internal and external sources or manually. The Issuer also monitors borrowers' credits through on-line credit reports that are provided by Korea Information Service and NICE.

After gathering this information, the Issuer's early warning system reviews such information to monitor any changes that could affect the credit rating of the borrower, approval conditions with respect to the loan or credit, underlying collateral or assigned credit limit of the borrower. Depending on the likelihood of the change, the system automatically notifies the responsible credit officer. The officer then evaluates the information and formulates an action plan, which could result in an adjustment in the borrower's credit rating or credit limit, a re-evaluation of the loan or the taking of other preventative measures.

Credit Card Renewal

Renewing a card means the process of re-issuing the card when it expires. Renewal of the card is provided to cardholders who are not in delinquency with the Issuer or any other institution. Eligibility for renewal is determined seven months prior to the expiration of the card. Cardholders with declining credit scores are carefully monitored and renewals are limited.

Finance Charges and Fees

The Issuer's revenues consist principally of cash advance charges, merchant fees, interest income from credit card loans, interest on late and deferred payments, and annual membership fees paid by cardholders.

For cash advances, finance charges start accruing immediately following the cash withdrawal. The Issuer currently charges a periodic finance charge on the outstanding balance of cash advance of approximately 6.4% to 23.8% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a minimum commission of ₩700 and a maximum of ₩900 per withdrawal.

The Issuer outsources the management of merchants to BC Card. The Issuer charges merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant, ranging from 1.5% to 2.5% of the purchased amount. As of December 31, 2019, the Issuer charged merchants an average of 1.32% of their respective total transaction amounts. In addition to merchant fees, the Issuer receives nominal interchange fees for international card transactions.

Each cardholder is allocated an aggregate credit limit in respect of all cards issued under his or her account and each month. The Issuer advises each cardholder of the credit limit relating to the cards in his or her monthly billing statement. Credit limits in respect of card loans are established separately. The Issuer conducts ongoing monitoring of all cardholders and accounts, and may reduce the credit limit or cancel an existing cardholder's card based on current economic conditions, receipt of new negative credit data from third party sources or the cardholder's score under the credit risk management systems the Issuer uses to monitor their behavior, even if the cardholder continues to make timely payments in respect of his or her cards.

Payments on amounts outstanding on the Issuer's credit cards must be made (at the cardholder's election at the time of purchase) either in full on each monthly payment date or in equal monthly installments over a fixed term from two months to 36 months, in the case of installment purchases. The Issuer considers an Account delinquent if the payment due is not received on the first monthly payment date on which such payment was due, and late fees are immediately applied. Late fee charges and computation of the delinquency period are based on each outstanding unpaid transaction or installment, as applicable. If an Account is delinquent, a delinquency fee is charged, calculated on the principal balance owed and the period of delinquency, measured in days. The delinquency fee rate ranges from 9.0% to a maximum rate of 23.9% per annum. For installment purchases, the Issuer charges a fixed rate of interest on the outstanding balance of the transaction amount, based on the installment period selected at the time of purchase. For a new cardholder, the Issuer currently apply an interest rate between approximately 9.5% and 20.5% per annum as determined by the cardholder's application system score.

The Issuer also generally charges a basic annual membership fee up to ₩1,000,000 for the Issuer's credit cards, which is determined based on various factors including the type of card, and whether affiliation options are selected by the cardholder. For certain cards, such as the Woori V Card, the Issuer will waive membership fees if customers make payments above a certain amount.

Mark-up fees, borne by the cardholder, are charged for international purchases made on a Lump Sum Basis. Visa International Service Association and MasterCard International Inc. each charges a mark-up fee of 1% for each transaction.

Servicing

Transaction Approval Process

Credit card transaction approvals are primarily conducted electronically through the "valued-added network" of e-companies ("VAN companies") and BC Card. VAN companies collect transaction information and send it to BC Card and the Issuer for approval. During the real time approval process, the Issuer instantly checks whether the transacting party is an approved Cardholder, whether the card has been stolen or terminated, whether the merchant is registered with the Issuer and whether the transaction amount exceeds approved credit limits. After the transaction approval, BC Card matches the approval information and the merchant invoices before making payment to the merchants.

Billing Process

The Issuer sends a billing statement to the relevant Accountholder which includes charges incurred on all cards issued under his or her Account and amounts due under any outstanding card loans, by physical mailing or electronic mail. Billing statements are also available online by password controlled access to the Issuer's internet web site. The Issuer offers a variety of payment dates to each Accountholder. See "- Business Overview - The Accounts" above. Each statement consolidates all activity during the month on each card issued under the Account.

Verification and Payments to Merchant

Prior to making payment to merchants, the Issuer verifies the validity of the sales transaction information.

Upon completion of the verification process, the Issuer makes payment to the merchant generally within two business days after receipt of the transaction information.

Payment methods

Auto Debit

A majority of cardholders use the Auto Debit repayment method, whereby the Issuer automatically withdraws payments from a bank account designated by the Cardholder or borrower with an allied bank or member of the Cash Management Service ("CMS") network of Korea Financial Telecommunications and Clearings Institute.

CMS

An alternative method of repayment offered to cardholders is the CMS. If a Cardholder chooses the CMS option, the Cardholder completes a CMS application form (obtained from one of the financial institutions listed below) to request a money transfer to the collection account of the Issuer established at the same institution. Cardholders can make a real time CMS payment over the telephone or via internet banking. Banks participating in the CMS system are Woori Bank, Industrial Bank of Korea, Hana Bank, Standard Chartered Bank Korea Limited, Kwangju Bank, Woori Bank, Kookmin Bank, The Daegu Bank Ltd, Kyongnam Bank Co., Ltd., Busan Bank, The Jeonbuk Bank Ltd, NongHyup Bank and the Korean Postal Service.

ARS and Internet

Cardholders can check amounts due for a billing cycle using ARS or via the internet. The Cardholder designates an account for payment from which the Issuer immediately draws the payment amount.

Delinquencies

Failure to make full payment of billed amounts by the payment due date will cause late fees to accrue.

The Issuer has a contractual right to declare an event of default and accelerate the maturity of any installment purchase a Cardholder fails to repay for more than two consecutive months. In practice, however, the Issuer will take such action only when payments on an installment purchase have been delinquent for more than four months.

Restructuring

For certain customers, the Issuer may offer to restructure delinquent payments allowing the Cardholder to make payments in installments. In general, the payment terms for restructured loans consist of an optional down payment and subsequent mandatory monthly interest and principal payments. The restructured loan payment period is subject to a maximum length of 60 months. The Issuer requires prepayment of a certain amount of the outstanding delinquent principal amount. These restructured loans do not form part of the Receivables Pool. Any accounts which become restructured accounts will cease to be eligible accounts.

Charge-offs

With FSS approval, the Issuer can charge-off debts on a quarterly basis for balances with an estimated loss of over ₩10 million. No minimum delinquency period or collection effort is required for charge-offs. Debts that have been delinquent for over three months and the Issuer believes they are no longer collectable are subject to charge-offs. The Issuer's net charge-offs were ₩180,700 million, ₩206,900 million and ₩228,200 million for the years ended December 31, 2017, 2018 and 2019, respectively. The Issuer's net charge-offs were ₩112,800 million and ₩105,600 million for the six months ended June 30, 2019 and 2020, respectively.

Funding

The Issuer seeks to maintain stable, diversified and low cost funding. The Issuer's principal sources of funding are debentures, borrowings and asset backed securitizations. The Issuer's other sources of funding are call money and commercial paper. To maintain a diversified funding structure, the Issuer aims to reduce gradually its domestic funding and asset backed securitizations whilst increasing international bond issuances.

While being a member of the Woori Financial Group provides further stability and ensures low cost funding, the Issuer's funding strategy is to secure its necessary funding on its own and to resort to funding from the Woori Financial Group only to the extent necessary. Under the Monopoly Regulation and Fair Trade Act, a company may not provide loans to its affiliates under substantially favorable terms, and the total liabilities of a holding company, with some exceptions, may not exceed twice its total capital (referring to an amount obtained by deducting the total liabilities from the total assets on the statement of financial position).

The following table sets forth the principal sources of the Issuer's funding for the periods indicated.

| | 2019 | | | 2018 | | | 2017 | | |
|--|-----------------|---------------|--------------------|-----------------|---------------|--------------------|-----------------|---------------|--------------------|
| | Average Balance | | Avg. interest rate | Average Balance | | Avg. interest rate | Average Balance | | Avg. interest rate |
| | Balance | Ratio | | Balance | Ratio | | Balance | Ratio | |
| (in 100 millions of Won, except percentages) | | | | | | | | | |
| Domestic | | | | | | | | | |
| Call-Money | - | - | - | - | - | - | - | - | - |
| Borrowing | - | - | - | - | - | - | 18 | 0.02 | 1.87 |
| Debentures | 59,693 | 64.45 | 2.42 | 60,477 | 66.19 | 2.43 | 54,927 | 66.15 | 2.29 |
| Others | 7,562 | 8.17 | - | 6,503 | 7.11 | - | 8,529 | 10.27 | - |
| Sub-Total | 67,255 | 72.62 | 2.35 | 66,980 | 73.31 | 2.40 | 63,474 | 76.44 | 1.82 |
| Offshore | | | | | | | | | |
| Debentures | 743 | 0.80 | 1.96 | 568 | 0.62 | 1.96 | 4,176 | 5.02 | - |
| Borrowings | - | - | - | - | - | - | - | - | - |
| Other liabilities | 6,733 | 7.27 | 2.08 | 6,988 | 7.64 | 2.08 | 1 | 0.01 | - |
| Sub-total | 7,476 | 8.07 | 2.33 | 7,556 | 8.27 | 2.33 | 4,177 | 5.03 | 1.82 |
| Equity | 17,882 | 19.31 | - | 16,819 | 18.41 | - | 15,388 | 18.53 | - |
| Total..... | 92,613 | 100.00 | 1.65 | 91,355 | 100.00 | 1.66 | 83,039 | 100.00 | 1.61 |

Capital Adequacy

The FSC establishes laws and regulations in order to enhance the safety and soundness of specialized credit financial companies and avoid potential financial incidents. According to the standard, specialized credit financial companies shall maintain at least 8% of adjusted capital ratio and report the adjusted capital ratio to the Financial Service Commission on a quarterly basis. The adjusted capital ratio is calculated as adjusted net capital divided by adjusted total assets. The adjusted total assets and adjusted net capital are based upon the statements of financial position and adjusted by the regulation that considered standards of the Bank for International Settlements and the nature of specialized financing service.

Adjusted total asset consists of total asset less the following items: cash, short-term deposits not pledged as collateral, government bonds with maturity of three months or less from the acquisition date and deductible items. In case of specialized credit financial companies that have adopted K-IFRS, reserve for bad debts and cumulative unrealized gain on valuation of loans are deducted from the adjusted total asset.

Adjusted net capital comprises the sum of basic and supplementary capital (limited by the extent of the basic capital) less deductible items. Supplementary capital is composed of allowance for credit losses in respect of credits classified as normal or precautionary (i.e., allowance for loans from customers who have never been delinquent, including provision for unused loan commitments and reserve for bad debts) and unsecured subordinated debts. In case of unsecured subordinated debts, there is a prohibition on early repayment of the debts. The amount of the unsecured subordinated debts is up to 100% of the basic capital if the maturity of the debt is longer than 10 years. If the maturity of the debt is longer than five years, the amount is limited to 50% of the basic capital. If the subordinated debt matures in five years, 20% of the subordinated debt is annually deducted from the supplementary capital. In this case, the amount less than 1.5% of total asset excluding provisions for unused loan commitments is added to the supplementary capital.

As of June 30, 2020, the Issuer met the regulatory requirement for the adjusted capital ratio.

| | As of December 31, | | | As of June 30, |
|---------------------------------|-------------------------|-------|-------|----------------|
| | 2017 | 2018 | 2019 | 2020 |
| | <i>(in percentages)</i> | | | |
| Adjusted Capital Ratio..... | 20.74 | 18.08 | 18.33 | 19.97 |
| Non-Adjusted Capital Ratio..... | 14.98 | 13.54 | 14.29 | 13.84 |

Competition

The Issuer competes principally with existing “monoline” credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently credit card service providers that have allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers, such as KB Kookmin Card Co., Ltd., spun off from KB Financial Group in March 2011, have made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with the Issuer for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products, such as mobile cards, gift cards and low-interest consumer loan products. As a result, the Issuer may lose customers or service opportunities while competing with other credit card issuers and/or incur higher marketing expenses. In addition, recent government regulations mandating lower merchant fees chargeable to small and medium-sized businesses are likely to reduce the revenues of credit card companies, including the Issuer. See “Risk Factors—The Issuer’s fee income may be adversely affected by the Guidelines on Adjustment of Credit Card Merchants Commission Rates or other Governmental measures or policies.” Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or more extensive marketing and promotional campaigns that the Issuer might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of the Issuer’s customers may decline if customers with higher credit quality borrow from the Issuer’s competitors rather than from the Issuer.

As a result, banks are beginning to compete for new customers and it is likely that competition among bank-operated credit card companies and independent credit card companies will increase substantially. As the market further saturates as a result of this common focus and as the volume of transactions as well as the number of cardholders reaches maturity, it is expected that the market growth will significantly decrease. As a result, it may become increasingly difficult for the Issuer to attract new customers who meet the credit criteria set by the Issuer. Due to these market factors, the Issuer may have to focus even further on obtaining and retaining high credit quality customers. All in all, the growth and profitability of the Issuer’s credit card operations may decline as a result of intense competition and growing market saturation in this sector.

The ability of the Issuer to preserve or continue to grow its assets in the future will depend on, among other things, its success in developing and marketing new products and services, its capacity to generate funding at commercially reasonable rates and in amounts sufficient to support preservation of assets and further asset growth, its ability to develop the personnel and system infrastructure necessary to manage its growth and increasingly diversified business operations and its ability to manage increasing delinquencies. In addition, external factors such as competition and government regulations in Korea may limit the Issuer’s ability to maintain its growth. Also, economic and social developments in Korea, such as changes in consumer confidence levels, spending patterns or the public perception of credit card usage and consumer debt, could have an adverse impact on the growth rate of the Issuer’s asset portfolio in the future. Furthermore, if the Issuer fails to simultaneously manage its asset quality and its asset growth or sacrifices asset quality in exchange for asset growth, its delinquency ratio may be adversely affected. If the growth rate of the Issuer’s assets declines or becomes negative or its delinquency ratio increases, its results of operations and financial condition may be adversely affected. See “Risk Factors—Competition in the Korean credit card industry is intense and the growing market saturation in the credit card industry may adversely affect the growth prospects and profitability of the Issuer.”

Information Technology

The Issuer dedicates substantial resources to maintaining a sophisticated information technology system to support its operations management and provide high quality customer service. The Issuer's information and technology system is operated by Woori Financial Group at a group-wide level based on comprehensive group-wide information collection and processing. Woori Financial Group also operates a single group-wide enterprise information technology system for customer relations management capabilities, risk management systems and data processing. Woori Financial Group continually upgrades its group-wide information technology system in order to apply the best-in-class technology to its risk management systems and risk thresholds to reflect the changes in its business environment as well as enhance differentiation from its competitors.

In order to enhance security and trustworthiness of the financial services provided by its subsidiaries, Woori Financial Group seeks to continually enhance a group-wide set of standards for information security and upgrading the related systems.

The Issuer also continues to upgrade the information technology systems to enhance the quality of its customer service and thereby bolster its competitiveness, including with respect to electronic and mobile banking, online consultation, expanded sales services and customized informational services. In addition, the Issuer has recently strengthened its indirect service channels through a major upgrade of its corporate online banking services and expansion of mobile phone-based product offerings and sales and service networks in light of the growing base of customers who increasingly access financial services through their mobile phones. The Issuer's main mobile application, Woori Card Smart App, provides customers with access to various functions including card application, bill payment, finance, rewards and promotions through their mobile phones. In addition, the Issuer operates "Woori Pay", a secure and easy-to-use mobile payment service, "Wibee Members", a membership rewards management service and "Wibee Market", an online open market platform.

Legal Proceedings

The Issuer is involved in various legal actions and regulatory proceedings arising from the normal course of its business. As of June 30, 2020, the Issuer was a defendant in 15 pending lawsuits in the aggregate claim amount of ₩1.2 billion and a plaintiff in 16 pending lawsuits in the aggregate claim amount of ₩5.3 billion. The Issuer's management believes, based on currently available information, that these lawsuits and proceedings, in the aggregate, will not have a material adverse effect on its financial condition or results of operations. However, it is difficult to predict the final outcome of these proceedings, the total amount in dispute may increase during the course of litigation, and other lawsuits may be brought against the Issuer. Accordingly, we cannot assure you that these or other proceedings and related events will not have an adverse effect on the Issuer or the price of the Notes. For further details, see Note 31 to the Issuer's unaudited consolidated interim financial statements as of June 30, 2020 and for the six months ended June 30, 2019 and 2020 included elsewhere in this Offering Circular.

MANAGEMENT AND EMPLOYEES

Management

Board of Directors

The Issuer's board of directors has the ultimate responsibility for managing the Issuer's affairs through several governing bodies. The board currently comprises two standing directors, one non-standing director and four outside directors. Standing directors are directors who are either the Issuer's full-time executive officers or the Issuer's standing Audit Committee members, while non-standing directors and outside directors must not engage in the regular business of the Issuer and outside director must satisfy certain eligibilities under Korean law and the Issuer's articles of incorporation to evidence their independence from the Issuer.

The Issuer's articles of incorporation provide that the board can have no less than four directors.

Standing directors must comprise less than 50% of the total number of directors, and there must be at least three outside directors. Each director may be elected for a term of office not exceeding three years and may be re-elected, provided that each outside director may be elected for a term of office not exceeding two years and may be re-elected on an annual basis but may not serve in such office for more than five consecutive years. In addition, with respect to all directors, such term of office is extended until the close of the annual general meeting of shareholders convened in the last fiscal year of the director's term of office. These terms are subject to the Korean Commercial Code and related regulations.

The Issuer's board of directors meets regularly on a quarterly basis to discuss and resolve various corporate matters. The board may also convene for additional extraordinary meetings at the request of the president or chairman of the board. A director (other than the president or chairman of the board) may request the president or chairman of the board to convene an extraordinary meeting. In the event that the president or chairman of the board rejects such request without justifiable reason, another director may convene the extraordinary meeting.

The names and positions of the Issuer's directors are set forth below. The business address of all of the directors is the Issuer's registered office at 50, Jong-Ro 1-Gil, The K-Twin Tower, Jongno-gu, Seoul, Korea.

Standing Directors

| Name | Year of Birth | Position | Standing Director Since | Date Term Ends |
|----------------|----------------------|-------------------------------------|--------------------------------|-----------------------|
| Jeong, Won Jai | 1959 | President & Chief Executive Officer | December 26, 2017 | December 31, 2020 |
| Lee, Sang Woo | 1957 | Standing Audit Committee Member | March 26, 2019 | March 26, 2022 |

Jeong, Won Jai has been the Issuer's President, Chief Executive Officer and Executive Director since December 26, 2017. Mr. Jeong previously served as Executive director of Sales Supporting Business Group at Woori Bank.

Lee, Sang Woo has been the Issuer's Standing Audit Committee Member since March 26, 2019. Mr. Lee previously served as a vice president at the Korean Center for International Finance. Mr. Lee received his bachelor's degree in business administration from Seoul National University.

Non-Standing Director

| Name | Year of Birth | Position | Director Since | Date Term Ends |
|---------------|----------------------|-----------------------|-----------------------|-----------------------|
| Kim, Jeong Ki | 1962 | Non-standing Director | February 27,2020 | February 26,2023 |

Kim, Jeong Ki has been an Non-standing Director since February 27, 2020. Mr. Kim currently serves as vice president at Woori Financial Group. Mr. Kim received his bachelor's degree in agricultural economics from Chungbuk University.

Outside Directors

The Issuer's outside directors are selected based on their experience and knowledge in diverse areas, which include law, finance, economics, management and accounting. The Issuer currently has five outside directors. All were nominated by the Board of Directors Management Committee.

Our outside directors are as follows:

| Name | Year of Birth | Position | Director Since | Date Term Ends |
|-----------------|----------------------|------------------|-----------------------|-----------------------|
| Kim, Yeong Seop | 1948 | Outside Director | March 26, 2019 | March 26, 2021 |
| Rowe, Sung J. | 1964 | Outside Director | March 22, 2018 | March 26, 2021 |
| Kim, Hong Suk | 1966 | Outside Director | March 22, 2018 | March 26, 2021 |
| Park, Rae Soo | 1967 | Outside Director | March 20, 2020 | March 26, 2022 |

Kim, Yeong Seop has been an Outside Director since March 26, 2019. Mr. Kim is currently an adviser at Bae, Kim & Lee LLC. Mr. Kim received his bachelor's degree in economics from Seoul National University.

Rowe, Sung J. has been an Outside Director since March 22, 2018. Mr. Rowe is currently an outside director at Home & Shopping. Mr. Rowe received his master's degree in business administration from George Washington University.

Kim, Hong Suk has been an Outside Director since March 22, 2018. Mr. Kim received his bachelor's degree in law from Seoul National University.

Park, Rae Soo has been an Outside Director since March 20, 2019. Mr. Park is currently a professor at Sookmyung Women's University. Mr. Park received his bachelor's degree in business administration from Seoul National University.

Executive Officers

In addition to the standing directors who are also the Issuer's executive officers, the Issuer currently has the following 13 executive officers. None of the executive officers is involved in any significant business activities outside of the Issuer and Woori Financial Group.

| Name | Year of Birth | Position | Executive Officer Since | Date Term Ends |
|----------------|----------------------|--------------------------|--------------------------------|-----------------------|
| Heo, Jeong Jin | 1957 | Executive Vice President | December 10, 2018 | December 09, 2020 |
| Rhee, Heon Joo | 1963 | Executive Director | January 04, 2016 | December 26, 2020 |
| Noh, Sang Joo | 1962 | Executive Director | April 01, 2019 | March 31, 2021 |
| Kim, Jong Yoon | 1963 | Executive Director | April 01, 2019 | March 31, 2021 |

| | | | | |
|-----------------|------|--------------------|-------------------|-------------------|
| Kim, Yong Suk | 1960 | Executive Director | April 01, 2019 | March 31, 2021 |
| Hong, Yun Ki | 1965 | Director | April 01, 2020 | March 31, 2022 |
| Cho, Seong Lack | 1962 | Director | April 01, 2019 | March 31, 2021 |
| Lee, Kee Beom | 1963 | Director | April 01, 2020 | March 31, 2022 |
| Myong, Je Sun | 1968 | Director | June 15, 2020 | June 14, 2022 |
| Kim, Wang Soo | 1962 | Director | April 01, 2020 | March 31, 2022 |
| Yang, Ill Dong | 1965 | Director | December 27, 2018 | December 26, 2020 |
| Seo, Yeong Ho | 1965 | Director | December 27, 2018 | December 26, 2020 |
| Kim, June | 1966 | Director | December 27, 2019 | December 26, 2021 |

Heo, Jeong Jin has been the Issuer's Executive Vice President since December 26, 2020. Mr. Heo previously served as vice president at Woori Bank. Mr. Heo received his bachelor's degree in commerce and trade from Kookje College.

Rhee, Heon Joo has been the Issuer's Executive Director since January 04, 2016. Mr. Rhee previously served as a General Manager at the Issuer. Mr. Rhee received his bachelor's degree in applied statistics from Yonsei University.

Noh, Sang Joo has been the Issuer's Executive Director since April 01, 2019. Mr. Noh previously served as a director at Woori Bank. Mr. Noh received his bachelor's degree in finance from Michigan State University.

Kim, Jong Yoon has been the Executive Director since April 01, 2019. Mr. Kim previously served as a director at Woori Bank. Mr. Kim received his bachelor's degree in physics from Chung-ang University.

Kim, Yong Suk has been the Issuer's Executive Director since April 01, 2019. Mr. Kim previously served as a director at Woori Bank.

Hong, Yun Ki has been the Issuer's Director since April 01, 2020. Mr. Hong previously served as a director at Woori Bank. Mr. Hong received his bachelor's degree in law from Gangwon University.

Cho, Seong Lack has been the Issuer's Director since April 01, 2017. Mr. Cho previously served as a Manager at Issuer. Mr. Cho received his bachelor's degree in business administration from Konkuk University.

Lee, Kee Beom has been the Issuer's Director since April 01, 2020. Mr. Lee previously served as a director at Woori Bank.

Myong, Je Sun has been the Issuer's Director since June 15, 2020. Mr. Myong previously served as a director at Lotte Card Co., Ltd. Mr. Myong received his bachelor's degree in political science & international studies from Hankuk University of Foreign Studies.

Kim, Wang Soo has been the Issuer's Director since April 01, 2020. Mr. Kim previously served as a director at Woori Bank. Mr. Kim received his bachelor's degree in business administration from Hongik University.

Yang, Ill Dong has been the Issuer's Director since December 27, 2018. Mr. Yang previously served as a General Manager at the Issuer.

Seo, Yeong Ho has been the Issuer's Director since December 27, 2018. Mr. Seo previously served as General Manager at the Issuer. Mr. Seo received his bachelor's degree in English literature from Youngnam University.

Kim, June has been the Issuer's Director since December 27, 2019. Mr. Kim previously served as General Manager at the Issuer. Mr. Kim received his bachelor's degree in business administration from Sogang University.

Committees

Currently, the Issuer has four committees serving under the Board: the Audit Committee, the Risk Management Committee, the Compensation Committee and the Executive Officer Candidate Nomination Committee. The responsibilities of each of the committees are subject to the requirements under the Specialized Credit Financial Business Act (the “SCFBA”) and determined by the Board pursuant thereunder.

Audit Committee

This committee consists of two outside directors (Sung J. Rowe and Rae Soo Park) and one standing director (Sang Woo Lee). The chairman is Sung J. Rowe. The Audit Committee reviews all audit and compliance-related matters and makes recommendations to the Issuer’s board of directors. The Audit Committee, whose members must meet certain qualifications as experts under the Issuer’s committee charter, is also responsible for the following:

- formulating, executing, evaluating and managing internal audit plans (including financial and operational audits);
- approving the appointment and dismissal of the head of the audit team;
- approving the appointment of external auditors and evaluating the activities carried out by external auditors;
- formulating appropriate measures to correct problems identified from internal audits;
- overseeing the Issuer’s reporting systems in light of relevant disclosure rules and requirements to ensure compliance with applicable regulations; and
- examining internal procedures or making decisions on material matters that are related to audits as determined by the regulatory authorities, the Issuer’s board or other committees.

Risk Management Committee

This committee consists of one non-standing director (Jeong Ki Kim) and three outside directors (Yeong Seop Kim, Hong Suk Kim and Rae Soo Park). The chairman is Rae Soo Park. The Risk Management Committee oversees and makes determinations on all significant issues relating to the Issuer’s risk management system. It implements policies regarding, monitors and has ultimate responsibility for managing credit, market and liquidity risk and asset and liability management. The major roles of the Board Risk Management Committee include:

- determining and amending risk management policies, guidelines and limits in conformity with the strategy established by the board of directors;
- determining the appropriate level of risks that the Issuer may undertake, including in connection with key business activities such as acquisitions, investments or entering into new business areas, prior to a decision by the board of directors on such matters;
- allocating risk capital and approving the Issuer’s business groups’ risk limit requests;
- reviewing the Issuer’s risk profile, including the level of risks the Issuer is exposed to and the status of the Issuer’s risk management operations; and
- monitoring the Issuer’s compliance with its risk policies.

Compensation Committee

This committee consists of one non-standing director (Jeong Ki Kim) and three outside directors (Yeong Seop Kim, Hong Suk Kim and Sung J. Rowe). The chairman is Hong Suk Kim. The Compensation Committee is responsible for all matters relating to the following:

- evaluating management's performance in developing the Issuer's business;
- setting goals and targets with respect to executive performance; and
- determining executive compensation, including incentives and bonuses.

Executive Officer Candidate Nomination Committee

This committee consists of one standing director (Won Jai Jeong) and two outside directors (Yeong Seop Kim and Hong Suk Kim). The chairman is Yeong Seop Kim. The Executive Officer Candidate Nomination Committee holds meetings when an Audit Committee member, an outside director or the Issuer's president and chief executive officer needs to be appointed.

Remuneration

The aggregate remuneration and benefits in kind granted by the Issuer to its registered Directors during the year ended December 31, 2019 and during the six months ended June 30, 2020 was ₩617 million and ₩379 million, respectively.

Loans to Directors and Other Transactions

As of June 30, 2020, there were no loans outstanding made by the Issuer to its Directors, statutory auditor or senior management. There are no guarantees provided by the Issuer for the benefit of any of the Issuer's Directors, statutory auditor or senior management. None of the Directors, statutory auditor or senior management has or had any interest in any transaction effected by the Issuer that is unusual in their nature or conditions or significant to the business of the Issuer or that was effected during the current or immediately preceding year or during an earlier year and remains in any respect outstanding or unperformed.

Employees

As of June 30, 2020, the Issuer had a total of 714 full-time employees and 111 contract and part-time employees who are employed on a temporary basis. The Issuer believes that it has a good relationship with its employees. The Issuer has not experienced a work stoppage of a serious nature. The union and management negotiate and enter into a new collective bargaining agreement that is renewed every year.

The Issuer's employee compensation is based on a combination of the agreed-upon base salary and bonuses. The bonus system is based on individual performance and business unit performance. The Issuer, like most other non-banking financial institutions in Korea, grants its employee annual increases in basic wages and pays periodic bonuses and overtime. As of June 30, 2020, salaries and wages comprised approximately 41.0% of total general and administrative expenses of the Issuer. The Issuer provides a wide range of fringe benefits to its employees, including medical care assistance and educational and training opportunities.

In accordance with the Korean National Pension Law, the Issuer contributes an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages into each employee's personal pension account. Furthermore, in accordance with the Issuer's policy and the Korean Labor Standard Law, employees with one year or more years of service are entitled, upon termination of employment, to receive a lump sum severance payment based upon the length of their service and the average of the last three months' wages. The Issuer makes provisions for accrued severance indemnities based upon the assumption that all employees terminate their employment with the Issuer at the same time. As of June 30, 2020, the accrued severance indemnities were ₩36.4 billion, approximately 87.9% of which were deposited with Woori Bank.

WOORI FINANCIAL GROUP

Introduction

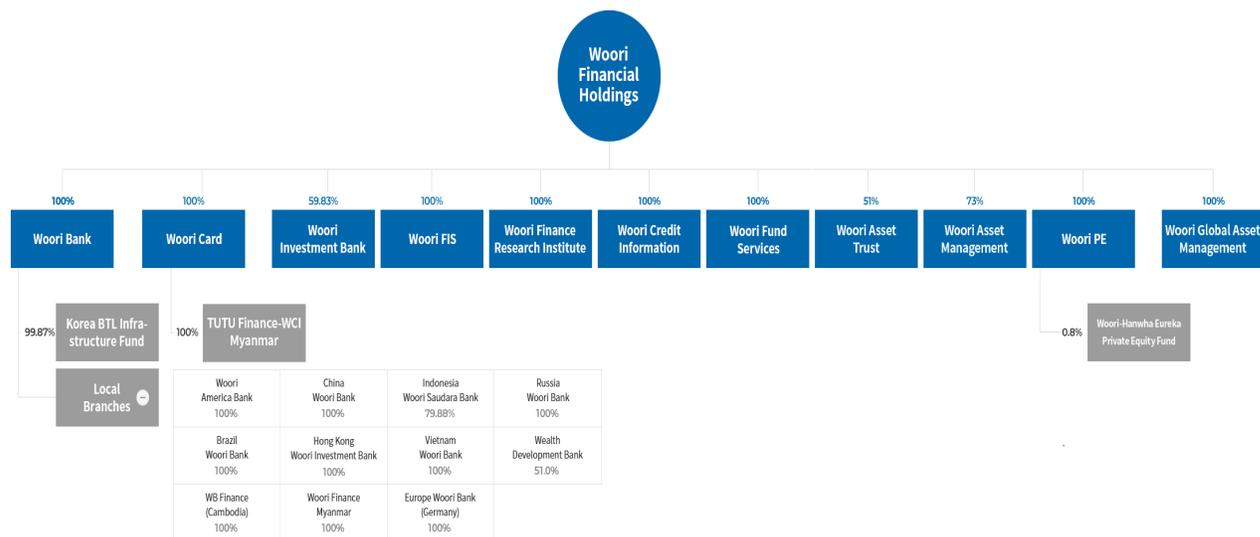
Woori Financial Group is one of the largest financial holding companies in Korea, in terms of consolidated total assets, and Woori Financial Group's operations include Woori Bank, one of the largest commercial banks in Korea. Woori Financial Group's subsidiaries collectively engage in a broad range of businesses, including corporate banking, consumer banking, credit card operations, investment banking, capital markets activities and other businesses. Woori Financial Group provides a wide range of products and services to its customers, which mainly comprise small- and medium-sized enterprises and individuals, as well as some of Korea's largest corporations. As of December 31, 2019 and June 30, 2020, Woori Financial Group had, on a consolidated basis, total assets of ₩474.3 trillion and ₩501.0 trillion, respectively, total liabilities of ₩452.8 trillion and ₩478.7 trillion, respectively, and total equity of ₩21,543 billion and ₩22,301 billion, respectively.

As of December 31, 2019, Woori Financial Group was a main creditor to 9 of the 30 largest Korean corporate borrowers and had 325,749 small- and medium-sized enterprise borrowers. Woori Financial Group has the second-largest deposit base among Korean commercial banks, and over 23.5 million retail customers, representing about half of the Korean adult population. Of these customers, over 9.6 million are active customers, meaning that they have a deposit account with Woori Financial Group with a balance of at least ₩300,000 or have a loan account with Woori Financial Group. Woori Financial Group serves its customers primarily through one of the largest banking networks in Korea, comprising 874 branches and 4,855 ATMs and cash dispensers as of December 31, 2019. Through Woori Bank, Woori Financial Group also operates 10 dedicated corporate banking centers and 81 general managers for its large corporate customers and 909 relationship managers stationed at 725 branches (as well as 412 additional non-stationed employees who serve as relationship managers as needed) for the small- and medium-sized enterprise customers as of December 31, 2019.

History and Organization

Woori Financial Group is a financial holding company that was newly established on January 11, 2019 pursuant to a "comprehensive stock transfer" under Korean law, whereby holders of the common stock of Woori Bank and certain of its subsidiaries transferred all of their shares to Woori Financial Group and in return received shares of Woori Financial Group's common stock. Woori Financial Group was established under the Financial Holding Company Act of Korea, which, together with associated regulations and a related Enforcement Decree, enables banks and other financial institutions, including insurance companies, invest trust companies, credit card companies and securities companies, to be organized and managed under the auspices of a single financial holding company. As a result of the stock transfer, Woori Bank and certain of its former wholly-owned subsidiaries – Woori FIS Co., Ltd., Woori Finance Research Institute Co., Ltd., Woori Credit Information Co., Ltd., Woori Fund Services Co., Ltd. and Woori Private Equity Asset Management Co., Ltd. –, became Woori Financial Group's direct and wholly-owned subsidiaries.

The following chart illustrates Woori Financial Group’s organizational structure after the completion of the stock transfer:



After establishment, Woori Financial Group has further reorganized and expanded its operations, including through mergers, acquisitions and investments. For example:

- In August 2019, Woori Financial Group acquired a 73% equity interest in Woori Asset Management Corp. (formerly known as Tongyang Asset Management Corp.) from Tongyang Life Insurance Co., Ltd., which became its consolidated subsidiary.
- In September 2019, Woori Financial Group conducted a “comprehensive stock exchange” under Korean law with Woori Bank, the former parent company of the Issuer, whereby Woori Bank transferred all of its Woori Card shares to Woori Financial Group and in return received a combination of 42,103,377 shares of Woori Financial Group’s common stock and ₩598 billion in cash, based on an exchange ratio of 0.4697442 shares of Woori Financial Group’s common stock for each Woori Card share. As a result of the stock exchange, the Issuer ceased to be Woori Bank’s subsidiary and became Woori Financial Group’s direct and wholly-owned subsidiary. Pursuant to applicable Korean law, Woori Bank was required to dispose of the 42,103,377 shares of Woori Financial Group’s common stock it received in the stock exchange within six months of its consummation and sold 28,890,707 of such shares to Fubon Life Insurance Co., Ltd. in September 2019 for ₩358 billion and 13,212,670 of such shares in block trades in November 2019. As a result of such transactions, the number of Woori Financial Group’s outstanding shares of common stock increased to 722,267,683.
- In September 2019, Woori Financial Group acquired a 59.83% equity interest in Woori Investment Bank from Woori Bank, its former parent company, for a sale price of ₩383 billion. As a result of the sale, Woori Investment Bank ceased to be Woori Bank’s subsidiary and became Woori Financial Group’s direct consolidated subsidiary. Woori Investment Bank’s common stock is listed on the KRX KOSPI Market.
- In October 2019, Woori Bank acquired a 20% equity interest in Lotte Card Co., Ltd., the eighth largest credit card issuer in Korea, according to BC Research, which is a quarterly report issued by BC Card.
- In December 2019, Woori Financial Group acquired Woori Global Asset Management Co. (formerly known as ABL Global Asset Management Co.) from Anbang Asset Management (Hong Kong) Co., Limited, which became Woori Financial Group’s consolidated subsidiary.

- In December 2019, Woori Financial Group acquired an aggregate 51% equity interest in Woori Asset Trust Co., Ltd. (formerly known as Kukje Asset Trust Ltd.), consisting of (i) 44.46% from its majority shareholders, including chairman Jae-Eun Yoo, and (ii) 6.54% from Woori Bank. As part of the share purchase agreement with the former majority shareholders, Woori Financial Group has agreed to additionally acquire a 21.27% equity interest in the future, subject to certain conditions, at which point Woori Financial Group will own an aggregate 72.2% equity interest in Woori Asset Trust Co., Ltd., which is currently Woori Financial Group's consolidated subsidiary.

THE KOREAN CREDIT CARD INDUSTRY

Background

Credit cards were originally introduced in Korea by retailers who would issue cards to their customers as a payment method. In 1969, Shinsegae Department Store issued Korea's first domestic credit card to its shoppers.

Korean banks entered the credit card sector in 1978 when Korea Exchange Bank issued international credit card under a license agreement with VISA International, Inc., which was followed by Kookmin Bank in 1980. In 1982, several commercial banks jointly established the Bank Credit Card Association (later renamed "BC Card" in 1987), which issued cards for its participants. In addition, foreign credit card companies such as American Express Company and Diners Company International Ltd. entered the Korean market in 1980 and 1984, respectively. The enactment of the Credit Card Business Act in 1987 restricted the operation of credit card business to government-licensed firms. As a result, Korea Exchange Bank and Kookmin Bank transferred their respective credit card related operations to their affiliated companies. In the late 1980s, some Korean commercial conglomerates, also known as chaebols, such as Samsung Group and LG Group, acquired existing credit card companies and entered into the credit card market. The entrance of new credit card companies that were affiliated to banks, which had a well-established customer base, and chaebols contributed to the broadening use of credit cards in Korea.

Currently, the Korean credit card industry (excluding independent merchants providing credit cards for sole use with such merchants) is comprised of 11 banks with credit card operations and nine independent credit card companies, six of which are bank-affiliated credit card companies and three of which are "monoline" credit card companies. These are Standard Chartered Bank Korea Limited, Industrial Bank of Korea, NH Bank, The Daegu Bank Ltd., Busan Bank, Kyongnam Bank Co., Ltd., Citibank Korea, Jeju Bank, Suhyup Bank, The Jeonbuk Bank Ltd and Kwangju Bank. The six bank-affiliated credit card companies consist of the Issuer, BC Card, Shinhan Card Co., Ltd., KDB Capital Corp., KEB Hana Card Co., Ltd. and KB Kookmin Card Co., Ltd. The three "monoline" credit card companies include Samsung Card Co., Ltd., Hyundai Card Co., Ltd., Lotte Card Co., Ltd.

Growth

Credit card companies in Korea primarily provide financing for purchase of merchandise and services, payment for which must be made either (i) on a Lump Sum Basis, (ii) in equal monthly installment over a pre-selected period of time (i.e., installment) or (iii) on a revolving basis subject to a minimum percentage of the amount outstanding on each monthly payment date (i.e., revolving). Credit card companies also provide cash advance services, under which card members may borrow cash from automatic teller machines or cash dispensers subject to daily interest charges, and card loan services, which are small amount unsecured loans provided to card members.

Credit card companies began to play a significant role after 1997 in Korea. The growth of the credit card industry mirrored the rebound of Korean economy following the 1997 Asian financial crisis. In 1998, the Government introduced a set of policies to promote the use of credit cards. In 1999, the Government abolished the ₩700,000 limit on cash advances a cardholder may receive in a given billing cycle. In 1999, a shared merchant system was introduced to increase the convenience of credit card usage. Under this shared merchant system, if one or more credit card companies enter into an agreement with a merchant to allow their cardholders to use their credit cards to purchase such merchant's merchandise or service, then such merchant is required to accept the credit cards issued by every other credit card company in Korea under the same terms as set forth under the original agreement. This shared merchant legislation was followed by a new tax policy aimed at improving transparency in the Korean tax system, the effect of which was to encourage credit card usage. In September 1999, the Korean National Tax Service introduced an income deduction scheme, which allows a taxpayer a deduction from taxable income an amount equal to 10% of the aggregate card purchase volume amount in a given taxable year that exceeds 10% of such taxpayer's total gross income for such taxable year, subject to a maximum amount a taxpayer can deduct which can vary from year to year. In addition, the Government commenced operating a state-run monthly lottery for credit card users in 2000.

In the late 1990s and early 2000s, credit card companies, led by Samsung Card Co., Ltd. and LG Card Co., Ltd., developed new services and aggressively marketed their products. Cash advance and card loan services were granted to more members and the limits on such advances and loans were raised. Membership reward programs

were introduced and expanded, and various discount benefits were provided to credit card members. The credit card companies hired “credit planners” who were paid by the number of new card member recruits, and the more aggressive credit planners signed up new card members off the street with little or no background or credit check.

The Government’s incentives to promote credit card usage, together with aggressive marketing of credit card companies, contributed to the overall growth of the credit card industry in Korea during this period. The growth in credit card service use was also attributable to the absence of a personal checking system in Korea and the absence of alternative consumer finance products. From 1998 to 2002, the transaction amount related to (i) credit card purchases, repayable in full or in installments, grew at a compound annual growth rate (“CAGR”) of 71.3% and (ii) cash advances grew at a CAGR of 81.4% according to the Credit Finance Association of Korea. The total number of credit cards issued in Korea was approximately 42.0 million in 1998 and approximately 104.8 million in 2002, representing an increase of 149.5%. The number of credit cards per card user grew from 2.0 cards in 1998 to 4.6 cards in 2002.

Recent Status

Korea currently has a relatively high credit card penetration ratio in terms of number of cards per capita and card usage compared to private consumption. Koreans settle more than 70% of their consumption spending using a credit card according to the Credit Finance Association of Korea. The prevalence of credit card usage among Korean consumers is also reflected in the number of credit cards per economically active person, which was 3.9 cards per economically active person as of December 31, 2019.

The Korean credit card industry has been showing steady growth due to an increase in personal expenditure and consumption and an increase in credit card transactions since 2005. Due to this steady growth, competition among credit card companies has intensified which has resulted in increased credit card benefits to customers.

These developments have helped independent credit card companies more than bank operated credit card businesses because independent credit card companies can focus solely on the credit card business. As banks have focused more on mortgage loans, which is their primary retail business, their credit card businesses consequently have declined. As a result, this has contributed to the growing market share of independent credit card companies.

In addition, credit card companies have enhanced their credit risk management capabilities. Since the commencement of the global financial crisis in 2008, credit card companies have taken measures to reduce their credit risk by managing credit limits and reassessing their customer group, among others, while maintaining the quality of their asset portfolios and cardholders. Despite strengthening credit card regulations by the Government and the possibility of reduced profitability due to increased competition, the credit card industry has maintained steady growth. It maintained a steady level of profitability mainly due to lowering credit costs through improving asset quality and a decrease in funding costs amidst a low interest rate environment. The capital adequacy ratio of the independent credit card companies increased from 19.0% in 2005 to 22.3% in 2019, according to the FSS. As of December 31, 2019, the capital adequacy ratio of all independent credit card companies exceeded the 8.0% guideline provided by the FSC. The average delinquency ratio of the independent credit card companies fell from 3.43% as of December 31, 2008 to 1.43% as of December 31, 2019 according to the FSS.

Since January 2012, a series of Government regulations mandating lower merchant fees chargeable to small- and medium-sized enterprises have been implemented in order to reduce transaction fees paid to credit card companies, placing downward pressure on the results of operations for credit card companies. In 2013 and 2018, Government introduced measures and guidelines aimed at curtailing excessive marketing expenses for credit card companies.

Internet-only banks, as well as non-financial institutions and fintech companies, are becoming major competitors to the credit card companies in payments market. KT consortium’s K-Bank and Kakao consortium’s Kakao Bank commenced operations in April 2017 and July 2017, respectively. In addition, with the rapid growth of online service providers and technology companies providing virtual payment services, more competitors are entering the financial payments industry, creating a new paradigm in the payments market and changing the competitive landscape. New competitors, including Kakao Corp., NAVER and Samsung Electronics, have

introduced new payment methods. In 2018, Kakao Bank launched its own credit card business, expanding its mid-range interest rate loan offerings and competing with the existing credit card service providers.

On January 9, 2020, the Korean National Assembly passed amendments to three major data privacy laws (the Personal Information Protection Act, the Act on the Promotion of Information and Communications Network Utilization and Information Protection and the Act on the Use and Protection of Credit Information). These amendments introduced the MyData service, allowing and requiring (upon the customer's request and subject to compliance requirements) financial institutions that have been approved by the Financial Service Commission as a MyData service provider access and sharing of customers' personal information, credit information and transaction data. Credit card companies have actively sought opportunities in data-based business based on MyData as well as big data and entered credit bureau business in order to diversify revenue streams through new business opportunities.

The global outbreak of COVID-19 rapidly accelerated the adoption rate of digital payment options as more consumers seek safer contact-free payment methods. This rapid adoption of digital payments is expected to increase consumers' demand on digital payment, encouraging merchants and credit card companies to embrace contactless payment services, including mobile payment and e-wallets.

The recent growth of the credit card industry in Korea according to the Credit Finance Association of Korea is set forth in the table below:

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|----------------------|----------------|----------------|----------------|----------------|
| | (in billions of Won) | | | | |
| Credit card transaction volume | | | | | |
| Credit card purchases | 534,932 | 596,032 | 627,342 | 664,013 | 700,952 |
| Cash advances | 59,503 | 59,329 | 59,266 | 60,768 | 59,124 |
| Total | <u>594,435</u> | <u>655,361</u> | <u>686,608</u> | <u>724,781</u> | <u>760,076</u> |
| Number of credit card in issue (thousands) | 9,314 | 9,564 | 9,946 | 10,506 | 11,098 |
| Number of credit cards per economically active person ⁽¹⁾ | 3.5 | 3.5 | 3.6 | 3.8 | 3.9 |
| Number of merchants (thousands)..... | 242 | 250 | 257 | 269 | 281 |

Source: The Credit Finance Association. Korea

Note:

(1) "Economically active person" means a working age person who is capable of working and is either currently employed or seeking employment.

SUPERVISION AND REGULATION

The Korean credit card industry is primarily governed by the SCFBA, which regulates the business activities of Specialized Credit Financial Business Companies (“SCFCs”) licensed by, or registered with, the FSC. The businesses of SCFCs consist of (i) credit cards, (ii) facility leasing businesses, (iii) installment financing and (iv) new technology venture capital.

The SCFBA requires licensing and/or registration of SCFCs and regulates their business practices. Any person wishing to engage in the credit card business must obtain a license from the FSC (except for a person who engages in certain wholesale or retail business), while any person wishing to engage in the leasing, installment finance or technology venture capital businesses may register with the FSC in order to take the benefit of the SCFBA. An SCFC is regulated by the FSC, which has the right to review the operations of such SCFCs and inspect their records to ensure compliance with the provisions of the SCFBA. The FSC has the authority to suspend the operations of credit card companies for up to six months upon non-compliance with certain regulations under the SCFBA and certain administrative orders. The FSC is entitled to cancel a license or registration, as the case may be, if an SCFC fails to comply with certain regulations of the SCFBA or administrative orders, including a suspension order.

The SCFBA prohibits an SCFC from extending loans over certain limits to its major shareholders (including certain specially-related persons of the major shareholders). The aggregate amount of the credit extended by an SCFC to its major shareholders shall not exceed 50% of its equity capital. An SCFC in violation of this rule is subject to a penalty by FSC of up to the excess amount of the extended credit and/or a criminal fine not exceeding ₩50,000,000. Any major shareholder in violation of this rule is also subject to a criminal fine not exceeding ₩50,000,000 or imprisonment for up to 7 years

Under the SCFBA, if an SCFC with a credit card business license intends to engage in two or more of businesses among the facility rental business, installment financing business or new technology project financing business, it is required to have at least ₩40 billion of capital, while an SCFC with only the credit card business license or an SCFC with the license of only one of the facility rental business, installment financing business or new technology project financing business is required to have at least ₩20 billion of capital.

Under the SCFBA, an SCFC is not permitted to acquire real estate other than those to be used for certain prescribed business purposes and the FSC may limit the aggregate amount of real estate which an SCFC may acquire for such business purposes up to a certain percentage of shareholders’ equity; provided however, that such limit must be not less than 100% of shareholders’ equity.

In connection with the issuance of credit cards and extension of credit to cardholders, the SCFBA, its Enforcement Decree and the supervisory regulation of the FSC provide that credit card companies:

- (a) must check the identity of a new card applicant before issuing a card and may not renew or replace a card which has not been used for the past six months without the written consent of the cardholder concerned;
- (b) are permitted to set a credit limit only after assessing the financial situation of the individual cardholder, but in any event the limit must not be higher than the amount requested by the cardholder;
- (c) may issue a credit card to a card applicant who is aged 19 or older (18 or older, if the applicant can prove the applicant’s employment at the time of the application) and is deemed by it under its internal guidelines (which should include such factors as income, assets and liabilities by which to assess the financial capability of card applicants) as being capable of paying his credit card debts;
- (d) as of the end of each quarter, must keep the average balance of the receivables arising in connection with the credit extension to its credit cardholders during the relevant quarter, except for certain receivables, not in excess of the sum of (i) the average balance of the receivables arising in connection with the purchase by its credit cardholders of goods or services and (ii) the aggregate amount of transactions made by debit cardholders, in each case, during the same quarter;

- (e) are forbidden from soliciting customers by (i) multilevel sales, (ii) offering free benefits exceeding 10% of the annual membership fee to potential card members, (iii) street-hawking or (iv) door-to-door solicitation without prior consent from the potential customer, except in the case of solicitation in offices used for business purposes which does not require such consent; and
- (f) are required to register all solicitors of credit card memberships with the Credit Finance Association.

Further, if a cardholder objects to the bills charged to his or her credit card, he or she will not be obligated to make payments until the FSC has finished its investigation thereon. The level of allowance for credit card receivables held by credit card companies is similar to that of commercial banks.

The Installment Transaction Act

In addition to the SCFBA, the Installment Transactions Act (the "ITA") protects consumers who enter into installment purchase contracts for the purchase of merchandise by ensuring fairness in such transactions.

The ITA is applicable to any installment purchase contract where (a) a purchaser of merchandise (the "purchaser") makes installment payments for merchandise three or more times over a period of two or more months to the merchant or a credit provider (usually a credit card company) and (b) takes delivery of the merchandise before full payment of the price is made.

The ITA states that a purchaser may revoke an installment purchase contract by providing written notice to the merchant expressing his or her intention to revoke the contract within seven days from the later of the day on which he or she has received the contract documents and the date of receipt of the purchased merchandise. If a credit provider is involved, the purchaser may also send a written notice to the credit provider expressing his or her intention to revoke the installment purchase contract within seven days from the later of the day on which he or she has received the purchased merchandise or the installment purchase contract. The revocation of the installment purchase contract is deemed to be as of the date the purchaser sends the notice in writing to the merchant or credit provider.

If the purchaser revokes an installment purchase contract, the merchant, upon return of the related merchandise, is required to return to the purchaser all installment payments that have been made by the purchaser. The purchaser may not, however, revoke an installment purchase contract if (a) the merchandise is lost or damaged due to a reason attributable to the consumer, except in the cases where the package, etc. is damaged in order to check the contents of the merchandise, (b) the purchaser has used or consumed the merchandise determined by the presidential decree to the ITA, the value of which is likely to be reduced considerably due to such use or consumption, (c) the value of the merchandise is remarkably reduced to the extent that it cannot be resold due to the lapse of time, (d) the package of the merchandise that can be reproduced is damaged or (e) other cases determined by the presidential decree to the ITA for security in transactions occur; provided that if the merchant approves the withdrawal of an offer or does not take measures such as clearly indicating such fact on the package of the merchandise or on other place readily recognizable to the purchaser or providing samples, so that the purchaser is not to be hindered in the withdrawal of an offer, the purchaser may withdraw the offer even in cases falling under (b) through (d) above.

The purchaser may only repudiate a claim of the credit provider for payment under an installment purchase contract if (a) the purchaser has provided a written notice revoking the contract in accordance with the procedure detailed above, (b) the credit provider (if one is involved in the transaction) has already made a payment to the merchant within a 7-day period during which the purchaser may revoke the installment purchase contract or (c) the credit provider has been asked to suspend or cancel the request for the installment payments from the merchant.

The Door-To-Door Sales Act

General

The Door-to-Door Sales Act (the “Door-to-Door Act”) sets out consumers’ rights to revoke a contract where a consumer purchases goods or services through a door-to-door sale, telemarketing sale or multilevel sale.

Door-to-Door and Telemarketing Sales

Any consumer may revoke a sale and purchase agreement entered into by way of door-to-door or telemarketing sales (as defined under the Door-to-Door Act) within the following periods:

- (a) 14 days from the date of receipt of a written contract; provided that if the date on which the relevant purchased merchandise is received is later than the date of receipt of the written contract, then within 14 days from the receipt of the purchased merchandise;
- (b) 14 days after the consumer becomes aware of (or should have become aware of) the seller’s address if the consumer is unable to revoke the sale and purchase agreement for reasons such as the failure by the door-to-door or telemarketing seller to provide the consumer with a written contract, or in cases where the written contract does not specify the seller’s address as required by the Door-to-Door Act or where there is a change in the address of the seller;
- (c) 14 days from the date on which the consumer became aware (or should have become aware), that the consumer had a right to withdraw subscription or cancel the contract, if the contract does not provide for matters regarding withdrawal of subscription, etc.; or
- (d) 14 days from the date on which hindrance ends, where the door-to-door sales or telemarketing business entity hinders withdrawal of subscription, etc.

The consumer may not revoke the sale and purchase agreement in certain cases specified under the Door-to-Door Act, such as the merchandise being destroyed or damaged due to the consumer’s own fault. The door-to-door or telemarketing seller is required to return all payments that have already been made to the consumer within three business days following the day on which the consumer returns the merchandise.

If the consumer has made payments by a credit card, the door-to-door or telemarketing seller is required to immediately request the credit card company to suspend or revoke the demand for payment for the merchandise. The seller is also required to return the money it has already received to the credit card company.

In the case of a revocation by written notice, such revocation takes effect on the day the consumer sends the written notice.

Multilevel Sales

Under the Door-to-Door Act, the term “multilevel sales” means sale of goods or services through a sales force that meets all of the following criteria:

- (a) a salesperson solicits other persons to participate in the salesforce as his or her downline salespersons;
- (b) such downstream recruitment as described in clause (a) is continued for not less than three levels; and
- (c) certain incentives are provided to each salesperson based on the (i) sales performances or (ii) management of salesforce and training performances of the other salespersons whose performances are linked to the incentives payable to the concerned salesperson.

Any consumer may revoke a sale and purchase agreement entered into by way of multilevel sales in the same manner as a sale and purchase agreement entered into by way of door-to-door or telemarketing sales.

The multilevel seller is required to return all payments that have already been made to the consumer within three business days following the day on which the consumer returns the merchandise, provided that the multilevel distributor may deduct certain expenses within the limits determined by the presidential decree to the Door-to-Door Act.

If the consumer has made payments by credit card, the multilevel seller is required to immediately request the credit card company to suspend or revoke the demand for payment for the merchandise. The multilevel seller is also required to return any money that has already been received to the credit card company.

In the case of a revocation by written notice, such revocation takes effect on the day when the consumer sends the written notice.

Door-to-Door Sales under Sponsorship

Under the Door-to-Door Act, the term “Door-to-Door Sales under Sponsorship” means cases that meet the criteria for door-to-door sales and multilevel sales with a scheme for payment of bonus, under which a certain salesperson’s performance of purchase or sales affects only the bonus of one salesperson who is the immediate superior of the former, as prescribed by presidential decree to the Door-to-Door Act.

Any consumer may revoke a sale and purchase agreement entered into by way of Door-to-Door Sales under Sponsorship in the same manner as a sale and purchase agreement entered into by way of multilevel sales.

Korean Foreign Exchange Controls and Securities Regulations

General

In the past, the Foreign Exchange Management Act (Law No. 4447, 27 December 1991), as amended, and the Presidential Decree and regulations thereunder (collectively the “Foreign Exchange Management Laws”) regulated investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. With effect from 1 April 1999, the Foreign Exchange Management Laws were abolished and the Foreign Exchange Transaction Law (Law No. 5550, 16 September 1998), as amended, and the Presidential Decree and regulations thereunder (collectively, the “FETL”) were enacted. Under the FETL, many restrictions on foreign exchange transactions have been reduced and many currency and capital transactions have been liberalized. Although nonresidents may invest in Korean securities only to the extent specifically allowed by such laws or otherwise permitted by the Ministry of Economy and Finance (the “MOEF”), many approval requirements have been relaxed. The FSC has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners (as defined therein) in Korean securities. However, Korean law does not limit the right of non-residents to hold securities issued pursuant to the FETL outside Korea.

With effect from 1 January 2006, the FETL was amended to further liberalize foreign exchange transactions. In accordance therewith, certain transactions that previously required approval from the Bank of Korea or MOEF now require only a report to the Bank of Korea or MOEF, although such report will have to be accepted by the Bank of Korea or MOEF, as applicable.

Under the FETL, if the Government deems that (a) it is necessary in the event of natural disasters or the outbreak of any wars or conflict of arms or the occurrence of grave and sudden changes in domestic/foreign economic circumstances or other situations equivalent thereto, the MOEF may temporarily suspend payments, or the receipt of payments, on the whole or part of transactions to which the FETL applies or imposes an obligation on the transaction parties to safekeep or deposit with or sell to, certain governmental agencies, the Bank of Korea, the Foreign Exchange Equalization Fund or financial institutions, the means of payment of the transaction (including

any gold, nonnegotiable gold coins or other gold products), or (b) the international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and foreign jurisdictions causes or is likely to cause a serious obstruction to the conduct of currency policies, exchange rate policies and other macroeconomic policies, the MOEF may take action to require any person who intends to perform capital transactions (which include, among other things, the generation, alteration or extinction of claims from contracts of deposit, trust, the lending of money, the acquisition of securities, etc.) to obtain permission or to require any person who performs capital transactions to deposit part of the payment acquired in such transactions with the Bank of Korea, the Foreign Exchange Equalization Fund or financial institutions, in each case subject to certain limitations thereunder.

Government Review of the Issuance of the Class A2 Bond and Authorization for Payments on the Class A2 Bond

In order for the Bond Issuer to issue the Class A2 Bond to a non-resident, the Bond Issuer is required to file a prior report of the issuance to the MOEF through the Designated FX Bank. There are certain other regulatory reports that are required under the FETL in connection with the execution, delivery and performance of the Transaction Documents by the parties thereto.

Under the FSC's Regulations on Securities Issuance and Disclosure, the transfer of the Class A2 Bond to a Korean Resident (as defined in the FETL) is prohibited during the first year of its issuance except as otherwise permitted by applicable Korean law and regulations.

TERMS AND CONDITIONS OF THE NOTES

The following is a summary of the terms and conditions of the Notes to be issued by the Issuer under the Fiscal Agency Agreement (as defined below). The following statements do not purport to be a complete description of the Notes and the Fiscal Agency Agreement and are qualified in their entirety by reference to the provisions of the Notes and the Fiscal Agency Agreement.

1. General

- (a) This Note is one of a duly authorized issue of Notes of the Issuer in the initial aggregate principal amount of US\$100,000,000 Floating Rate Notes due October 16, 2025 (the “Notes”) issued or to be issued pursuant to a Fiscal Agency Agreement, to be dated on or about October 16, 2020 (as amended from time to time, the “Fiscal Agency Agreement”), among the Issuer, The Bank of New York Mellon, London Branch, as fiscal agent (such bank and its successors as such fiscal agent being hereinafter called the “Fiscal Agent”) and calculation agent (such bank and its successors as such calculation agent being hereinafter called the “Calculation Agent”) and The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar (such bank and its successors as such registrar being hereinafter called the “Registrar”) and transfer agent (such bank and its successors as such transfer agent being hereinafter called the “Transfer Agent”, and the Fiscal Agent, Calculation Agent, Registrar and Transfer Agent, collectively referred to as the “Agents”), the terms of which are hereby incorporated by reference. Capitalized terms used but not defined herein are used as defined in the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and available for inspection upon prior written request and satisfactory proof of holdings of the Holders of Notes at the corporate trust office of the Fiscal Agent between 9:00 a.m. to 3:00 p.m. (the “Corporate Trust Office”), and reference thereto is made for a description of the rights and limitations of rights thereunder of the Holders of the Notes and the duties and immunities of the Fiscal Agent. In acting under the Fiscal Agency Agreement, the agents appointed by the Issuer thereunder are acting solely as agents for the Issuer and do not assume any obligation or relationship of agency or trust for or with the Holder of this Note. The Holders of Notes will be entitled to the benefits of, and be bound by and deemed to have notice of, all of the provisions of the Fiscal Agency Agreement. As used herein, the term “Holder” means the person in whose name a Note is registered in the Note Register (as defined in Condition 7(h) below).
- (b) The Notes are issuable only as Notes in fully registered form without coupons in denominations of US\$200,000 and any integral multiple of US\$1,000 in excess thereof.
- (c) The Issuer covenants that until the earlier to occur of the date on which all of the Notes shall have been delivered to the Fiscal Agent for cancellation and the date on which all of the Notes have become due and payable and monies sufficient to pay the principal of and interest on all of the Notes shall have been made available for payment and either paid on the date that the payment is due or returned to the Issuer as provided herein, the Issuer will at all times maintain a Fiscal Agent (which in each case shall be a bank or trust company in good standing, legally qualified to act as Fiscal Agent). Subject to the foregoing, the Issuer reserves the right at any time to vary or terminate the appointment of any of the Fiscal Agent and such additional agents as the Issuer may determine.
- (d) The Notes are direct, unconditional, unsubordinated and unsecured (subject to Condition 9) obligations of the Issuer and shall at all times rank *pari passu*, without any preference among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured and unsubordinated general obligations of the Issuer, from time to time outstanding.

2. Payments

- (a) Payments of principal of and interest on this Note will be made in the legal currency of the United States of America.
- (b) Payment of the principal of this Note shall be made, upon presentation and surrender hereof, by transfer to the registered bank account of the Holder, subject to any laws or regulations applicable thereto and to the right of the Issuer to terminate the appointment of any such paying agency, at such other paying agencies as the Issuer may designate.

- (c) Payments of interest on this Note shall be made by transfer to the registered bank account of the Holder. The interest so payable on any Interest Payment Date will be paid to the person in whose name this Note is registered at the close of business on the fifteenth day preceding such Interest Payment Date (each, a “Record Date”), whether or not a Business Day (as defined below), notwithstanding the cancellation, transfer or exchange of this Note subsequent to the Record Date and on or prior to such Interest Payment Date, and no interest otherwise so payable on any Interest Payment Date shall be paid on this Note if the name of its Holder was entered as such on the Note Register after the close of business on the Record Date next preceding such Interest Payment Date, except if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, in which case such defaulted interest shall (unless paid together with principal of this Note in full other than on an Interest Payment Date) be paid to the person in whose name this Note is registered at the close of business on a subsequent record date (which shall be not less than five Business Days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the Holders of Notes not less than 15 days preceding such subsequent record date. If interest is paid together with principal in full on a date that is not an Interest Payment Date, such interest shall be paid upon presentation and surrender of this Note to the Fiscal Agent or to a paying agent.
- (d) Interest will be payable quarterly in arrears on January 16, April 16, July 16 and October 16 of each year, commencing on January 16, 2021, up to and including the Maturity Date (each such date, an “Interest Payment Date”). The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date is herein called an “Interest Period”.
- (e) In any case where the date for the payment of any principal of or interest on any Note is not a day on which banking institutions are open for business in New York, London, Seoul and Taipei (a “Business Day”), then payment of such principal or interest need not be made on such date but may be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date for such payment of principal or interest, unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and no interest shall accrue for the period after such date.
- (f) Any monies paid by the Issuer to the Fiscal Agent for the payment of the principal of or interest on any Notes and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable and shall have been paid to the Fiscal Agent by the Issuer shall then be repaid to the Issuer, and upon such repayment, all liability of the Fiscal Agent with respect to such monies shall thereupon cease and the Holder of any Note representing a claim therefor shall thereafter look only to the Issuer for payment thereof.
- (g) For so long as any of the Notes are represented by the Global Note, each payment on the Notes will be made to, or to the order of, the person whose name is entered into on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means a day on which the relevant clearing system is operating and open for business.

3. Calculation of Interest

- (a) The Notes shall bear interest from October 16, 2020 (the “Issue Date”), and interest on each Note will cease to accrue as from the due date for redemption thereof unless, upon due presentation of such Note, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue on such Note (as well after as before any judgment) up to but excluding the date on which payment in full of the principal thereof is made or (if earlier) the date on which, the funds for the payment in full of the principal thereof having been received by the Fiscal Agent.
- (b) For the purpose of, inter alia, calculating the rate of interest payable in respect of the Notes, the Issuer has appointed The Bank of New York Mellon, London Branch as Calculation Agent. The rate of interest payable from time to time in respect of the Notes (the “Rate of Interest”) shall be 1.00% per annum (the “Margin”) above the three-month U.S. dollar LIBOR on each Interest Determination Date (as defined

below). The three-month U.S. dollar LIBOR in respect of the Notes will be determined by the Calculation Agent on the following basis:

- a. The Calculation Agent will determine the three-month U.S. dollar LIBOR, which is the initial benchmark rate, which appears on the display page designated LIBOR01 on the Reuters service (or any successor or such other page or service as may replace it for the purpose of displaying comparable rates to London interbank offered rates of major banks for U.S. dollar deposits) (“Reuters Page LIBOR01”) as of 11:00 a.m., London time, on the second London Banking Day before the first day of the relevant Interest Period (the “Interest Determination Date”). The term “London Banking Day” means a day on which commercial banks are open for business, including dealings in foreign exchange and foreign currency deposits, in London.
- b. If such rate does not appear on that page:
 - i. The Issuer will request the principal London office of each of four major banks in the London interbank market, selected by the Issuer or its designee and notified to the Calculation Agent, to provide a quotation to the Calculation Agent of the rate at which deposits in U.S. dollars are offered by it at approximately 11:00 a.m., London time, on the Interest Determination Date to prime banks in the London interbank market for a period equal or comparable to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time; and
 - ii. The Calculation Agent will determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations if at least two such quotations are provided.
- c. If fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary as aforesaid) of the rates quoted (at the request of the Issuer) by at least two major banks in New York, selected by the Issuer or its designee and notified to the Calculation Agent, at approximately 11:00 a.m., New York City time, on the first day of the relevant Interest Period for loans in U.S. dollars to leading European banks for a period equal or comparable to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time.
- (c) If the Calculation Agent is unable to determine by one of the methodologies described above a rate or an arithmetic mean, as the case may be, in accordance with the above provisions in relation to any Interest Period (other than the initial Interest Period), the benchmark rate applicable to the Notes during such Interest Period will be the same rate as the rate or the arithmetic mean, as the case may be, applicable in relation to the Notes in respect of the immediately preceding Interest Period.
- (d) The amount of interest payable on a particular Interest Payment Date (the “Interest Amount”) shall be calculated by the Calculation Agent applying the Rate of Interest to the principal amount of the Note, multiplying such sum by the number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards). The interest rate on the Notes will in no event be lower than zero.
- (e) The Calculation Agent may make an appropriate adjustment to the Interest Payment Date and the Interest Amount in the event that the relevant Interest Period ends on a date other than that used in the calculation of the Rate of Interest and the Interest Amount.
- (f) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions summarized under this Condition 3 by the Calculation Agent shall (in the absence of manifest error, negligence or willful misconduct) be binding on the Issuer, the Fiscal Agent, the Paying Agents and all Holders and (subject as aforesaid) no liability to the Holders or any of them shall attach to the Calculation Agent in connection with the exercise or non-exercise by any of them of their powers, duties and discretions.

- (g) The Issuer will ensure that so long as any of the Notes remains outstanding there shall at all times be an Calculation Agent for the purposes of the Notes. In the event of any such bank being unable to continue to act as the Calculation Agent or it fails duly to determine the Rate of Interest and the Interest Amount for any Interest Period, the Issuer shall forthwith appoint another leading bank engaged in the London inter-bank market to act as successor Calculation Agent in its place and may terminate the appointment of the former Calculation Agent. The Calculation Agent may not resign its duties nor may it be removed from office without a successor having been appointed as aforesaid.
- (h) If the Issuer or its designee determines that a Benchmark Event has occurred with respect to three-month U.S. dollar LIBOR, but for any reason the Alternative Benchmark Rate has not been determined as of the relevant Interest Determination Date, the Rate of Interest for the applicable Interest Period will be equal to the Rate of Interest on the last Interest Determination Date for the Notes, as determined by the Issuer or its Designee.

4. Alternative Benchmark Rate

- (a) *Alternative Benchmark Rate.* Notwithstanding the provisions of Condition 12, if any of the following events occur as determined by the Issuer or its designee (each, a “Benchmark Event”) and is notified in writing to the Agents, the Agents, at the direction of the Issuer, shall concur with the Issuer or its designee in making any modification to these Conditions that the Issuer or its designee considers necessary or advisable for the purpose of changing the benchmark rate from LIBOR in respect of the Notes to an alternative benchmark rate (any such rate, including any spread adjustment, an “Alternative Benchmark Rate”) and making such other amendments to these Conditions as are necessary or advisable in the reasonable judgment of the Issuer or its designee to facilitate the changes envisaged pursuant to this Condition 4 (including the addition of any spread adjustment):
 - (i) there is a material disruption to LIBOR, a material change in the methodology of calculating LIBOR or LIBOR ceases to exist or be published, or the administrator of LIBOR has used a fallback methodology for calculating LIBOR for a period of at least 30 calendar days;
 - (ii) there is a change in the generally accepted market practice in the floating rate notes market to refer to a benchmark rate endorsed in a public statement by the Bank of England, the Financial Conduct Authority of the United Kingdom or the Prudential Regulation Authority of the United Kingdom or any relevant committee or other body established, sponsored or approved by any of the foregoing despite the continued existence of LIBOR; or
 - (iii) it is the reasonable expectation of the Issuer or its designee that any of the events specified above will occur or exist within six months.

The Alternative Benchmark Rate to be selected by the Issuer shall be, unless otherwise determined by the Issuer, the benchmark rate stipulated by ISDA to be the replacement to “USD-LIBOR-BBA” or, if no such benchmark rate has been stipulated, any benchmark rate with an equivalent term to three-month LIBOR as published, endorsed, approved or recognized as a replacement to LIBOR by the Bank of England, the Financial Conduct Authority of the United Kingdom or the Prudential Regulation Authority of the United Kingdom or any relevant committee or other body established, sponsored or approved by any of the foregoing or a benchmark rate with an equivalent term utilized in a material number of publicly-listed new issues of floating rate notes denominated in U.S. dollars in the preceding six months.

- (b) *Agent Obligations.* The Agents shall not be obliged to agree to any modification which, in the sole opinion of each Agent would have the effect of (i) exposing such Agent to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of such Agent pursuant to the Conditions.
- (c) *Notification to Holders.* Any Alternative Benchmark Rate shall be binding on all Holders and shall be notified by the Issuer as soon as reasonably practicable to the Holders in accordance with the Fiscal Agency Agreement.

- (d) *Calculation of Alternative Benchmark Rate.* The Agents shall concur with the Issuer or its designee in making such modifications to these Conditions (including, without limitation, to Condition 3) as are determined by the Issuer or its designee to be required to enable the Calculation Agent to determine the Alternative Benchmark Rate for each Interest Period.

5. Optional Redemption Due to Changes in Tax Treatment

The Notes may be redeemed at the option of the Issuer, in whole, but not in part, upon not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), at any time at a redemption price equal to 100% of the principal amount thereof plus accrued interest to (but excluding) the date fixed for redemption if, as a result of (a) any change in or amendment to the tax laws or treaties of the Republic (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or (b) any change in official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issuer Date, the Issuer is or would be obligated on the next due date for a payment with respect to the Notes to pay Additional Amounts (as described in Condition 6 below) with respect to the Notes, and such obligation cannot be avoided by the use of reasonable measures available to the Issuer; provided, however, that (i) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts, and (ii) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Before giving any notice of such redemption, the Issuer shall deliver to the Fiscal Agent (i) a certificate of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred, together with an opinion of counsel to the effect that such a change in, or amendment to, the laws or treaties of the Republic (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or any change in official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings, has occurred and (ii) an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obligated to pay such Additional Amounts as a result of such change or amendment; provided that, the Fiscal Agent shall be entitled (but shall not be obliged) to accept and rely upon such certificate and opinion as sufficient evidence (without further investigation or query and without liability to the Holders or any other person) of the satisfaction of the conditions precedent set out in Condition 5, in which event they shall be conclusive and binding on the Holders.

6. Purchase of Notes; Further Issues

The Issuer may at any time purchase Notes by tender (available to all Holders alike) or in the open market at any price. Notes purchased or otherwise acquired by the Issuer may be held, resold or, at its discretion, surrendered to the Registrar for cancellation. If the Issuer shall acquire any Notes, such acquisition shall not operate as or be deemed for any purpose to be a satisfaction of the indebtedness represented by such Notes unless and until such Notes are delivered to the Registrar for cancellation and are cancelled and retired by the Registrar in accordance with the Conditions.

To the extent permitted by applicable laws and regulations of the ROC and subject to the receipt of all necessary regulatory and listing approvals from the relevant authorities, including but not limited to the TPEX and the Taiwan Securities Association, the Issuer may from time to time, without the consent of the existing Holders, create and issue additional notes under the Fiscal Agency Agreement having the same terms and conditions in all respects except for issue date and issue price. Additional notes issued will be consolidated with and form a single series with the outstanding Notes, provided that such additional notes constitute a qualified reopening for United States federal income tax purposes.

7. Additional Amounts

All payments of principal of, and interest on, the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic or by or within any political subdivision thereof or any authority therein having power to tax ("Korean Tax"), unless deduction or withholding of such Korean Tax is required by law. In the event that the deduction or withholding of Korean Tax is required by law, the Issuer will pay such additional amounts ("Additional Amounts") as will result in the payment to the Holders

of the Notes of the amounts which would otherwise have been receivable in respect of principal and interest in the absence of such deduction or withholding, except that no such Additional Amount shall be payable in respect of any Note:

- (a) to or on behalf of a Holder or beneficial owner who is subject to such Korean Tax in respect of such Note by reason of such Holder or beneficial owner being or having been connected with the Republic (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or
- (b) to or on behalf of a Holder or beneficial owner who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested in writing by the Issuer to make such a declaration or claim, such Holder or beneficial owner fails to do so within 30 days; or
- (c) to or on behalf of a Holder or beneficial owner who presents a Note (where presentation is required) more than 30 days after the relevant date except to the extent that the Holder or beneficial owner thereof would have been entitled to such Additional Amounts on presenting a Note for payment on any date of such 30-day period; for this purpose the "relevant date" in relation to any payments of interest on, or principal of, any Note means: (i) the due date for payment thereof; or (ii) if the full amount of the monies payable on such date has not been received by the Fiscal Agent on or prior to such due date, the date on which the full amount of such monies has been so received and notice to that effect is duly given to the Holder in accordance with the Fiscal Agency Agreement; or
- (d) if withholding or deduction is imposed on a payment to or for the benefit of an individual and such payment is required to be made pursuant to Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusion of the ECOFIN council meeting on November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) to or on behalf of a Holder or beneficial owner who would have been able to avoid the withholding or deduction by the presentation (where presentation is required) of the relevant Note to, or otherwise accepting payment from, another paying agent in a Member State of the European Union; or
- (f) any combination of (a), (b), (c), (d) or (e) above.

The obligation of the Issuer to pay such Additional Amounts in respect of taxes, duties, assessments and governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments on the Notes; provided that, except as otherwise set forth in the Notes and in the Fiscal Agency Agreement, the Issuer shall pay all stamp and other taxes and duties, if any, which may be imposed by the Republic, the United States, or any respective political subdivision thereof or any taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or as a consequence of the initial issuance of the Notes.

Furthermore, no Additional Amounts shall be payable with respect to any payment of the principal of, or any interest on, any Note to any Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner would not have been entitled to such Additional Amounts had it been the Holder of such Note.

All references to principal or interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Notes.

None of the Fiscal Agent, the Calculation Agent, the Registrar and the Transfer Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Holder or any third party to pay such tax, duty, charges, withholding or other payment in

any jurisdiction or to provide any notice or information to the Fiscal Agent, the Calculation Agent, the Registrar or the Transfer Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. Negative Pledge

(a) So long as any Note remains outstanding, the Issuer shall not create or permit to be outstanding any mortgage, charge, pledge or other security interest (“Security”) upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below):

- (i) payment of any sum due in respect of any such International Investment Securities;
- (ii) any payment under any guarantee of any such International Investment Securities; or
- (iii) any payment under any indemnity or other like obligations in respect of any such International Investment Securities.

without, in any such case and at the same time, according to the Notes either the same Security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligations or such other Security not materially less beneficial to the Holders as shall be approved for the purpose by not less than 75% in aggregate principal amount of Notes then outstanding.

The foregoing shall not operate to restrict or prohibit the creation or existence of any Security consisting of a security interest solely in Receivables (as defined below) securing payment of interest or principal of any International Investment Securities issued by a wholly-owned Subsidiary (or another Person in which the Issuer makes an investment and to which the Issuer transfers Receivables and related assets) which engages in no activities other than in connection with the financing of such Receivables.

(b) In these Conditions:

“International Investment Securities” means notes, bonds, debentures, certificates of deposit or investment securities of any person which:

(i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Issuer;

(ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea; and

(iii) are not (A) securities issued in accordance with a securitization plan pursuant to the Asset-Backed Securitization Act of Korea (or other similar laws of Korea); or (B) securities or instruments serviced primarily by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period and which are commonly regarded as asset-backed securities.

“Person” means any individual, corporation, company, firm, tribunal, undertaking, association, organization, partnership, joint venture, trust, limited liability company, unincorporated organization or government or any agency, instrumentality or political subdivision thereof; in each case whether or not being a separate legal entity.

“Receivable” means a right to receive payment of any amounts owed by a Person to the Issuer for (i) a purchase of goods or services using a credit card pursuant to a credit card membership agreement between such Person and the Issuer or (ii) an extension of a loan by the Issuer to a Person for the purchase of

automobile(s) or otherwise, including any amounts of card loans, cash advance services, annual membership fees, finance charges and other fees and charges owed by such Person to the Issuer.

9. Transfer, Exchange and Replacement

- (a) The transfer of this Note is registrable (upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and subject to the requirements of the Issuer, the Fiscal Agent and the Registrar) on the Note Register upon surrender of this Note for registration at the specified office of the Registrar at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Luxembourg (or such other subsequent office which the Registrar may maintain, the “Registrar’s Office”), duly endorsed by, or accompanied by a written instrument of transfer in a form approved by the Issuer and the Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing.
- (b) No service charge shall be made for any exchange or registration of transfer provided for in Conditions 7(a) and 7(b) hereof, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.
- (c) No registrations of transfers or exchanges of Notes shall be made after notice of redemption of the Notes has been given.
- (d) All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. Any new Note delivered pursuant to this Condition 7 shall be so dated that neither gain nor loss of interest shall result from such transfer or exchange.
- (e) If any Note shall at any time become mutilated or destroyed or stolen or lost, then, provided that such Note, or evidence of the destruction, theft or loss thereof (together with the indemnity hereinafter referred to and such other documents or proof as may be required in the premises) shall be delivered during business hours to the Registrar’s Office, a replacement Note of like tenor and principal amount will be issued by the Issuer and, at its request, authenticated by the Registrar, in exchange for the Note so mutilated, or in lieu of the Note so destroyed or stolen or lost; provided, further, that, in the case of destroyed, stolen or lost Notes, (i) neither the Issuer nor the Fiscal Agent nor the Registrar shall have notice that such Notes have been acquired by a bona fide purchaser, and (ii) the Issuer and the Registrar shall have received evidence satisfactory to them that such Notes were destroyed, stolen or lost, and the Issuer and the Registrar shall have received an indemnity satisfactory to each of them. All expenses and properly incurred charges associated with procuring such indemnity, and the cost of the preparation and issue of a replacement for any Note mutilated, destroyed, stolen or lost, shall be paid by the Holder of such Note. In case such mutilated, destroyed, stolen or lost Note has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Note, pay or cause to be paid such Note. Every new Note issued pursuant to this paragraph (f) in exchange for or in lieu of any mutilated, destroyed, stolen or lost Note, shall constitute an additional original contractual obligation of the Issuer, whether or not the mutilated, destroyed, stolen or lost Note shall be at any time enforceable by anyone. Any new Note delivered pursuant to this paragraph (f) shall be so dated that neither gain nor loss of interest shall result from such replacement. To the extent permitted by law, the provisions of this paragraph (f) are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, stolen or lost Notes.
- (f) The Issuer, the Fiscal Agent and the Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (notwithstanding any notice of ownership or other writing hereon) for the purposes of receiving payment hereon or on account hereof and for all other purposes, whether or not this Note shall be overdue.
- (g) The Issuer has appointed the Registrar as its agent for transfers, and for exchanges and replacements, of Notes and has agreed to cause to be kept at the Registrar’s Office a register (the “Note Register”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for such registration and registration of transfers.

- (h) All Notes issued as a result of any transfer, exchange or replacement of Notes shall be delivered to the Holder by the Registrar (at the risk of the Holder) by mail to such address as is specified by the Holder in the request for transfer, exchange or replacement.

10. Merger and Consolidation

Nothing contained in the Fiscal Agency Agreement or in the Notes shall prevent any consolidation of the Issuer with, or merger of the Issuer into, any other corporation or corporations (whether or not affiliated with the Issuer), or successive consolidations or mergers to which the Issuer or its successor or successors shall be a party or parties, or shall prevent any sale, transfer, lease or conveyance of the property of the Issuer as an entirety or substantially as an entirety; provided that (a) in case the Issuer shall consolidate with or merge into another corporation, or sell, transfer, lease or convey its property as an entirety or substantially as an entirety to any corporation, the corporation formed by such consolidation or into which the Issuer is merged or the corporation which acquires by sale, transfer, lease or conveyance the property of the Issuer as an entirety or substantially as an entirety shall be a corporation organized under the laws of the Republic and shall expressly assume, by an agreement supplemental to the Fiscal Agency Agreement executed and delivered to, and in form reasonably satisfactory to, the Agents, the due and punctual payment of the principal of and interest (including all Additional Amounts, if any, payable pursuant to Condition 6) on the Notes, and the due and punctual performance and observance of all of the covenants and conditions to the Fiscal Agency Agreement and the Notes on the part of the Issuer to be performed or observed; (b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Issuer as a result of such transaction as having been incurred by the Issuer at the time of such transaction, no Event of Default (as defined below), and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; (c) if, as a result of any such consolidation or merger or such sale, transfer, lease or conveyance, properties or assets of the Issuer or a Restricted Subsidiary would become subject to a Security Interest which would not be permitted by the Notes, the Issuer or such successor corporation, as the case may be, shall take such steps as shall be necessary effectively to secure the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Restricted Subsidiary then existing or thereafter created which is not subordinate to the Notes) equally and ratably with (or prior to) all indebtedness secured thereby; and (d) the Issuer has delivered to the Fiscal Agent a certificate signed by an authorized officer of the Issuer and an opinion of counsel as to matters of law stating that such consolidation, merger, sale, transfer, lease or conveyance and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with the Fiscal Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with.

11. Events of Default

The term “Event of Default” means any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) which shall have occurred and be continuing:

- (a) default in the payment of any installment of interest upon any of the Notes when it becomes due, and continuance of such default for a period of 30 days; or
- (b) default in the payment of all or any part of the principal of (or premium, if any, on) any of the Notes as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise; or
- (c) failure on the part of the Issuer duly to observe or perform any other of the covenants or agreements on the part of the Issuer contained in the Notes or the Fiscal Agency Agreement for a period of 60 days after the date on which written notice specifying such failure, stating that such notice is a “Notice of Default” hereunder and demanding that the Issuer remedy the same, shall have been given by registered or certified mail, return receipt requested, to the Issuer by the Holders of at least 10% in aggregate principal amount of the Notes at the time outstanding; or
- (d) any External Indebtedness of the Issuer in the aggregate outstanding principal amount of US\$15,000,000 or more either (i) becoming due and payable by reason of acceleration thereof following default by the Issuer or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any,

applicable thereto, or any guarantee given by the Issuer in respect of External Indebtedness of any other Person not being honored when, and remaining dishonored after becoming, due and called; provided that, in the case of (i) above, if any such default under any such External Indebtedness shall be cured or waived, then the default hereunder by reason thereof shall be deemed to have been cured and waived; or

- (e) a court or administrative or other governmental agency or body having jurisdiction in the premises shall enter a decree or order for relief in respect of the Issuer in an involuntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Issuer or for any substantial part of its property or ordering the winding up, dissolution or liquidation of its affairs, or shall otherwise adjudicate or find the Issuer to be bankrupt or insolvent and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or
- (f) the Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of its property, or cease to carry on the whole or substantially the whole of its business or make any general assignment for the benefit of creditors, or enter into any composition with its creditors, or take corporate action in furtherance of any such action;

then, and in each and every such case, unless the principal of all of the Notes shall have already become due and payable, the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding, by notice in writing to the Issuer and to the Fiscal Agent, may declare the aggregate principal amount of the Notes to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, unless prior to receipt of such notice by the Issuer, all such defaults shall have been cured.

The Holders of more than 50% in aggregate principal amount of the Notes at the time outstanding, by notice to the Issuer and the Fiscal Agent (and without notice to any other Holders) may rescind and annul an acceleration pursuant to this Condition 11 and its consequences if (i) the rescission or annulment would not conflict with any judgment or decree for the payment of monies due that has been obtained or entered as hereinafter provided, (ii) all existing Events of Default have been cured or waived except nonpayment of the sum of the unpaid principal amount of the Notes plus interest (if any) payable thereon to the date of payment that have become due solely as a result of such acceleration and (iii) all amounts due to the Fiscal Agent under the Fiscal Agency Agreement have been paid. No such rescission shall affect any subsequent Event of Default or impair any right consequent thereto.

The Fiscal Agent shall not be deemed to know or have notice of an Event of Default unless the Corporate Trust Office receives written notice of such Event of Default.

12. Meetings of Holders; Modifications and Amendments

- (a) The Issuer may at any time, and shall at any time after the Notes shall have become immediately due and payable due to a default upon a request in writing made by Holders holding not less than 10% of the aggregate outstanding principal amount of the Notes, convene a meeting of Holders of the Notes. Any such request in writing by the Holders shall be delivered to the Fiscal Agent, and the Fiscal Agent shall notify such request to the Issuer. Further provisions concerning meetings of the Holders are set forth in the Fiscal Agency Agreement.
- (b) Modifications and amendments to the Fiscal Agency Agreement or the Notes requiring consent of Holders may be made, and future compliance therewith or past defaults by the Issuer may be waived, with the consent of the Issuer and the Holders of more than 50% in aggregate principal amount of the Notes at the time outstanding, or of such lesser percentage as may act at a meeting of the Holders held in accordance with the provisions of the Fiscal Agency Agreement; provided that no such modification, amendment or waiver of the Fiscal Agency Agreement or any Note may, without the consent of each Holder affected thereby, (i) change the maturity of the principal of, or any date for the payment of interest or Additional Amounts payable on, any Note; (ii) reduce the principal amount of, or any interest or Additional Amounts

payable on, any Note; (iii) change the manner of calculation of interest or principal with respect to any Note; (iv) change the place of payment, or currency of denomination or payment, of the principal of or any interest or Additional Amounts payable on any Note; (v) change the Issuer's obligation to pay Additional Amounts; (vi) impair the right to institute suit for the enforcement of any payment on or with respect to any Note; or (vii) reduce the percentage of the principal amount of the outstanding Notes, the consent of the Holders of which is required for any such supplemental agreement. Any modifications, amendments or waivers consented to or approved at a meeting will be conclusive and binding on all Holders whether or not they have given such consent or were present at such meeting, and on all future Holders whether or not notation of such modifications, amendments or waivers is made upon the Notes. Any instrument given by or on behalf of any Holder of a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent Holders of such Note.

- (c) At a meeting of the Holders of the Notes called for any of the above purposes, persons entitled to vote more than 50% in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than ten days; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than ten days; at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25% in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. At a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid, any resolution to modify or amend, or to waive compliance with, any of the covenants or conditions referred to above (other than those set forth in Clauses (i) through (vii) of Condition 12(b) hereof) shall be effectively passed if passed by the lesser of (i) more than 50% in aggregate principal amount of Notes then outstanding or (ii) 75% in aggregate principal amount of the Notes represented and voting at the meeting.
- (d) The Fiscal Agency Agreement and the terms and conditions of the Notes may be modified, supplemented or amended, without the consent of the Holders, for one or more of the following purposes: (i) to evidence the succession of another corporation to the Issuer, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Issuer under the Conditions; (ii) to add to the covenants of the Issuer such further covenants, restrictions, conditions or provisions as the Issuer shall consider to be for the protection of the Holders of Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Note as herein set forth; provided, that in respect of any such additional covenant, restriction, condition or provision such supplemental agreement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the remedies available to the Fiscal Agent or the Holders upon such an Event of Default or may limit the right of the Holders of more than 50% in aggregate principal amount of the Notes to waive such an Event of Default; and (iii) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental agreement which may be defective or inconsistent with any other provision contained herein or in any supplemental agreement; or to make such other provisions in regard to matters or questions arising under this Note or the Fiscal Agency Agreement or under any supplemental agreement as the Issuer may deem necessary or desirable and which shall not adversely affect the interests of the Holders. In all other cases, amendment of the Fiscal Agency Agreement will require consent of the Holders pursuant to a resolution of the Holders of the Notes adopted pursuant to the Fiscal Agency Agreement and the Notes.

13. Notices to Holders

Except as otherwise expressly provided herein or the Fiscal Agency Agreement, whenever the Fiscal Agency Agreement or this Note provides for notice to Holders, such notice shall be sufficiently given if in writing and mailed at the expense of the Issuer, first-class postage prepaid, to each Holder entitled thereto, at his last address as it appears in the Note Register. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice

with respect to other Holders and any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given. Where the Fiscal Agency Agreement or this Note provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Fiscal Agent, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Holders when such notice is required to be given pursuant to any provision of the Fiscal Agency Agreement or this Note, then any manner of giving such notice (notified by, and at the expense of, the Issuer) to the Fiscal Agent shall be deemed to be a sufficient giving of such notice.

So long as the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear or Clearstream or any alternative clearing system, notices to Holders may be given by delivery of the relevant notice to Euroclear or Clearstream or such alternative clearing system, for communication by it to Holders in substitution for notification as required by this Condition.

14. Valid Obligations

The Issuer hereby certifies and declares that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of this Note, and to constitute the same the valid and legally binding obligation of the Issuer enforceable in accordance with its terms, have been done and performed and have happened in due and strict compliance with the applicable laws of the State of New York.

15. Governing Law

This Note shall be governed by, and construed in accordance with, the laws of the State of New York. To the fullest extent permitted by applicable law, the Issuer irrevocably submits to the jurisdiction of any federal or state court in the Borough of Manhattan, City of New York, State of New York, United States of America, in any suit or proceeding based on or arising under the Fiscal Agency Agreement or the Notes, and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in any such court. The Issuer irrevocably and fully waives any objection which it may now or hereafter have to the laying of the venue of any such suit or proceeding and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Issuer has appointed Law Debenture Corporate Services Inc., being the date hereof at 801 2nd Avenue, Suite 403, New York, New York 10017, United States of America as its agent for service of process.

FORM OF THE NOTES

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes.”

The Notes will initially be represented by a Global Note. The Global Note will be deposited with and registered in the name of The Bank of New York Mellon SA/NV, Luxembourg Branch as nominee of The Bank of New York Mellon, London Branch as common depositary for Euroclear and Clearstream (the “Common Depositary”), and Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by such Global Note. Such accounts will be designated initially by or on behalf of the representative of the Initial Purchasers. Ownership of beneficial interests in the Global Note will be limited to persons who have accounts with Euroclear or Clearstream or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Note will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons other than such account holders).

Each Global Note (and any Notes issued in exchange thereof) will be subject to certain restrictions on transfer set forth therein and described under “Transfer Restrictions.” Except in the limited circumstances described below under “— Certificated Notes”, owners of beneficial interests in the Global Note will not be entitled to receive physical delivery of certificates representing their Notes. The laws of certain jurisdictions require that certain purchasers of the Notes take physical delivery of such Notes in certificated form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Note may be limited by such laws.

Payments in respect of the Notes represented by the Global Note will be made to the Common Depositary or its nominee as the registered owner thereof. Neither of us, the Fiscal Agent, the Common Depositary or any paying agent for such Notes will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Note or for any notice permitted or required to be given to persons with beneficial interests in the Global Note or any consent given or actions taken by such persons. The Issuer expects that Euroclear and Clearstream, upon receipt of any payment in respect of any Notes represented by the Global Note held by the Common Depositary or its nominee, will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the principal amount of the Notes represented by the Global Note as shown on its records.

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note among participants and account holders of Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither of us, the Fiscal Agent, the Common Depositary or any paying agent will have any responsibility for the performance by Euroclear, Clearstream or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Notes for participating organizations and facilitates the clearance and settlement of Note transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Participants of Euroclear and Clearstream are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a participant of Euroclear or Clearstream, either directly or indirectly.

Certificated Notes

We will execute and deliver to the Registrar, and the Registrar will authenticate, individual physical certificates representing the Notes (the “Certificated Notes”) in exchange for the Global Note, if:

- (i) either Euroclear or Clearstream or any alternative clearing system on behalf of which the Notes evidenced by the Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) an event of default under the Notes or the Fiscal Agency Agreement has occurred and is continuing and the Notes have become immediately due and payable.

Upon receipt of the relevant notice from Euroclear or Clearstream, as the case may be, the Issuer will use the Issuer’s best efforts to make arrangements for the exchange of interests in the relevant Global Note for Certificated Notes and cause the requested Certificated Notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to holders or persons to whom such delivery is requested by holders. Persons exchanging interests in the Global Note for Certificated Notes will be required to provide to the Registrar, through the relevant clearing system, written instructions and other information required by the Issuer and the Registrar to complete, execute and deliver such Certificated Notes. Any Certificated Notes delivered in exchange for the Notes represented by the Global Note or beneficial interests therein will be registered in the names requested and issued in the principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Clearing Systems

Euroclear

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear System Bank S.A./N.V. (the “Euroclear Operator”), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the “Cooperative”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the representative of the initial purchasers. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator was granted a banking license by the Belgian Banking and Finance Commission in 2000, authorizing it to carry out banking activities on a global basis. It took over operation of Euroclear from the Brussels, Belgium office of Morgan Guaranty Trust Company of New York on December 31, 2000. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants. Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by Euroclear.

Clearstream

Clearstream was incorporated under the laws of The Grand Duchy of Luxembourg as a professional depository. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are financial institutions around the world, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the initial purchasers. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes will be represented by a Global Note which will be deposited with the Common Depository, as custodian for Euroclear and Clearstream. Euroclear and Clearstream will hold such Notes on behalf of their participants, which are financial institutions. As a result, investors' interests in Notes held in book-entry form through Euroclear and Clearstream will be held through accounts at financial institutions acting on their behalf as direct and indirect participants in Euroclear and Clearstream.

Investors will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Secondary market trading between Euroclear participants and/or Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

ROC Settlement and Trading

The Issuer has not entered into any settlement agreement with TDCC and has no intention to do so.

In the future, if the Issuer enters into a settlement agreement with TDCC, an investor, if it has a securities book-entry account with a Taiwan securities broker and a foreign currency deposit account with a Taiwanese bank, may settle the Notes through the account of TDCC with Euroclear or Clearstream if it applies to TDCC (by filing in a prescribed form) to transfer the Notes in its own account with Euroclear or Clearstream to such TDCC account with Euroclear or Clearstream for trading in the domestic market or vice versa for trading in overseas markets. For settlement through TDCC, TDCC will allocate the respective Notes position to the securities book-entry account designated by such investor in the ROC. The Notes will be traded and settled pursuant to the applicable rules and operating procedures of TDCC and the TPEX as domestic bonds. For such investors who hold their interest in the Notes through an account opened and held by TDCC with Euroclear or Clearstream, distributions of principal and/or interest for the Notes to such holders may be made by payment services banks whose systems are connected to TDCC to the foreign currency deposit accounts of the holders. Such payment is expected to be made on the second Taiwanese business day following TDCC's receipt of such payment (due to time difference, the payment is expected to be received by TDCC one Taiwanese business day after the distribution date). However, when the holders actually receive such distributions may vary depending upon the daily operations of the Taiwanese banks with which the holder has the foreign currency deposit account.

TAXATION

Korean Taxation

Republic of Korea

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. This summary is based on laws, regulations, rulings and decision in effect as of the date of this Offering Circular. These laws, regulations, rulings and/or decisions may change; any such change could apply retroactively and could affect the continued validity of this summary. In addition, this summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations (“Non-Residents”) depends on whether they have a “permanent establishment” (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest paid to Non-Residents (excluding payments to their permanent establishment in Korea) on the Notes, being foreign currency denominated bonds issued outside Korea, is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law of Korea (the “STTCL”).

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10% of the income tax or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer or us.

The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Notes are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. With respect to computing the above-mentioned 22% withholding taxes (including local income tax) on the realized gain, please note that there is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Notes issued by Korean companies. The purchaser or any other designated withholding agent of Notes is obliged

under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or the withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or had resided in Korea for at least 183 days and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies according to the identity of the persons involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned. And, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Holders should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Holders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by us. No securities transaction tax will be imposed upon the transfer of the Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Malaysia, Mexico, Mongolia, the Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Republic of Fiji, Romania, Singapore, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Tunisia, Turkey, the United Kingdom, the United States of America and Vietnam under which the rate of withholding tax on interest is reduced, generally to between 5 and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each Holder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Issuer a certificate as to his country of tax residence. In the absence of sufficient proof, the payer or we, as the case may be, must withhold taxes in accordance with the above discussion.

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. If Korean source income is paid to an overseas investment vehicle, the overseas investment vehicle must collect the application for tax exemption and the certificate of tax residency from the beneficial owners of the Korean source income, and submit a Report of Overseas Investment Vehicle and a Schedule of Beneficial Owners, together with the application

for tax exemption and the certificate of tax residency received from the beneficial owners of the Korean source income, with certain exceptions. The payer of such Korean source income, in turn, is required to submit such exemption application to the relevant district tax office in Korea by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax law such as the STTCL. Furthermore, in order to obtain a reduced rate of withholding tax on interest, a Non-Resident as a beneficial owner of the interest, must submit to the payer of the interest, prior to the payment date, the Application for Entitlement to Reduced Tax Rate. If interest is paid to an overseas investment vehicle, the overseas investment vehicle must collect the Application for Entitlement to Reduced Tax Rate from the beneficial owners and submit a Report of Overseas Investment Vehicle and a Schedule of Beneficial Owners, together with the Application for Entitlement to Reduced Tax Rate received from the beneficial owners, with certain exceptions.

Withholding and Gross Up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the payer or the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in “Terms and Conditions of the Notes — Additional Amounts”) the Issuer has agreed to pay (subject to the customary exceptions as set out in “Terms and Conditions of the Notes — Additional Amounts”) such Additional Amounts as may be necessary in order that the net amounts received by the Holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such Holder in the absence of such withholding or deduction.

ROC Taxation

The following summary of certain taxation provisions under ROC law is based on current law and practice and that the Notes will be issued, offered, sold and re-sold directly or indirectly, only to professional investors as defined under Paragraph 1 of Article 2-1 of the TPEX Rules of the ROC. It does not purport to be comprehensive and does not constitute legal or tax advice. Investors (particularly those subject to special tax rules, such as banks, dealers, insurance companies and tax-exempt entities) should consult with their own tax advisers regarding the tax consequences of an investment in the Notes. Investors should appreciate that, as a result of changing law or practice, the tax consequences may be otherwise than as stated below.

Interest on the Notes

As the Issuer of the Notes is not an ROC statutory tax withholder, there is no ROC withholding tax on the interest or deemed interest to be paid by the Issuer on the Notes.

Payments of any interest or deemed interest under the Notes to an ROC individual holder are not subject to ROC income tax as such payments received by him/her are not considered to be ROC sourced income. However, such holder must include the interest or deemed interest in calculating his/her basic income for the purpose of calculating his/her alternative minimum tax (“AMT”), unless the sum of the interest or deemed interest and other non-ROC sourced income received by such holder and the person(s) who is (are) required to jointly file the tax return in a calendar year is below 1 million New Taiwan Dollars (“NT\$”). If the amount of the AMT exceeds the annual income tax calculated pursuant to the ROC Income Basic Tax Act (also known as the AMT Act), the excess becomes such holder’s AMT payable.

ROC corporate holders must include any interest or deemed interest receivable under the Notes as part of their taxable income and pay income tax at a flat rate of 20%. (unless the total taxable income for a fiscal year is NT\$120,000 or under), as they are subject to income tax on their worldwide income on an accrual basis. The AMT is not applicable.

Sale of the Notes

In general, the sale of corporate bonds or financial bonds is subject to 0.1% securities transaction tax (“STT”) on the transaction price. However, Article 2-1 of the Securities Transaction Tax Act prescribes that STT will cease to

be levied on the sale of corporate bonds and financial bonds from 1 January 2010 to 31 December 2026. Therefore, the sale of the Notes will be exempt from STT if the sale is conducted on or before 31 December 2026. Starting from 1 January 2027, any sale of the Notes will be subject to STT at 0.1% of the transaction price, unless otherwise provided by the tax laws that may be in force at that time.

Capital gains generated from the sale of bonds are exempt from ROC income tax. Accordingly, ROC individual or corporate holders are not subject to ROC income tax on any capital gains generated from the sale of the Notes. In addition, ROC individual holders are not subject to AMT on any capital gains generated from the sale of the Notes. However, ROC corporate holders should include the capital gains in calculating their basic income for the purpose of calculating their AMT. If the amount of the AMT exceeds the annual income tax calculated pursuant to the ROC Income Basic Tax Act, the excess becomes the ROC corporate holders' AMT payable. Capital losses, if any, incurred by such holders could be carried over 5 years to offset against capital gains of same category of income for the purposes of calculating their AMT.

Non-ROC corporate holders with a fixed place of business (e.g., a branch) or a business agent in the ROC are not subject to ROC income tax on any capital gains generated from the sale of the Notes. However, their fixed place of business or business agent should include any such capital gains in calculating their basic income for the purpose of calculating AMT.

As to non-ROC corporate holders without a fixed place of business and a business agent in the ROC, they are not subject to ROC income tax or AMT on any capital gains generated from the sale of the Notes.

PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement dated September 29, 2020 (the “Purchase Agreement”), the Issuer has agreed to sell to BNP Paribas SA, Taipei Branch, Cathay United Bank Co., Ltd., Capital Securities Corporation, Taishin International Bank Co., Ltd. and SinoPac Securities Corporation, (the “Initial Purchasers”), the following principal amount of Notes.

| Initial Purchasers | Principal Amount of the Notes |
|---|--|
| BNP Paribas SA, Taipei Branch..... | US\$40,000,000 |
| Cathay United Bank Co., Ltd. | US\$30,000,000 |
| Capital Securities Corporation..... | US\$14,000,000 |
| Taishin International Bank Co., Ltd. | US\$11,000,000 |
| SinoPac Securities Corporation | <u>US\$5,000,000</u> |
| Total..... | <u>US\$100,000,000</u> |

The Purchase Agreement provides that the Initial Purchasers are obligated to purchase all of the Notes, if any are purchased. The Purchase Agreement also provides that if an Initial Purchaser defaults, the purchase commitments of non-defaulting Initial Purchasers may be increased or the offering may be terminated. Each of the Initial Purchasers proposes to offer the Notes initially at the offering price on the cover page of this Offering Circular. After the initial offering, the offering price may be changed.

We have agreed to indemnify each of the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer’s certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Commissions and Discounts

The purchase price for the Notes will be the offering price set forth on the cover page of this Offering Circular net of underwriting and management commissions. After the initial offering, the offering price or any other term of the offering may be changed.

New Issue of Notes

The Notes are a new issue of securities with no established trading market. The Initial Purchasers have advised that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Issuer’s operating performance and financial condition, general economic conditions and other factors.

Settlement

Delivery of the Notes is expected on or about October 16, 2020.

No Sales of Similar Securities

For a period of thirty (30) days after the date hereof, the Issuer will not, without the prior written consent of the Initial Purchasers, (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any debt securities (other than those denominated in Korean Won) issued or guaranteed by the Issuer and having a maturity of more than one year from the date of issue, (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Notes, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Notes or such other securities, in cash or otherwise or (iii) publicly disclose the intention to make any transaction described in clause (i) or (ii) above. The Issuer will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances where such offer, sale, pledge, contract or disposition would cause the exemption afforded by the safe harbor of Regulation S to cease to be applicable to the offer and sale of the Notes.

Short Positions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Issuer and the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer and the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any amendment or supplement to this Offering Circular, in any country or jurisdiction where action for any such purposes is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with applicable laws and regulations.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by an Initial Purchaser (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption.

The Initial Purchasers, through their respective affiliates, acting as selling agents where applicable, propose to offer the Notes to certain non-U.S. persons in offshore transactions in reliance on Regulation S. Each of the Initial

Purchasers has agreed that, except as permitted under the Purchase Agreement, it will not offer, sell or deliver the Notes within the United States or to U.S. persons.

Terms used in the immediately preceding two paragraphs have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under “Transfer Restrictions.”

European Economic Area and the United Kingdom

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA or in the UK. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

In addition, in the United Kingdom, the Offering Circular is being distributed only to, and is directed only at, persons who are “qualified investors” (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”), or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) persons to whom it would otherwise be lawful to distribute it, all such persons together being referred to as “Relevant Persons”. In the United Kingdom, the Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. The Offering Circular is and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by any recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a Relevant Person should not act or rely on the offering circular or its contents. The Notes are not being offered to the public in the United Kingdom.

Korea

Each Initial Purchaser has represented and agreed that the Notes have not been and will not be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and the regulations thereunder) except as otherwise permitted under applicable Korean laws and regulations.

In addition, each Initial Purchaser has confirmed that (i) during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a “qualified institutional buyer” (a “Korean QIB”, as defined in the Regulation on Issuance, Public Disclosure, Etc. of Securities of Korea) who is registered with KOFIA for Korean QIB bond trading and (ii) the Notes acquired by all Korean QIBs at the time of issuance must be less than 20% of the aggregate principal amount of the Notes. Furthermore, any such Korean QIB must file monthly reports to the KOFIA concerning Korean QIB bondholdings.

Each Initial Purchaser has undertaken to use commercially reasonable best measures as an Initial Purchaser in the ordinary course of its business so that any securities Initial Purchaser to which it sells the Notes confirms that it

is purchasing such Notes as principal and agrees with such Initial Purchaser that it will comply with the restrictions described above.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. Each Initial Purchaser has severally and not jointly represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any Notes in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Law of Japan and (ii) in compliance with the other relevant laws and regulations of Japan.

Hong Kong

Each Initial Purchaser has represented and agreed that:

Each Initial Purchaser has represented and agreed and each further Initial Purchaser appointed under the Program will be required to represent and agree that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.(a)

Taiwan

Each Initial Purchaser has represented and agreed that the Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly to investors other than "professional investors" as defined under Paragraph 1 of Article 2-1 of the TPEX Rules. Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to the aforementioned professional investor.

Singapore

Each Initial Purchaser has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Each Initial Purchaser represents, warrants and agrees that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of

Investors) Regulations 2018 of Singapore, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Other Relationships

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or the Issuer's affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. The Initial Purchasers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or the Issuer's other securities at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Notes). The Issuer has been advised by the Initial Purchasers that they may offer and sell Notes to or through any of their respective affiliates and any such affiliate may offer and sell Notes purchased by it to or through any Initial Purchaser.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and the Issuer's affiliates. Certain of the Initial Purchasers or their affiliates may have a lending relationship with the Issuer and may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Initial Purchasers and their affiliates may also make investment recommendations and/or

publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered pursuant to this Offering Circular.

Transfer Restrictions Applicable to the Notes

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or the securities laws of any other jurisdiction. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act. Terms used in this section are defined in Regulation S.

Each purchaser of the Notes hereunder will be deemed to have represented and agreed as follows:

- (1) the purchaser has offered or sold the Notes, and will offer and sell the Notes, as part of the purchaser's distribution at any time, only to, or for the account or benefit of, persons who are not U.S. persons (as defined in Rule 902 of the Securities Act) in offshore transactions outside the United States in accordance with Regulation S under the Securities Act, and the purchaser, the purchaser's Affiliates (and any persons acting on behalf thereof) have complied, and will comply, with the offering restrictions requirements of Regulation S;
- (2) the purchaser agrees that neither the purchaser nor any of the purchaser's Affiliates (or any persons acting on behalf thereof) has engaged, or will engage, in any "directed selling efforts" within the meaning of Regulation S under the Securities Act in connection with the offering of the Notes;
- (3) the purchaser acknowledges that until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States or to any non-U.S. person by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act;
- (4) at or prior to the confirmation of sale of any Notes sold in reliance on Regulation S, the purchase will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the restricted period a confirmation or notice to substantially the following effect:

THE NOTES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS AS PART OF THEIR DISTRIBUTION AT ANY TIME, EXCEPT IN ACCORDANCE WITH REGULATION S. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S;

- (5) Prior to or simultaneously with the confirmation of sale by the purchaser to any purchaser of any of the Notes purchased by the purchaser from the Issuer pursuant hereto, the purchaser shall have furnished to that purchaser a copy of the Offering Circular (and any amendment or supplement thereto that the Issuer shall have furnished to the purchaser prior to the date of such confirmation of sale); and
- (6) the Notes will bear legends to the following effect, unless the Issuer determines otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION

REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATIONS UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM TO WOORI CARD CO., LTD. (“THE COMPANY”) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF THE BANK OF NEW YORK MELLON SA/NV, LUXEMBOURG BRANCH OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM (AND ANY PAYMENT IS MADE TO THE BANK OF NEW YORK MELLON SA/NV, LUXEMBOURG BRANCH OR TO SUCH OTHER ENTITY AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, THE BANK OF NEW YORK MELLON SA/NV, LUXEMBOURG BRANCH, HAS AN INTEREST HEREIN.

Transfer Restrictions under Korean Laws and Regulations

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged, represented and agreed as follows:

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT (THE “FSCMA”). AND UNDER THE CURRENT LAWS AND REGULATIONS OF KOREA, SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE TRANSFERRED OR SOLD TO ANY RESIDENT OF KOREA WITHIN ONE YEAR FROM THE DATE OF THE ISSUANCE OF THE NOTES. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE), EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

IN ADDITION, WITHIN ONE YEAR FOLLOWING THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (OR A “QIB”, AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION (THE “KOFIA”) AS A QIB AND SUBJECT TO THE REQUIREMENT OF MONTHLY REPORTS WITH THE KOFIA OF ITS HOLDING OF QIB BONDS AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA, PROVIDED THAT (A) THE NOTES ARE DENOMINATED, AND THE PRINCIPAL AND INTEREST PAYMENTS THEREUNDER ARE MADE, IN A CURRENCY OTHER THAN KOREAN WON, (B) THE AMOUNT OF THE NOTES ACQUIRED BY SUCH QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES, (C) THE NOTES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE NOTES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF NOTES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE NOTES, THE RELEVANT UNDERWRITING AGREEMENT, SUBSCRIPTION AGREEMENT, AND THE OFFERING CIRCULAR AND (E) THE ISSUER AND THE INITIAL PURCHASERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR.

Transfer Restrictions under Singapore Laws

Where the Notes are initially subscribed or purchased by (i) an institutional investor under Section 274 of the SFA, or (ii) a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, the Notes may only be sold or transferred: (a) at any time, to an institutional investor under Section 274 of the SFA; (b) at any time, to a relevant person defined in Section 275(2) of the SFA or to any person pursuant to an offer referred to in Section 275(1A) of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

LEGAL MATTERS

Simpson Thacher & Bartlett, U.S. counsel to the Initial Purchasers, will pass upon certain legal matters as to New York law relating to the Notes. LAB Partners, the Issuer's Korean counsel, will pass upon certain matters as to Korean law. Lee and Li, Attorneys-at-Law, the Issuer's Taiwanese Legal Counsel, will pass upon certain matters as to Taiwanese law. Simpson Thacher & Bartlett and LAB Partners may rely as to all matters of Taiwanese law on the opinion of Lee and Li, Attorneys-at-Law. Simpson Thacher & Bartlett and Lee and Li, Attorneys-at-Law, may rely as to all matters of Korean law on the opinion of LAB Partners. LAB Partners and Lee and Li, Attorneys-at-Law, may rely as to all matters of New York law on the opinion of Simpson Thacher & Bartlett.

INDEPENDENT AUDITORS

The Issuer's consolidated financial statements as of and for the years ended December 31, 2018 and 2019, which are included herein, have been audited by Deloitte Anjin LLC ("Deloitte"), as stated in their report appearing herein. The Issuer's consolidated financial statements as of and for the year ended December 31, 2017, which are included herein, have been audited by Ernst & Young Han Young, as stated in their report appearing herein.

With respect to the unaudited consolidated interim financial statements as of June 30, 2020 and for the six months ended June 30, 2020, included herein, Samil PricewaterhouseCoopers ("PwC") have reported that they applied limited procedures in accordance with professional standards for a review of such information. With respect to the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2019, included herein, Deloitte has reported that it applied limited procedures in accordance with professional standards for a review of such information. However, both PwC and Deloitte's separate report included in this Offering Circular state that they did not audit and do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied.

INDEX TO FINANCIAL STATEMENTS

| | Page |
|---|-------|
| Report on Review of Interim Financial Statements from Samil PricewaterhouseCoopers | F-2 |
| Independent Accountants' Review Report from Deloitte Anjin LLC | F-4 |
| Unaudited Condensed Consolidated Interim Statements of Financial Position as of December 31, 2019 and June 30, 2020 | F-6 |
| Unaudited Condensed Consolidated Interim Statements of Comprehensive Income for the six months ended June 30, 2019 and 2020..... | F-7 |
| Unaudited Condensed Consolidated Interim Statements of Changes in Equity for the six months ended June 30, 2019 and 2020 | F-9 |
| Unaudited Condensed Consolidated Interim Statements of Cash Flows for the six months ended June 30, 2019 and 2020..... | F-10 |
| Notes to the Unaudited Condensed Consolidated Interim Financial Statements..... | F-12 |
| | |
| Independent Auditors' Report from Deloitte Anjin LLC | F-62 |
| Consolidated Statements of Financial Position as of December 31, 2018 and 2019 | F-64 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2018 and 2019..... | F-65 |
| Consolidated Statements of Changes in Equity for the years ended December 31, 2018 and 2019..... | F-67 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2019 | F-68 |
| Notes to the Consolidated Financial Statements..... | F-70 |
| | |
| Independent Auditors' Report from Deloitte Anjin LLC | F-139 |
| Independent Auditors' Report from Ernst & Young Han Young..... | F-141 |
| Consolidated Statements of Financial Position as of December 31, 2017 and 2018..... | F-143 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2018..... | F-144 |
| Consolidated Statements of Changes in Equity for the years ended December 31, 2017 and 2018..... | F-146 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2018 | F-147 |
| Notes to the Consolidated Financial Statements..... | F-149 |



Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

**To the Shareholders and the Board of Directors of
Woori Card Co., Ltd.:**

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Woori Card Co., Ltd. and subsidiaries (collectively referred to as the “Group”). These financial statements consist of the consolidated interim statement of financial position as at June 30, 2020, and the related consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2020, changes in equity and cash flows for the six-month period ended June 30, 2020, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Review Responsibility

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

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 3 of the financial statements. As explained in Note 39, the outbreak of COVID-19 in 2020 may have a negative impact on the Group's financial condition and results of operations. These matters do not affect our conclusion.

Other Matters

The consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2019, changes in equity and cash flows for the six-month period ended June 30, 2019, presented herein for comparative purposes, were reviewed by Deloitte Anjin LLC whose report dated August 14, 2019. Based on their review, nothing has come to their attention that causes them to believe the accompanying financial statements do not present fairly, in all material respects, in accordance with Korean IFRS 1034 Interim Financial Reporting.

The consolidated financial statements of the Group for the year ended December 31, 2019, were audited by Deloitte Anjin LLC who expressed an unqualified opinion on those statements, not presented herein, on March 12, 2020. The consolidated statement of financial position as at December 31, 2019, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2019.

Review standard and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

The image shows a handwritten signature in cursive script that reads "Samil PricewaterhouseCoopers". The signature is written in black ink and is positioned in the lower-left quadrant of the page.

August 13, 2020

Notice to Readers

This report is effective as of August 13, 2020, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



Deloitte Anjin LLC

9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

English Translation of Independent Accountants' Review Report Originally Issued in Korean on August 14, 2019

**To the Shareholders and the Board of Directors of
Woori Card Co., Ltd.:**

Report on the Consolidated Interim Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Woori Card Co., Ltd. and subsidiaries (the "Group"). The consolidated interim financial statements consist of the consolidated interim statement of financial position as of June 30, 2019; the consolidated interim statements of comprehensive income for the three and six months ended June 30, 2019 and 2018, respectively; the consolidated interim statements of changes in equity and consolidated interim statements of cash flows for the six months ended June 30, 2019 and 2018, respectively, all expressed in Korean won; and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Interim Financial Statements

The Group's management is responsible for the preparation and fair presentation of the accompanying consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRSs") and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Independent Accountants' Responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of consolidated interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of the Group are not presented fairly, in all material respects, in accordance with K-IFRS 1034, *Interim Financial Reporting*.

Deloitte.

Others

We audited the consolidated statement of financial position as of December 31, 2018, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea (not presented herein). This report dated March 18, 2019, expressed an unqualified opinion. The accompanying consolidated statement of financial position as of December 31, 2018, presented for comparative purpose is not different, in all material respects, from the above audited consolidated statement of financial position.

Deloitte Idnjin LLC

August 14, 2019

Notice to Readers

This report is effective as of August 14, 2018, the independent accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the consolidated interim financial statements and may result in modifications to the accountants' review report.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020, AND DECEMBER 31, 2019

| | June 30, 2020 (Unaudited) | December 31, 2019 |
|---|---------------------------------|----------------------|
| | (Korean Won in millions) | |
| ASSETS | | |
| Cash and cash equivalents (Notes 4, 5 and 33) | 419,011 | 116,201 |
| Financial assets at fair value through other comprehensive income (“FVTOCI”) (Notes 6 and 9) | 59,599 | 85,086 |
| Financial assets at amortized cost (Notes 4, 7, 8, 9, 32 and 33) | 10,119,755 | 9,646,971 |
| Premises and equipment (Note 10) | 52,939 | 56,868 |
| Intangible assets (Note 11) | 42,160 | 43,338 |
| Deferred tax assets (Note 29) | 45,431 | 41,377 |
| Derivative assets (Notes 4, 9 and 16) | 20,855 | 9,366 |
| Net defined benefit assets (Note 15) | - | 887 |
| Other assets (Notes 12 and 33) | 23,900 | 87,248 |
| Total assets | <u>10,783,650</u> | <u>10,087,342</u> |
| LIABILITIES | | |
| Borrowings (Notes 4, 9, 13 and 33) | 214,803 | 4,631 |
| Debentures (Notes 4, 9 and 13) | 7,381,220 | 7,075,968 |
| Provisions (Notes 14 and 31) | 58,071 | 56,815 |
| Net defined benefit liabilities (Notes 15) | 4,401 | - |
| Current tax liabilities (Note 29 and 33) | 23,359 | 38,279 |
| Derivative liabilities (Notes 4, 9 and 16) | 16,973 | 6,839 |
| Other financial liabilities (Notes 4, 9, 17 and 33) | 900,717 | 915,988 |
| Other liabilities (Notes 17) | 195,997 | 200,655 |
| Total liabilities | <u>8,795,541</u> | <u>8,299,175</u> |
| EQUITY | | |
| Owners’ equity: | 1,988,109 | 1,788,167 |
| Capital stock (Note 18) | 896,331 | 896,331 |
| Hybrid securities (Note 18) | 149,913 | - |
| Capital surplus (Note 18) | 121,518 | 121,518 |
| Other equity (Note 19) | (7,701) | 21,876 |
| Retained earnings (Note 20 and 21) | | |
| (Regulatory reserves for credit loss as of June 30, 2020, and December 31, 2019, are 407,903 million Won and 387,181 million Won, respectively. | | |
| Planned provisions for regulatory reserves for credit loss as of June 30, 2020, and December 31, 2019, are 3,468 million Won and 20,722 million Won, respectively.) | 828,048 | 748,442 |
| Non-Controlling interests | - | - |
| Total equity | <u>1,988,109</u> | <u>1,788,167</u> |
| Total liabilities and equity | <u>10,783,650</u> | <u>10,087,342</u> |

The accompanying notes are part of these consolidated interim financial statements.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND
2019

| | Periods ended June 30, 2020 (Unaudited) | | Periods ended June 30, 2019 (Unaudited) | |
|--|--|-----------------|--|-----------------|
| | Three-month | Six-month | Three-month | Six-month |
| | (Korean Won in millions, except for per share data) | | | |
| Interest income | 179,689 | 362,651 | 178,060 | 355,510 |
| Interest expense | 40,932 | 82,359 | 44,338 | 88,217 |
| Net interest income (Notes 22 and 33) | 138,757 | 280,292 | 133,722 | 267,293 |
| Fees and commissions income | 127,014 | 251,030 | 135,889 | 268,331 |
| Fees and commissions expense | 145,389 | 280,040 | 144,810 | 284,647 |
| Net fees and commissions income (expense) (Notes 23 and 33) | (18,375) | (29,010) | (8,921) | (16,316) |
| Dividend income (Note 24) | - | 6,752 | - | 5,836 |
| Net gain on financial instruments at fair value through profit or loss (“FVTPL”) (Korean IFRS 1109) (Note 25) | 316 | 754 | 312 | 655 |
| Financial assets at amortized cost | 151 | 26,921 | 17,695 | 17,690 |
| Impairment losses due to credit loss (Notes 26 and 33) | 55,827 | 109,450 | 65,365 | 129,327 |
| General and administrative expenses (Note 27) | 48,027 | 96,684 | 45,034 | 91,177 |
| Other net operating income (expense) (Notes 27 and 33) | 21,437 | 23,315 | 8,449 | 13,298 |
| Operating income | 38,432 | 102,890 | 40,859 | 67,952 |
| Non-operating income (expenses) (Note 28) | 734 | 1,393 | 16,782 | 19,539 |
| Net income before income tax expense | 39,166 | 104,283 | 57,641 | 87,491 |
| Income tax expense (Note 29) | 10,484 | 24,629 | 15,178 | 20,990 |
| Net income (Note 21) (After the provision of regulatory reserves for credit loss for the three-month and six-month periods ended June 30, 2020, of 29,742 million Won and 76,186 million Won, respectively. After the provision of regulatory reserves for credit loss for the three-month and six- month periods ended June 30, 2019, of 30,767 million Won and 51,213 million Won, respectively.) | 28,682 | 79,654 | 42,463 | 66,501 |

(Continued)

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND
2019 (CONTINUED)

| | Periods ended June 30, 2020 (Unaudited) | | Periods ended June 30, 2019 (Unaudited) | |
|---|--|-----------------|--|----------------|
| | Three-month | Six-month | Three-month | Six-month |
| | (Korean Won in millions, except for per share data) | | | |
| Net gain (loss) on valuation of financial assets at FVTOCI | (19,329) | (18,540) | (2,561) | (880) |
| Remeasurement of the net defined benefit liabilities | (87) | (1,654) | (1,187) | (2,611) |
| Items that will not be reclassified to profit or loss | (19,416) | (20,194) | (3,748) | (3,491) |
| Cash flow hedging gains or losses on valuation of derivatives | (1,296) | (11,339) | (1,668) | (1,452) |
| Gain on foreign currency translation of foreign operations | (80) | 1,908 | 350 | 554 |
| Items that may be reclassified to profit or loss | (1,376) | (9,431) | (1,318) | (898) |
| Other comprehensive income, net of tax (Note 19) | (20,792) | (29,625) | (5,065) | (4,389) |
| Total comprehensive income | 7,890 | 50,029 | 37,398 | 62,112 |
| Net income attributable to: | 28,682 | 79,654 | 42,463 | 66,501 |
| Net income attributable to owners | 28,682 | 79,654 | 42,463 | 66,501 |
| Net income attributable to non-controlling interests | - | - | - | - |
| Total comprehensive income attributable to: | 7,890 | 50,029 | 37,398 | 62,112 |
| Comprehensive income attributable to owners | 7,890 | 50,029 | 37,398 | 62,112 |
| Comprehensive income attributable to non-controlling interests | - | - | - | - |
| Net income per share (in Korean won) (Note 30) | 160 | 444 | 237 | 372 |
| Basic earnings per common share and diluted earnings per common share | 160 | 444 | 237 | 372 |

The accompanying notes are part of these consolidated interim financial statements.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019

| | Capital stock | Hybrid securities | Capital surplus | Other equity | Retained earnings | Controlling interests | Non - Controlling interests | Total |
|--|--------------------------|----------------------|--------------------|-----------------|----------------------|--------------------------|-----------------------------------|------------------|
| | (Korean Won in millions) | | | | | | | |
| January 1, 2019 | 896,331 | - | 127,097 | 24,292 | 634,244 | 1,681,964 | - | 1,681,964 |
| Net income | - | - | - | - | 66,501 | 66,501 | - | 66,501 |
| Net gain on valuation of financial assets at FVTOCI | - | - | - | (880) | - | (880) | - | (880) |
| Remeasurement of the net defined benefit liabilities | - | - | - | (2,611) | - | (2,611) | - | (2,611) |
| Cash flow hedging gains or losses on valuation of derivatives | - | - | - | (1,452) | - | (1,452) | - | (1,452) |
| Loss on foreign currency translation of foreign operations | - | - | - | 554 | - | 554 | - | 554 |
| June 30, 2019 (Unaudited) | 896,331 | - | 127,097 | 19,903 | 700,745 | 1,744,076 | - | 1,744,076 |
| January 1, 2020 | 896,331 | - | 121,518 | 21,876 | 748,442 | 1,788,167 | - | 1,788,167 |
| Net income | - | - | - | - | 79,654 | 79,654 | - | 79,654 |
| Net gain (loss) on valuation of financial assets at FVTOCI | - | - | - | (18,540) | - | (18,540) | - | (18,540) |
| Net gain (loss) on disposal of financial assets at FVTOCI | - | - | - | 48 | (48) | - | - | - |
| Remeasurement of the net defined benefit liabilities | - | - | - | (1,654) | - | (1,654) | - | (1,654) |
| Cash flow hedging gains or losses on valuation of derivatives | - | - | - | (11,339) | - | (11,339) | - | (11,339) |
| Loss on foreign currency translation of foreign operations | - | - | - | 1,908 | - | 1,908 | - | 1,908 |
| Issuance of hybrid securities | - | 149,913 | - | - | - | 149,913 | - | 149,913 |
| June 30, 2020 (Unaudited) | 896,331 | 149,913 | 121,518 | (7,701) | 828,048 | 1,988,109 | - | 1,988,109 |

The accompanying notes are part of these consolidated interim financial statements.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019

| | For the six-month periods ended | |
|--|---------------------------------|------------------|
| | June 30 | |
| | 2020 (Unaudited) | 2019 (Unaudited) |
| | (Korean Won in millions) | |
| Cash flows from operating activities: | | |
| Net income | 79,654 | 66,501 |
| Adjustment to net income: | | |
| Income tax expense | 24,629 | 20,991 |
| Dividend income | (6,752) | (5,836) |
| Interest income | (362,651) | (355,510) |
| Interest expense | 82,359 | 88,217 |
| | (262,415) | (252,138) |
| | | |
| Additions of expenses not involving cash outflows: | | |
| Impairment losses due to credit loss | 109,450 | 129,270 |
| Depreciation | 9,474 | 8,759 |
| Disposal loss on tangible assets | 4 | 216 |
| Amortization | 6,715 | 4,676 |
| Retirement benefits | 2,961 | 4,309 |
| Loss on valuation of derivatives | 8,798 | - |
| Transfer in other provisions | 48 | 130 |
| Loss on translation of foreign currency | 19,188 | 26,817 |
| Others | - | 1,169 |
| | 156,638 | 175,346 |
| | | |
| Deductions of revenues not involving cash inflows: | | |
| Gain on valuation of derivatives | 20,184 | 25,645 |
| Gain on trading of derivatives | 90 | - |
| Reversal of other provision | 1 | 29 |
| Gain on translation of foreign currency | 9,075 | - |
| Others | 6 | - |
| | 29,356 | 25,674 |
| | | |
| Changes in operating assets and liabilities: | | |
| Financial assets at amortized cost | (572,707) | 99,614 |
| Other assets | (9,875) | (4,072) |
| Provision | (64) | (905) |
| Net defined benefit liabilities | 45 | (4,616) |
| Other financial liabilities | (13,397) | (384,607) |
| Other liabilities | (1,569) | 8,224 |
| | (597,567) | (286,362) |

(Continued)

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019
(CONTINUED)

| | For the six-month periods ended June 30 | |
|--|--|-----------------------|
| | 2020 (Unaudited) | 2019 (Unaudited) |
| | (Korean Won in millions) | |
| Cash received from (paid for) operating activities: | | |
| Income tax paid | (35,675) | (22,962) |
| Dividend received | 6,752 | 5,836 |
| Interest income received | 362,491 | 354,897 |
| Interest expense paid | (74,620) | (86,343) |
| Net cash outflow from operating activities | <u>(394,098)</u> | <u>(70,899)</u> |
| Cash flows from investing activities: | | |
| Cash inflows from investing activities: | | |
| Disposal of financial instruments at FVTOCI | 52 | - |
| Decrease of guarantee deposits | 150 | 2,218 |
| | <u>202</u> | <u>2,218</u> |
| Cash outflows for investing activities: | | |
| Acquisition of financial assets at FVTOCI | 127 | 179 |
| Acquisition of premises and equipment | 5,045 | 4,369 |
| Acquisition of intangible assets | 5,532 | 6,487 |
| Increase of guarantee deposits | 175 | 2,470 |
| Net cash inflow investing activities | <u>10,879</u> | <u>13,505</u> |
| Cash flows from financing activities: | | |
| Cash inflows from financing activities: | | |
| Issuance of hybrid securities | 149,913 | - |
| Increase in borrowings | 210,000 | - |
| Issuance of debentures | 7,334,348 | 8,769,518 |
| | <u>7,694,261</u> | <u>8,769,518</u> |
| Cash outflows for financing activities: | | |
| Repayment of debentures | 6,983,000 | 8,926,800 |
| Decrease in lease liabilities | 4,233 | 4,544 |
| | <u>6,987,233</u> | <u>8,931,344</u> |
| Net cash inflow(outflow) from financing activities | <u>707,028</u> | <u>(161,826)</u> |
| Net increase(decrease) in cash and cash equivalents | 302,253 | (244,012) |
| Cash and cash equivalents at the beginning of period | 116,201 | 362,202 |
| Effects of exchange rate changes on cash and cash equivalents | 557 | - |
| Cash and cash equivalents at the end of period (Note 5) | <u>419,011</u> | <u>118,190</u> |

The accompanying notes are part of these consolidated interim financial statements.

WOORI CARD CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019 (UNAUDITED),
AND DECEMBER 31, 2019

1. **GENERAL**

(1) Summary of the parent company

Headquarters of Woori Card Co., Ltd. (the Company) is located in 50, Jong-ro 1-gil, Jongno-gu, Seoul, Korea and was incorporated on April 1, 2013, as a result of spin-off from Woori Bank. The Company was established for the purpose of engaging in credit card business, and the Company started its business after the completion of the registration process on April 1, 2013. The Company is engaged in credit sales business, cash advance services, card loan services and others under the Specialized Credit Financial Business Act of Korea. The Company is subject to the laws, regulations and ordinance of the Specialized Credit Financial Business Act.

As of June 30, 2020, the Company maintains approximately 13.76 million of credit card and debit card members, and Woori Financial Group holds 100% ownership of the Company as a result of the comprehensive stock transfer between Woori Bank and Woori Financial Group.

(2) The consolidated interim financial statements of Woori Card Co., Ltd. and subsidiaries (collectively referred to as the “Group”) include the following subsidiaries:

| Name of subsidiary | Location | Main business | Percentage of ownership (%) | | Consolidated interim financial statements as of |
|--|----------|----------------------|-----------------------------|-------------------|---|
| | | | June 30, 2020 | December 31, 2019 | |
| TUTU Finance-WCI Myanmar Co., Ltd. | Myanmar | Finance | 100.0 | 100.0 | June 30 |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. (*1, 2) | Korea | Asset securitization | - | 0.5 | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. (*1) | Korea | Asset securitization | 0.5 | 0.5 | June 30 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. (*1) | Korea | Asset securitization | 0.5 | 0.5 | June 30 |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. (*1) | Korea | Asset securitization | 0.5 | 0.5 | June 30 |
| Woori Card 2020-1 Asset Securitization Specialty Co., Ltd. (*1) | Korea | Asset securitization | 0.5 | - | June 30 |

(*1) Although the Group is not a majority shareholder, the Group 1) has the power over the investee, 2) is exposed to or has rights to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns.

(*2) The liquidation has been completed as of June 30, 2020.

- (3) The summarized financial information before the elimination of intercompany transactions of the subsidiaries whose financial information was prepared under Korean IFRS for the Group's consolidated interim financial statements is as follows (Unit: Korean won in millions):

| June 30, 2020 | | | | |
|--|--------------|-------------------|-----------------|---|
| Name of subsidiary | Assets | Liabilities | Total equity | Capital stock |
| TUTU Finance-WCI Myanmar Co., Ltd. | 35,329 | 8,620 | 26,709 | 19,664 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 354,616 | 355,964 | (1,348) | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 300,073 | 300,073 | - | - |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | 234,917 | 240,178 | (5,261) | - |
| Woori Card 2020-1 Asset Securitization Specialty Co., Ltd. | 332,944 | 336,757 | (3,813) | - |
| June 30, 2020 | | | | |
| Name of subsidiary | Other equity | Retained earnings | Operating gains | Net gains and losses attributable to owners |
| TUTU Finance-WCI Myanmar Co., Ltd. | 3,205 | 3,840 | 4,751 | 1,821 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | (1,348) | - | 10,768 | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | - | - | 3,028 | - |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | (5,261) | - | 10,122 | - |
| Woori Card 2020-1 Asset Securitization Specialty Co., Ltd. | (3,813) | - | 9,334 | - |
| June 30, 2019 | | | | |
| Name of subsidiary | Assets | Liabilities | Total equity | Capital stock |
| TUTU Finance-WCI Myanmar Co., Ltd. | 29,707 | 7,451 | 22,256 | 19,664 |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 60,215 | 60,216 | (1) | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 346,855 | 348,917 | (2,062) | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 300,073 | 300,073 | - | - |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | 233,838 | 234,481 | (643) | - |
| June 30, 2019 | | | | |
| Name of subsidiary | Other equity | Retained earnings | Operating gains | Net gains and losses attributable to owners |
| TUTU Finance-WCI Myanmar Co., Ltd. | 573 | 2,019 | 5,919 | 2,717 |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | (1) | - | 23,775 | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | (2,062) | - | 21,651 | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | - | - | 6,077 | - |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | (643) | - | 2,660 | - |

- (4) For the six-month period ended June 30, 2020, the newly consolidated subsidiaries or subsidiaries excluded from consolidation are as follows:

| Classification | Name of subsidiary | Reason |
|----------------|--|---------------|
| New | Woori Card 2020-1 Asset Securitization Specialty Co., Ltd. | Establishment |

2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The Group's consolidated interim financial statements for the six-month periods ended June 30, 2020 and 2019, have been prepared in accordance with Korean IFRS 1034 Interim Financial Reporting. It is necessary to use the Group's annual consolidated financial statements for the year ended December 31, 2019 for understanding of the accompanying interim financial statements.

Except for the impacts on the newly adopted standards and interpretations explained below, the accounting policies applied in preparing the accompanying consolidated interim financial statements have been applied consistently with the annual consolidated financial statements as of and for the year ended December 31, 2019.

- 1) The newly introduced standards and interpretations for the six-month period ended June 30, 2020 and the resulting changes in accounting policies are as follows:
 - Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors – Definition of Materiality

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. The amendment does not have a significant impact on the financial statements.

- Amendments to Korean IFRS 1103 Business Combination – Definition of a Business

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. The amendment does not have a significant impact on the financial statements.

- 2) The following are the details of the Korean IFRS that have been issued as of June 30, 2020, but have not yet been applied because the effective date has not yet arrived.
 - Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19-Related Rent Exemption, Concessions, Suspension

The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic. For those who applied this accounting treatment shall account for changes in lease payments, such as rent discounts, consistently with the way the standard specifies when those changes are not lease changes. These amendments apply for the fiscal year beginning on or after June 1, 2020, and early subscription is possible. The amendment does not have a significant impact on the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management shall make judgements, estimates and assumptions that affect the application of accounting policies and application of assets, liabilities and revenues and expenses in preparing the Group's interim financial statements. Therefore, the actual results may differ from these estimates.

The important judgements by the management on accounting policies and the main sources of estimation uncertainty for preparing condensed interim financial statements are identical to ones used in the Group's annual consolidated financial statements for the year ended December 31, 2019, except as follows.

The outbreak of COVID-19 in 2020 has had a significant impact on the global economy including Korea. Financial and economic shocks may have negative impacts on the Group's financial condition and results of operations in various forms both domestically and internationally, however, the Korean government is providing unprecedented financial and economic relief measures such as extension of maturity of loan receivables. Despite the announcement of these various forms of government support policies, the negative impact of the COVID-19 on the global economy continues.

Due to the influence of COVID-19, major economic forecast indicators have deteriorated rapidly, and the Group believes that there will be significant changes in forward-looking information that will affect expected credit losses. Considering this situation comprehensively, the Group has recomputed the forward-looking information used to estimate expected credit losses in accordance with Korean IFRS 1109 '*Financial Instruments*', thereby setting aside an additional loan-loss allowance of 9,764 million Won. The Group will continue to monitor the impact of COVID-19 on the economy and the government's policies.

4. RISK MANAGEMENT

The Group's operating activity is exposed to various financial risks; hence, the Group is required to analyze and assess the level of complex risks and determine the level of risks to be accepted, or to manage the risks. The purpose of the risk management procedure is to improve the soundness of investments and assets held by making decisions to avoid or mitigate risks by identifying the origin and scale of risks.

The Group takes a strategy to eliminate excessive risks from financial instruments and maximize return on risk by managing appropriate levels of risks. Therefore, the Group operates procedures for recognizing risks, measuring and evaluating risks, controlling and monitoring risks.

The risk is managed by the risk management department based on the resolved policy. The risk management committee is the highest decision-making body in risk management and makes decisions on risk strategies such as allocation of risk capital and setting limits.

(1) Credit risk

Credit risk represents the possibility of financial losses incurred when the counterparty fails to fulfill its contractual obligations. The goal of credit risk management is to maintain the Group's credit risk exposure to a permissible degree and to optimize its rate of return considering such credit risk.

1) Credit risk management

The Group considers the probability of failure in performing the obligation of its counterparties, credit exposure to the counterparty and the related default risk and the rate of default loss. The Group uses the credit rating model to assess the possibility of the counterparty's default risk.

2) Credit risk limit management

In order to manage credit risk limit, the Group monitors total exposures and large exposures. The maximum

exposures to credit risk as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won in millions):

| | | June 30, 2020 | December 31, 2019 |
|--|------------------------------------|---------------|-------------------|
| Balance | Financial assets at amortized cost | | |
| | (Loans and receivables) | | |
| | Due from banks | 40,901 | 20,003 |
| | Loans | 206,110 | 236,258 |
| | Credit card assets | 7,636,740 | 8,129,304 |
| | Credit sales | 4,464,879 | 5,126,469 |
| | Cash advances | 482,585 | 555,947 |
| | Card loan | 2,688,656 | 2,441,999 |
| | Other credit card assets | 620 | 4,889 |
| | Capital financing receivables | 924,701 | 760,016 |
| | Finance lease receivables | 359,309 | 235,011 |
| Other financial assets at amortized cost | 951,994 | 266,379 | |
| | Subtotal | 10,119,755 | 9,646,971 |
| | Derivative assets | 20,855 | 9,366 |
| | Subtotal | 10,140,610 | 9,656,337 |
| Off balance | Unused credit limits | 35,387,066 | 33,120,042 |
| | Subtotal | 35,387,066 | 33,120,042 |
| | Total | 45,527,676 | 42,776,379 |

3) Credit risk of financial assets at amortized cost and loans and receivables

The credit risk of financial assets at amortized cost and loans and receivables by loan conditions as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won in millions):

| | June 30, 2020 | | | | | | | |
|--|--------------------------------------|--|--------------------------------------|--|---------|------------|----------------|------------|
| | Stage 1 | | Stage 2 | | Stage 3 | Total | Loss allowance | Net |
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | | | |
| Due from banks | 40,901 | - | - | - | - | 40,901 | - | 40,901 |
| Loans | 146,924 | 53,643 | 440 | 14,017 | 10,637 | 225,661 | 19,551 | 206,110 |
| Credit card assets | 6,592,298 | 306,535 | 512,815 | 286,513 | 182,427 | 7,880,588 | 243,848 | 7,636,740 |
| Credit sales | 3,998,428 | 217,057 | 149,399 | 141,980 | 23,675 | 4,530,539 | 65,660 | 4,464,879 |
| Cash advances | 385,277 | 53,113 | 21,241 | 39,504 | 10,038 | 509,173 | 26,588 | 482,585 |
| Card loan | 2,207,973 | 36,365 | 342,175 | 105,029 | 148,714 | 2,840,256 | 151,600 | 2,688,656 |
| Other credit card assets | 620 | - | - | - | - | 620 | - | 620 |
| Capital financing receivables | 814,001 | 58,028 | 4,614 | 53,167 | 3,126 | 932,936 | 8,235 | 924,701 |
| Finance lease receivables | 300,423 | 17,361 | 11,370 | 33,868 | 1,133 | 364,155 | 4,846 | 359,309 |
| Other financial assets at amortized cost | 946,184 | 1,776 | 3,286 | 2,620 | 240 | 954,106 | 2,112 | 951,994 |
| Total | 8,840,731 | 437,343 | 532,525 | 390,185 | 197,563 | 10,398,347 | 278,592 | 10,119,755 |

| | December 31, 2019 | | | | | | | |
|--|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------|-------|----------------|-----|
| | Stage 1 | | Stage 2 | | Stage 3 | Total | Loss allowance | Net |
| | Above appropriate credit rating | Less than a limited credit rating | Above appropriate credit rating | Less than a limited credit rating | | | | |

| | credit rating (*1) | (*2) | credit rating (*1) | (*2) | | | | | |
|---|-----------------------|----------------|-----------------------|----------------|----------------|------------------|----------------|------------------|--|
| Due from banks | 20,003 | - | - | - | - | 20,003 | - | 20,003 | |
| Loans | 160,804 | 66,549 | 770 | 18,256 | 8,358 | 254,737 | 18,479 | 236,258 | |
| Credit card assets | 6,936,486 | 352,742 | 551,417 | 334,417 | 228,365 | 8,403,427 | 274,123 | 8,129,304 | |
| Credit sales | 4,570,847 | 255,897 | 179,769 | 166,602 | 28,710 | 5,201,825 | 75,356 | 5,126,469 | |
| Cash advances | 446,267 | 58,128 | 23,706 | 46,191 | 11,030 | 585,322 | 29,375 | 555,947 | |
| Card loan | 1,914,482 | 38,717 | 347,942 | 121,624 | 188,625 | 2,611,390 | 169,391 | 2,441,999 | |
| Other credit card assets | 4,890 | - | - | - | - | 4,890 | 1 | 4,889 | |
| Capital financing receivables | 649,925 | 59,563 | 4,630 | 50,905 | 2,065 | 767,088 | 7,072 | 760,016 | |
| Finance lease receivables | 200,017 | 11,512 | 3,790 | 22,223 | 697 | 238,239 | 3,228 | 235,011 | |
| Other financial assets at amortized cost | 258,928 | 2,078 | 3,715 | 3,234 | 331 | 268,286 | 1,907 | 266,379 | |
| Total | <u>8,226,163</u> | <u>492,444</u> | <u>564,322</u> | <u>429,035</u> | <u>239,816</u> | <u>9,951,780</u> | <u>304,809</u> | <u>9,646,971</u> | |

(*1) Credit grades of corporates are AAA – BBB and of consumers are grades 1–6.

(*2) Credit grades of corporates are BBB- – C and of consumers are grades 7–10.

4) Credit risk of unused credit limits

The credit risks of unused credit limits as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won in millions):

| | | June 30, 2020 | | | | | |
|---------------------------|--|--------------------------------------|--|--------------------------------------|--|---------|------------|
| | | Stage 1 | | Stage 2 | | Stage 3 | Total |
| | | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | |
| Unused credit limits (*3) | | 34,386,780 | 570,954 | 117,161 | 308,401 | 3,770 | 35,387,066 |

| | | December 31, 2019 | | | | | |
|---------------------------|--|--------------------------------------|--|--------------------------------------|--|---------|------------|
| | | Stage 1 | | Stage 2 | | Stage 3 | Total |
| | | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | |
| Unused credit limits (*3) | | 32,063,783 | 613,556 | 117,925 | 319,860 | 4,918 | 33,120,042 |

(*1) Credit grades of corporates are AAA – BBB and of consumers are grades 1–6.

(*2) Credit grades of corporates are BBB- – C and of consumers are grades 7–10.

(*3) Provision for unused credit limit as of June 30, 2020, and December 31, 2019, is ₩52,904 million and ₩51,631 million, respectively.

5) Industrial distribution of credit risk

Details of the industrial distribution of credit risk of financial assets as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won in millions):

| | | June 30, 2020 | | | | | | |
|-------------------|--|---------------|---------------|--------------------|--------------|------------|------------|------------|
| | | Service | Manufacturing | Bank and insurance | Construction | Consumers | Others | Total |
| Balance | Due from banks | - | - | 40,901 | - | - | - | 40,901 |
| | Loans | - | - | - | - | 206,110 | - | 206,110 |
| | Credit card assets | 411,585 | 157,653 | 68,733 | 67,372 | 6,891,860 | 39,537 | 7,636,740 |
| | Credit sales | 411,573 | 157,653 | 68,712 | 67,372 | 3,720,652 | 38,917 | 4,464,879 |
| | Cash advances | 12 | - | 21 | - | 482,552 | - | 482,585 |
| | Card loan | - | - | - | - | 2,688,656 | - | 2,688,656 |
| | Other credit card assets | - | - | - | - | - | 620 | 620 |
| | Capital financing receivables | 86,143 | 42,211 | 71 | 16,573 | 770,043 | 9,660 | 924,701 |
| | Finance lease receivables | 49,522 | 32,628 | 1,160 | 15,957 | 257,982 | 2,060 | 359,309 |
| | Other financial assets at amortized cost | 343 | 144 | 14,052 | 56 | 28,761 | 908,638 | 951,994 |
| Subtotal | 547,593 | 232,636 | 124,917 | 99,958 | 8,154,756 | 959,895 | 10,119,755 | |
| Derivative assets | - | - | 20,855 | - | - | - | 20,855 | |
| Subtotal | 547,593 | 232,636 | 145,772 | 99,958 | 8,154,756 | 959,895 | 10,140,610 | |
| Off balance | Unused credit limits | 2,033,346 | 718,776 | 316,068 | 197,778 | 31,933,952 | 187,146 | 35,387,066 |
| Total | | 2,580,939 | 951,412 | 461,840 | 297,736 | 40,088,708 | 1,147,041 | 45,527,676 |

| | | December 31, 2019 | | | | | | |
|-------------|--|-------------------|---------------|--------------------|--------------|------------|---------|------------|
| | | Service | Manufacturing | Bank and insurance | Construction | Consumers | Others | Total |
| Balance | Due from banks | - | - | 20,003 | - | - | - | 20,003 |
| | Loans | 894 | - | - | - | 235,364 | - | 236,258 |
| | Credit card assets | 504,222 | 209,830 | 74,032 | 71,597 | 7,203,902 | 65,721 | 8,129,304 |
| | Credit sales | 504,162 | 209,819 | 74,015 | 71,597 | 4,206,044 | 60,832 | 5,126,469 |
| | Cash advances | 60 | 11 | 17 | - | 555,859 | - | 555,947 |
| | Card loan | - | - | - | - | 2,441,999 | - | 2,441,999 |
| | Other credit card assets | - | - | - | - | - | 4,889 | 4,889 |
| | Capital financing receivables | 85,690 | 38,424 | 105 | 14,942 | 611,823 | 9,032 | 760,016 |
| | Finance lease receivables | 31,589 | 22,509 | 1,356 | 10,507 | 167,440 | 1,610 | 235,011 |
| | Other financial assets at amortized cost | 369 | 140 | 17,639 | 54 | 30,655 | 217,522 | 266,379 |
| | Subtotal | 622,764 | 270,903 | 113,135 | 97,100 | 8,249,184 | 293,885 | 9,646,971 |
| | Derivative assets | - | - | 9,366 | - | - | - | 9,366 |
| | Subtotal | 622,764 | 270,903 | 122,501 | 97,100 | 8,249,184 | 293,885 | 9,656,337 |
| Off balance | Unused credit limits | 2,084,319 | 733,945 | 305,921 | 200,143 | 29,560,620 | 235,094 | 33,120,042 |
| | Total | 2,707,083 | 1,004,848 | 428,422 | 297,243 | 37,809,804 | 528,979 | 42,776,379 |

6) Regional distribution of credit risk

Details of the regional distribution of credit risk of financial assets as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won in millions):

| | | June 30, 2020 | | |
|-------------|--|---------------|---------|------------|
| | | Korea | Myanmar | Total |
| Balance | Due from banks | 40,901 | - | 40,901 |
| | Loans | 178,198 | 27,912 | 206,110 |
| | Credit card assets | 7,636,740 | - | 7,636,740 |
| | Credit sales | 4,464,879 | - | 4,464,879 |
| | Cash advances | 482,585 | - | 482,585 |
| | Card loan | 2,688,656 | - | 2,688,656 |
| | Other credit card assets | 620 | - | 620 |
| | Capital financing receivables | 924,701 | - | 924,701 |
| | Finance lease receivables | 359,309 | - | 359,309 |
| | Other financial assets at amortized cost | 951,703 | 291 | 951,994 |
| | Subtotal | 10,091,552 | 28,203 | 10,119,755 |
| | Derivative assets | 20,855 | - | 20,855 |
| | Subtotal | 10,122,407 | 28,203 | 10,140,610 |
| Off balance | Unused credit limits | 35,387,066 | - | 35,387,066 |
| | Total | 45,499,473 | 28,203 | 45,527,676 |

| | | December 31, 2019 | | |
|-------------|--|-------------------|---------|------------|
| | | Korea | Myanmar | Total |
| Balance | Due from banks | 20,003 | - | 20,003 |
| | Loans | 212,540 | 23,718 | 236,258 |
| | Credit card assets | 8,129,304 | - | 8,129,304 |
| | Credit sales | 5,126,469 | - | 5,126,469 |
| | Cash advances | 555,947 | - | 555,947 |
| | Card loan | 2,441,999 | - | 2,441,999 |
| | Other credit card assets | 4,889 | - | 4,889 |
| | Capital financing receivables | 760,016 | - | 760,016 |
| | Finance lease receivables | 235,011 | - | 235,011 |
| | Other financial assets at amortized cost | 266,180 | 199 | 266,379 |
| | Subtotal | 9,623,054 | 23,917 | 9,646,971 |
| | Derivative assets | 9,366 | - | 9,366 |
| | Subtotal | 9,632,420 | 23,917 | 9,656,337 |
| Off balance | Unused credit limits | 33,120,042 | - | 33,120,042 |
| | Total | 42,752,462 | 23,917 | 42,776,379 |

(2) Market risk

Market risk is the possible risk of loss arising from trading activities in the volatility of market factors, such as interest rates, stock prices and foreign exchange rates. Market risk occurs as a result of changes in the interest rates and foreign exchange rates for financial instruments that are not yet settled, and all contracts are exposed to a certain level of volatility according to the interest rates, credit spreads, foreign exchange rates and the price of equity securities.

1) Market risk management

The Group avoids, bears or mitigates risks by identifying the underlying source of risks, measuring parameters and evaluating their appropriateness. The risk management committee allocates owned capital to market risk. The risk management department measures the Value at Risk (“VaR,” maximum losses) limit by department and risk factors and the loss limit on a daily basis and reports regularly to the risk management committee.

2) Interest rate VaR

Interest rate VaR is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in interest rate, using the VaR methodology, a key measure of market risk, in interest rate risk assessment.

The interest rate VaR disclosed below is estimated at a 99% confidence level with 2% interest rate shock using the Bank for International Settlements (“BIS”) standards framework. This methodology employs using revised duration proxy by maturity provided by BIS. The assumption used to calculate the VaR is the expected range of interest rate fluctuation affected by interest rate shock at 200 bp parallel movement of benchmark rate curve. Although the VaR is generally used as a key measure of market risk, certain limitations to this methodology exist.

VaR measures the potential loss in value of a risky asset or portfolio based on historical market movements over a defined period for a given confidence interval; however, it is not always possible in practice that the historical market movements reflect all future conditions and circumstances, which results in variance in actual loss timing and size due to the changes in assumptions used in calculation.

The results of interest rate VaR calculated under normal distribution of interest rate risk as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won in millions):

| | | |
|-------------------|----------------------|--------------------------|
| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
| Interest rate VaR | (154,881) | (85,010) |

3) Other market risk

a) Interest rate risk

The Group estimates and manages risks related to the changes in interest rate due to the difference in maturity and conditions of interest rate of assets and liabilities. Cash flows of principal amounts and interests from interest-bearing assets and liabilities by repricing date are as follows (Unit: Korean won in millions):

| | <u>June 30, 2020</u> | | | | | | |
|------------------------------------|--------------------------|----------------------|----------------------|-----------------------|--------------------------|--------------------------|------------------|
| | <u>Within 3 months</u> | <u>3 to 6 months</u> | <u>6 to 9 months</u> | <u>9 to 12 months</u> | <u>1 year to 5 years</u> | <u>More than 5 years</u> | <u>Total</u> |
| Asset: | | | | | | | |
| Financial assets at amortized cost | 5,458,300 | 871,576 | 547,952 | 545,597 | 2,328,472 | 133,256 | 9,885,153 |
| Liability: | | | | | | | |
| Borrowings | 135,000 | 45,000 | 34,803 | - | - | - | 214,803 |
| Debentures | 657,328 | 467,430 | 396,218 | 621,927 | 5,466,285 | 152,997 | 7,762,185 |
| Other financial liabilities | 845 | 750 | 745 | 163 | - | - | 2,503 |
| Total | <u>793,173</u> | <u>513,180</u> | <u>431,766</u> | <u>622,090</u> | <u>5,466,285</u> | <u>152,997</u> | <u>7,979,491</u> |
| | | | | | | | |
| | <u>December 31, 2019</u> | | | | | | |
| | <u>Within 3 months</u> | <u>3 to 6 months</u> | <u>6 to 9 months</u> | <u>9 to 12 months</u> | <u>1 year to 5 years</u> | <u>More than 5 years</u> | <u>Total</u> |
| Asset: | | | | | | | |
| Financial assets at amortized cost | 5,796,751 | 906,382 | 505,806 | 502,163 | 1,832,614 | 288,798 | 9,832,514 |
| Liability: | | | | | | | |
| Borrowings | 4,631 | - | - | - | - | - | 4,631 |
| Debentures | 597,014 | 562,164 | 554,317 | 458,212 | 5,250,699 | - | 7,422,406 |
| Other financial liabilities | 347 | 385 | 539 | 665 | - | - | 1,936 |
| Total | <u>601,992</u> | <u>562,549</u> | <u>554,856</u> | <u>458,877</u> | <u>5,250,699</u> | <u>-</u> | <u>7,428,973</u> |

Repricing date is defined as the date on which interest rates of operational funds and procuring funds can be readjusted before the expiration date. Analysis based on interest expirations is used to analyze assets and liabilities that cause interest margins and interest costs.

b) Currency risk

Currency risk occurs from the financial instruments denominated in foreign currencies other than the functional currency. Therefore, no currency risk arises from non-monetary items or financial instruments denominated in the functional currency.

Foreign currency financial instruments exposed to currency risk by major currencies as of June 30, 2020, and December 31, 2019, are as follows (USD in thousands, SGD in thousands, MMK in thousands and Korean won in millions):

| | | June 30, 2020 | | | | | | |
|---------------------------------|---------------------------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|---------------|
| | | USD | | SGD | | MMK | | Total |
| | | Base currency | Won conversion | Base currency | Won conversion | Base currency | Won conversion | |
| Exposure | | (705,301) | (846,855) | (204,000) | (175,795) | 36,129,822 | 31,543 | (991,107) |
| Assets | Cash and cash equivalents | - | - | - | - | 6,565,828 | 5,732 | 5,732 |
| | Financial assets at amortized cost | 656 | 788 | - | - | 33,124,220 | 28,919 | 29,707 |
| Liabilities | Borrowings | (700,000) | (840,490) | (204,000) | (175,795) | - | - | (1,016,285) |
| | Debentures | (4,000) | (4,803) | - | - | - | - | (4,803) |
| | Other financial liabilities | (1,957) | (2,350) | - | - | (3,560,226) | (3,108) | (5,458) |
| Off-balance derivative exposure | | 700,000 | 840,490 | 204,000 | 175,795 | - | - | 1,016,285 |
| Net foreign currency exposure | | <u>(5,301)</u> | <u>(6,365)</u> | <u>-</u> | <u>-</u> | <u>36,129,822</u> | <u>31,543</u> | <u>25,178</u> |
| | | December 31, 2019 | | | | | | |
| | | USD | | SGD | | MMK | | Total |
| | | Base currency | Won conversion | Base currency | Won conversion | Base currency | Won conversion | |
| Exposure | | (483,974) | (560,344) | (204,000) | (175,144) | 33,866,489 | 26,497 | (708,991) |
| Assets | Cash and cash equivalents | 1 | 2 | - | - | 5,979,236 | 4,678 | 4,680 |
| | Financial assets at amortized cost | 36 | 42 | - | - | 30,914,045 | 24,187 | 24,229 |
| Liabilities | Borrowings | (480,000) | (555,744) | (204,000) | (175,144) | - | - | (730,888) |
| | Debentures | (4,000) | (4,631) | - | - | - | - | (4,631) |
| | Other financial liabilities | (11) | (13) | - | - | (3,026,792) | (2,368) | (2,381) |
| Off-balance derivative exposure | | 480,000 | 555,744 | 204,000 | 175,144 | - | - | 730,888 |
| Net foreign currency exposure | | <u>(3,974)</u> | <u>(4,600)</u> | <u>-</u> | <u>-</u> | <u>33,866,489</u> | <u>26,497</u> | <u>21,897</u> |

(3) Liquidity risk

Liquidity risk refers to the risk that the Group may encounter difficulties in meeting obligations from its financial liabilities.

1) Liquidity risk management

The management of liquidity risk refers to risk management to prevent losses caused by lack of funds by effectively managing liquidity shortages caused by maturity difference of assets and liabilities or an unexpected outflow of funds.

The Group manages liquidity risks by grouping assets and liabilities into ALM (Asset Liability Management) account items according to characteristics of each account subject, identifying the maturity gap and gap ratio through cash flow analysis by various time intervals (i.e., by remaining period, by contract period, etc.) and keeping the gap ratio within the target ratio(limit).

2) Maturity analysis of non-derivative financial liabilities

Cash flows of principals and interests by remaining contractual maturities of non-derivative financial liabilities are as follows (Unit: Korea Won in million):

| | | June 30, 2020 | | | | | | |
|------------|--|-----------------|---------------|---------------|----------------|-------------------|-------------------|-----------|
| | | Within 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 year to 5 years | More than 5 years | Total |
| Borrowings | | 135,000 | 45,000 | 34,803 | - | - | - | 214,803 |
| Debentures | | 657,328 | 467,430 | 396,218 | 621,927 | 5,466,285 | 152,997 | 7,762,185 |
| Lease | | 2,317 | 3,045 | 2,088 | 1,621 | 16,008 | - | 25,079 |
| Others | | 803,904 | - | - | - | 73,658 | - | 877,562 |
| Total | | 1,598,549 | 515,475 | 433,109 | 623,548 | 5,555,951 | 152,997 | 8,879,629 |

| | | December 31, 2019 | | | | | | |
|------------|--|-------------------|---------------|---------------|----------------|---------------------|-------------------|-----------|
| | | Within 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | One year to 5 years | More than 5 years | Total |
| Borrowings | | 4,631 | - | - | - | - | - | 4,631 |
| Debentures | | 597,014 | 562,164 | 554,317 | 458,212 | 5,250,699 | - | 7,422,406 |
| Lease | | 2,367 | 1,986 | 2,238 | 2,966 | 19,514 | - | 29,071 |
| Others | | 835,610 | 385 | 539 | 665 | 53,809 | - | 891,008 |
| Total | | 1,439,622 | 564,535 | 557,094 | 461,843 | 5,324,022 | - | 8,347,116 |

Maturity analysis above includes both principal and interest cash flows by contractual maturities.

3) Maturity analysis of derivative financial liabilities

The cash flow by the maturity of derivative financial liabilities/assets as of June 30, 2020, and December 31, 2019, is as follows (Unit: Korean won in millions):

| | | June 30, 2020 | | | | | | |
|---------------------------|--|-----------------|---------------|---------------|----------------|-------------------|-------------------|-----------|
| | | Within 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 year to 5 years | More than 5 years | Total |
| Net-settled Derivatives | | | | | | | | |
| payment cashflow | | (313) | (668) | (748) | (539) | (1,962) | (268) | (4,498) |
| Total Payment Derivatives | | | | | | | | |
| payment cashflow | | (616) | (622) | (602) | (643) | (338,625) | - | (341,108) |
| Total Payment Derivatives | | | | | | | | |
| received cashflow | | 807 | 803 | 757 | 795 | 331,338 | - | 334,500 |
| Total | | (122) | (487) | (593) | (387) | (9,249) | (268) | (11,106) |

| | | December 31, 2019 | | | | | | |
|---------------------------|--|-------------------|---------------|---------------|----------------|-------------------|-------------------|-----------|
| | | Within 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 year to 5 years | More than 5 years | Total |
| Net-settled Derivatives | | | | | | | | |
| payment cashflow | | (122) | (211) | (241) | (253) | (838) | - | (1,665) |
| Total Payment Derivatives | | | | | | | | |
| payment cashflow | | (60,908) | (699) | (699) | (691) | (238,302) | - | (301,299) |
| Total Payment Derivatives | | | | | | | | |
| received cashflow | | 59,225 | 1,263 | 1,252 | 1,210 | 239,259 | - | 302,209 |
| Total | | (1,805) | 353 | 312 | 266 | 119 | - | (755) |

4) Maturity analysis of off-statement-of-financial-position accounts

Guarantees and loan commitments like guarantees for debenture issuance and guarantees for loans, which are financial guarantee provided by the Group, have expiration dates. However, upon request of transaction counterparty, the Group will carry out a payment immediately. Details of off-statement-of-financial-position accounts are as follows (Unit: Korea won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---|----------------------|--------------------------|
| Loan commitments (unused credit limits) | 35,387,066 | 33,120,042 |

(4) Capital management

The Financial Services Commission provides policies concerning the adequacy of capital to guide the sound management of loan-specialized financial companies and prevent financial accidents. Accordingly, a loan-specialized financial company is required to maintain an adjusted equity capital ratio of at least 8% of total assets in accordance with the management guidance ratio prescribed by the supervisory law, and to calculate the adjusted equity capital ratio on a quarterly basis and report it to the Financial Supervisory Service, the supervisory body.

The adjusted total assets and adjusted equity capital shall be calculated based on the statement of financial position of the loan specialized financial company, taking into account the standards presented by the Bank for International Settlements and reflecting the characteristics of the loan specialized financial company's business.

The adjusted total assets shall be the total assets minus cash, short-term deposits without collateral arrangements, national bonds and deductions within three months of maturity. A loan-specialized financial company applying Korean IFRS deducts accumulated unrealized gains and losses, such as loan-loss reserves and loan receivables, from its adjusted total assets.

Adjusted net capital comprises the sum of basic and supplementary capital (limited by the extent of the basic capital), less deductible items. Supplementary capital is composed of allowance for credit losses in respect of credits classified as normal or precautionary (in case of loan receivables, allowance for loans from customers who have never been delinquent, including provision for unused loan commitments and reserve for bad debts) and unsecured subordinated debts (prohibited on early repayment of the debts up to 100% of the basic capital for debts with longer than 10 years, 50% for longer than 5 years but less than 10 years, and 20% annually deducted for debts within 5 years). In this case, within the amount of 1.5% of total assets, provisions excluding the amount for unused loan commitments are added to the supplementary capital.

As of June 30, 2020, and December 31, 2019, the Group complies with the regulatory requirement for the adjusted capital ratio.

5. CASH AND CASH EQUIVALENTS

- (1) Details of cash and cash equivalents as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--------------------|----------------------|--------------------------|
| Cash | 51,669 | 15,271 |
| Foreign currencies | 206 | 13 |
| Demand deposits | <u>367,136</u> | <u>100,917</u> |
| Total | <u>419,011</u> | <u>116,201</u> |

- (2) Material transactions not involving cash inflows and outflows for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|---|----------------------|----------------------|
| Changes in other comprehensive income (loss) due to valuation of financial assets at FVTOCI | (25,514) | (1,214) |
| Changes in other comprehensive income (loss) due to remeasurement | (2,282) | (3,601) |
| Changes in other comprehensive income (loss) due to cash flow hedge | (12,341) | (1,341) |
| Changes in other comprehensive income (loss) related to translation of foreign operations | 2,632 | 763 |
| Repayment of debentures | (60,200) | - |

6. FINANCIAL ASSETS AT FVTOCI

- (1) Details of financial assets at FVTOCI as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|----------------------------|----------------------|--------------------------|
| Unlisted equity securities | 59,112 | 84,626 |
| Other equity investments | <u>487</u> | <u>460</u> |
| Total | <u>59,599</u> | <u>85,086</u> |

- (2) Details of unrealized profit and loss in financial assets at FVTOCI as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | | |
|----------------------------|--------------------------|--------------------------|------------|
| | Aquisition cost | Unrealized gain/loss (*) | Fair value |
| Unlisted equity securities | 42,483 | 16,629 | 59,112 |
| Other equity investments | 487 | - | 487 |
| Total | 42,970 | 16,629 | 59,599 |
| | <u>December 31, 2019</u> | | |
| | Aquisition cost | Unrealized gain/loss (*) | Fair value |
| Unlisted equity securities | 42,483 | 42,143 | 84,626 |

| | | | |
|--------------------------|---------------|---------------|---------------|
| Other equity investments | 460 | - | 460 |
| Total | <u>42,943</u> | <u>42,143</u> | <u>85,086</u> |

(*) These amounts do not include the deferred income tax, which is directly deducted from equity.

7. FINANCIAL ASSETS AT AMORTIZED COST AND LOANS AND RECEIVABLES

- (1) Details of financial assets at amortized cost and loans and receivables as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|----------------------|--------------------------|
| Due from banks | 40,901 | 20,003 |
| Loans | 206,110 | 236,258 |
| Credit card assets | 7,636,740 | 8,129,304 |
| Capital financing receivables | 924,701 | 760,016 |
| Finance lease receivables | 359,309 | 235,011 |
| Other financial assets at amortized cost | 951,994 | 266,379 |
| Total | <u>10,119,755</u> | <u>9,646,971</u> |

- (2) Details of due from banks as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|------------------------|----------------------|--------------------------|
| Due from deposit banks | 20,003 | 20,003 |
| Others | 20,898 | - |
| Total | <u>40,901</u> | <u>20,003</u> |

- (3) Details of restricted due from banks as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>Counterparty</u> | <u>June 30, 2020</u> | <u>Reason for restriction</u> |
|------------------------|-----------------------------|----------------------|---|
| Due from deposit banks | Woori Bank | 3 | Guarantee deposit for checking accounts |
| Others | Woori Bank Trust Department | 20,898 | Liquidation-related deposit |
| | Total | <u>20,901</u> | |

| | <u>Counterparty</u> | <u>December 31, 2019</u> | <u>Reason for restriction</u> |
|------------------------|-----------------------------|--------------------------|---|
| Due from deposit banks | Woori Bank | 3 | Guarantee deposit for checking accounts |
| Others | Woori Bank Trust Department | - | Liquidation-related deposit |
| | Total | <u>3</u> | |

- (4) Details of loans as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|----------------------|--------------------------|
| Loans | 225,548 | 254,541 |
| Deferred loan origination costs and fees | 113 | 196 |
| Provision for credit losses | (19,551) | (18,479) |
| Total | <u>206,110</u> | <u>236,258</u> |

- (5) Details of credit card assets as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|----------------------|--------------------------|
| Credit sales proceeds: | | |
| Proceeds from general credit sales | 2,715,802 | 3,099,450 |
| Proceeds from installment sales | 1,747,170 | 1,969,156 |
| Proceeds from international credit sales | 71,776 | 139,158 |
| Cash advances | 509,173 | 585,322 |
| Card loan | 2,711,362 | 2,446,848 |
| Refinancing | 128,894 | 164,542 |
| Other credit card assets | 620 | 4,890 |
| Provisions for credit losses | (243,848) | (274,123) |
| Present value discount | (4,209) | (5,939) |
| Total | <u>7,636,740</u> | <u>8,129,304</u> |

- (6) Details of capital financing receivables as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|----------------------|--------------------------|
| Capital financing receivables | 915,544 | 752,960 |
| Deferred loan origination costs and fees | 17,392 | 14,128 |
| Provision for credit losses | (8,235) | (7,072) |
| Total | <u>924,701</u> | <u>760,016</u> |

- (7) Details of finance lease receivables as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|----------------------|--------------------------|
| Finance lease receivables (*) | 348,238 | 227,067 |
| Deferred loan origination costs and fees | 15,917 | 11,172 |
| Provision for credit losses | (4,846) | (3,228) |
| Total | <u>359,309</u> | <u>235,011</u> |

(*) 9 million Won of terminated financial lease receivable from the perious term is included.

- (8) Details of other financial assets at amortized cost (other loans and receivables) as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|------------------------------|----------------------|--------------------------|
| Receivables | 888,434 | 196,919 |
| Accrued income | 43,708 | 49,379 |
| Guarantee deposits | 21,643 | 21,615 |
| Others | 403 | 528 |
| Provisions for credit losses | (2,112) | (1,907) |
| Present value discount | (82) | (155) |
| Total | <u>951,994</u> | <u>266,379</u> |

- (9) Changes in the provisions for credit losses for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | | | | | |
|--------------------------------|-------------------|---|--|--|--|------------|------------|----------------|
| | | Transfer between stage classification | | | Recoveries of loans previously charged off | | | Ending balance |
| | Beginning balance | Replaced by 12-month expected credit loss | Replaced with expected credit loss for the entire period | Replaced with credit-impaired financial assets | Provision for credit losses | Charge-off | Charge-off | Ending balance |
| Loans: | | | | | | | | |
| Stage 1 | 6,761 | 775 | (449) | (156) | (167) | - | (418) | 6,346 |
| Stage 2 | 4,898 | (767) | 529 | (402) | 2,036 | - | (2,221) | 4,073 |
| Stage 3 | 6,820 | (8) | (80) | 558 | 2,656 | 1,974 | (2,788) | 9,132 |
| Credit card assets: | | | | | | | | |
| Stage 1 | 74,547 | 13,837 | (7,042) | (794) | 17,641 | - | (21,415) | 76,774 |
| Stage 2 | 71,532 | (13,795) | 7,438 | (1,988) | 59,667 | - | (57,885) | 64,969 |
| Stage 3 | 128,044 | (42) | (396) | 2,782 | 22,731 | 31,690 | (82,704) | 102,105 |
| Capital financing receivables: | | | | | | | | |
| Stage 1 | 2,750 | 350 | (205) | (65) | 214 | - | (40) | 3,004 |
| Stage 2 | 2,477 | (325) | 326 | (89) | 443 | - | (231) | 2,601 |
| Stage 3 | 1,845 | (25) | (121) | 154 | 1,073 | 292 | (588) | 2,630 |
| Finance lease receivables: | | | | | | | | |
| Stage 1 | 892 | 154 | (59) | (20) | 323 | - | (4) | 1,286 |
| Stage 2 | 1,720 | (154) | 59 | (88) | 1,051 | - | (8) | 2,580 |
| Stage 3 | 616 | - | - | 108 | 275 | 2 | (21) | 980 |
| Other financial assets: | | | | | | | | |
| Stage 1 | 705 | 63 | (51) | (7) | 437 | - | - | 1,147 |
| Stage 2 | 937 | (63) | 56 | (20) | (140) | - | - | 770 |
| Stage 3 | 265 | - | (5) | 27 | (63) | - | (29) | 195 |
| Total | 304,809 | - | - | - | 108,177 | 33,958 | (168,352) | 278,592 |

| | | June 30, 2019 | | | | | | |
|--------------------------------|-----------------------|---|--|--|--|------------|------------|----------------|
| | | Transfer between stage classification | | | Recoveries of loans previously charged off | | | Ending balance |
| | Beginning balance (*) | Replaced by 12-month expected credit loss | Replaced with expected credit loss for the entire period | Replaced with credit-impaired financial assets | Provision for credit losses | Charge-off | Charge-off | Ending balance |
| Loans: | | | | | | | | |
| Stage 1 | 7,301 | 1,033 | (623) | (190) | 140 | - | (435) | 7,226 |
| Stage 2 | 5,840 | (1,030) | 653 | (575) | 3,309 | - | (2,938) | 5,259 |
| Stage 3 | 6,554 | (3) | (30) | 765 | 4,684 | 1,458 | (4,930) | 8,498 |
| Credit card assets: | | | | | | | | |
| Stage 1 | 64,726 | 15,295 | (7,269) | (839) | 10,433 | - | (14,216) | 68,130 |
| Stage 2 | 78,128 | (15,262) | 7,557 | (2,171) | 61,468 | - | (56,892) | 72,828 |
| Stage 3 | 116,759 | (33) | (288) | 3,010 | 45,786 | 29,035 | (67,836) | 126,433 |
| Capital financing receivables: | | | | | | | | |
| Stage 1 | 4,073 | 347 | (219) | (26) | (1,022) | - | (66) | 3,087 |
| Stage 2 | 1,696 | (318) | 276 | (50) | 476 | - | (237) | 1,843 |
| Stage 3 | 1,587 | (29) | (57) | 76 | 776 | 27 | (490) | 1,890 |
| Finance lease receivables: | | | | | | | | |
| Stage 1 | 1,501 | 45 | (20) | (11) | 274 | - | (1) | 1,788 |
| Stage 2 | 317 | (45) | 20 | (26) | 149 | - | (5) | 410 |
| Stage 3 | | | | | | | | |
| Other financial assets: | | | | | | | | |
| Stage 1 | 454 | - | - | 37 | 172 | - | (11) | 652 |
| Stage 2 | 677 | 71 | (53) | (7) | (21) | - | - | 667 |
| Stage 3 | 996 | (71) | 55 | (25) | (6) | - | - | 949 |
| Stage 3 | 433 | - | (2) | 32 | (153) | - | (60) | 250 |
| Total | 291,042 | - | - | - | 126,465 | 30,520 | (148,117) | 299,910 |

(10) Changes in the provisions efficiency financial assets' total book value at amortized cost for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | | | | |
|--------------------------------|---|--|--|----------|-----------------------------|--------------|----------------|
| | | Transfer between stage classification | | | Provision for credit losses | Amortization | Ending balance |
| Beginning balance | Replaced by 12-month expected credit loss | Replaced with expected credit loss for the entire period | Replaced with credit-impaired financial assets | | | | |
| Loans: | | | | | | | |
| Stage 1 | 227,353 | 4,665 | (9,527) | (3,336) | (18,126) | (461) | 200,568 |
| Stage 2 | 19,026 | (4,655) | 9,614 | (1,329) | (5,978) | (2,221) | 14,457 |
| Stage 3 | 8,358 | (10) | (87) | 4,665 | 498 | (2,788) | 10,636 |
| Credit card assets: | | | | | | | |
| Stage 1 | 7,289,229 | 266,322 | (305,371) | (30,498) | (299,433) | (21,415) | 6,898,834 |
| Stage 2 | 885,832 | (266,266) | 305,870 | (17,550) | (50,673) | (57,885) | 799,328 |
| Stage 3 | 228,366 | (56) | (499) | 48,048 | 9,399 | (102,832) | 182,426 |
| Capital financing receivables: | | | | | | | |
| Stage 1 | 709,488 | 7,579 | (16,733) | (1,891) | 173,627 | (40) | 872,030 |
| Stage 2 | 55,535 | (7,547) | 16,875 | (816) | (6,035) | (231) | 57,781 |
| Stage 3 | 2,065 | (32) | (142) | 2,707 | (885) | (588) | 3,125 |
| Finance lease receivables: | | | | | | | |
| Stage 1 | 211,529 | 2,175 | (6,032) | (718) | 110,834 | (4) | 317,784 |
| Stage 2 | 26,013 | (2,175) | 6,032 | (554) | 15,930 | (8) | 45,238 |
| Stage 3 | 697 | - | - | 1,272 | (815) | (21) | 1,133 |
| Other financial assets: | | | | | | | |
| Stage 1 | 261,007 | 1,628 | (1,762) | (210) | 687,297 | - | 947,960 |
| Stage 2 | 6,949 | (1,628) | 1,768 | (145) | (1,038) | - | 5,906 |
| Stage 3 | 330 | - | (6) | 355 | (410) | (29) | 240 |
| Total | 9,931,777 | - | - | - | 614,192 | (188,523) | 10,357,446 |

| | | June 30, 2019 | | | | | |
|--------------------------------|---|--|--|----------|-----------------------------|--------------|----------------|
| | | Transfer between stage classification | | | Provision for credit losses | Amortization | Ending balance |
| Beginning balance | Replaced by 12-month expected credit loss | Replaced with expected credit loss for the entire period | Replaced with credit-impaired financial assets | | | | |
| Loans: | | | | | | | |
| Stage 1 | 251,470 | 7,459 | (14,104) | (4,174) | 2,220 | (442) | 242,429 |
| Stage 2 | 27,818 | (7,456) | 14,138 | (2,344) | (7,220) | (2,938) | 21,998 |
| Stage 3 | 8,778 | (3) | (34) | 6,518 | 227 | (4,930) | 10,556 |
| Credit card assets: | | | | | | | |
| Stage 1 | 6,855,927 | 286,975 | (336,040) | (33,866) | 99,599 | (14,216) | 6,858,379 |
| Stage 2 | 982,734 | (286,924) | 336,410 | (23,286) | (15,877) | (56,892) | 936,165 |
| Stage 3 | 208,958 | (51) | (370) | 57,152 | 25,258 | (67,836) | 223,111 |
| Capital financing receivables: | | | | | | | |
| Stage 1 | 861,165 | 5,058 | (13,391) | (1,526) | (229,818) | (66) | 621,422 |
| Stage 2 | 34,127 | (5,025) | 13,462 | (527) | (4,619) | (237) | 37,181 |
| Stage 3 | 1,871 | (33) | (71) | 2,053 | (1,064) | (490) | 2,266 |
| Finance lease receivables: | | | | | | | |
| Stage 1 | 159,586 | 680 | (2,390) | (628) | 37,162 | (1) | 194,409 |
| Stage 2 | 3,510 | (680) | 2,390 | (165) | (28) | (5) | 5,022 |
| Stage 3 | 493 | - | - | 793 | (543) | (11) | 732 |
| Other financial assets: | | | | | | | |
| Stage 1 | 291,968 | 1,800 | (1,970) | (228) | 27,942 | - | 319,512 |
| Stage 2 | 7,786 | (1,800) | 1,972 | (202) | (485) | - | 7,271 |
| Stage 3 | 505 | - | (2) | 430 | (555) | (60) | 318 |
| Total | 9,696,696 | - | - | - | (67,801) | (148,124) | 9,480,771 |

- (11) Changes in deferred loan origination costs for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | |
|---------------------------------|----------------------|----------|----------|-------------------|
| | Beginning balance | Increase | Decrease | Ending balance |
| Deferred loan origination costs | 25,496 | 15,567 | (7,641) | 33,422 |

| | June 30, 2019 | | | |
|---------------------------------|----------------------|----------|----------|-------------------|
| | Beginning balance | Increase | Decrease | Ending balance |
| Deferred loan origination costs | 24,521 | 8,871 | (11,396) | 21,996 |

8. LEASES

- (1) Present values of finance lease receivables and present value of minimum lease payment as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | December 31, 2019 | |
|---|---------------------|--|---------------------|--|
| | Gross investment | Present value of minimum lease payment | Gross investment | Present value of minimum lease payment |
| Less than one year | 13,631 | 13,193 | 8,611 | 8,332 |
| More than one year to less than five years | 378,026 | 335,045 | 248,553 | 218,726 |
| Total | <u>391,657</u> | <u>348,238</u> | <u>257,164</u> | <u>227,058</u> |

- (2) Details of finance lease receivables as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|------------------------------|----------------|-------------------|
| Net investment in a lease | 348,238 | 227,058 |
| Financial lease expenses | 15,917 | 11,172 |
| Provisions for credit losses | (4,846) | (3,228) |
| Termination of finance lease | - | 9 |
| Total | <u>359,309</u> | <u>235,011</u> |

- (3) Unearned interest income on gross investment in the finance lease as of June 30, 2020, and December 31, 2019, is as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|--------------------------|---------------|-------------------|
| Unearned interest income | 43,419 | 30,106 |

9. 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: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of financial assets or liabilities generally included in Level 1 are publicly traded equity securities, derivatives and debt securities issued by governmental bodies.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). The types of financial assets or liabilities generally included in Level 2 are debt securities not traded in active markets and derivatives traded over the counter, but does not require significant judgment.
- Level 3: Fair value measurements are those derived from a valuation technique that include inputs for the asset or liability, which are not based on observable market data (unobservable inputs). The types of financial assets or liabilities generally included in Level 3 are non-public securities and derivatives and debt securities whose valuation techniques require significant judgments and subjectivity.

- (1) Fair value hierarchy of financial assets and liabilities measured at fair value as of June 30, 2020, and December 31, 2019, is as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | |
|----------------------------|-------------------|---------|---------|---------|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at FVTOCI | 59,599 | - | - | 59,599 |
| Derivative assets | 20,855 | - | 20,855 | - |
| Total | 80,454 | - | 20,855 | 59,599 |
| Financial liabilities: | | | | |
| Derivative liabilities | 16,973 | - | 16,973 | - |
| | | | | |
| | December 31, 2019 | | | |
| | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at FVTOCI | 85,086 | - | - | 85,086 |
| Derivative assets | 9,366 | - | 9,366 | - |
| Total | 94,452 | - | 9,366 | 85,086 |
| Financial liabilities: | | | | |
| Derivative liabilities | 6,839 | - | 6,839 | - |

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group establishes the fair value using valuation techniques.

Fair value measurement methods for each type of financial instruments are as follows:

| | Fair value measurement techniques | Input variables |
|-----------------------------|---|---|
| Financial assets at FVTOCI: | Discounted Cash Flow model, Free Cash Flow to Equity model, Comparable companies valuation method, Dividend discount model, Risk adjustment discount model, Estimate the fair value using one or more of the valuation methods judged to be appropriate considering the nature of the valuation object in the net asset value method. | Risk-free market rate of return, market risk premium, corporate beta and others |
| Derivatives: | Determining the fair value of derivatives, such as interest rate swaps, currency swaps and others, based on input variables observable in the market is based on the valuation techniques generally used by market participants. | Risk-free market rate of return, forward rate, exchange rate and others |

Fair value of financial assets and liabilities classified into Level 3 uses external evaluation or value that is independently appraised by the Group. Non-observable inputs used in measuring fair value are calculated from the internal system, and adequacy of those inputs is reviewed at all times.

- (2) Changes in financial assets and liabilities classified into Level 3 for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | | | |
|-----------------------------|---------------|------------------|----------------------------|-----------|-----------|--------|
| | Beginning | Net gain or loss | Other comprehensive income | Purchases | Disposals | Ending |
| Financial assets: | | | | | | |
| Financial assets at FVTOCI: | 85,086 | - | (25,514) | 127 | (100) | 59,599 |
| | | | | | | |
| | June 30, 2019 | | | | | |
| | Beginning | Net gain or loss | Other comprehensive income | Purchases | Disposals | Ending |
| Financial assets: | | | | | | |
| Financial assets at FVTOCI: | 87,753 | - | (1,214) | 178 | - | 86,717 |

- (3) Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | |
|------------------------------------|-------------------|----------------|
| | Fair value | Carrying value |
| Financial assets: | | |
| Financial assets at amortized cost | 10,388,353 | 10,119,755 |
| Financial liabilities: | | |
| Borrowings (*) | 214,803 | 214,803 |
| Debentures | 7,541,338 | 7,381,220 |
| Other financial liabilities (*) | 897,482 | 900,717 |
| | | |
| | December 31, 2019 | |
| | Fair value | Carrying value |
| Financial assets: | | |
| Financial assets at amortized cost | 9,892,140 | 9,646,971 |
| Financial liabilities: | | |
| Borrowings (*) | 4,631 | 4,631 |
| Debentures | 7,158,911 | 7,075,968 |
| Other financial liabilities (*) | 914,186 | 915,988 |

(*) Includes financial liabilities determined that cost represents the best estimate of fair value.

The financial assets and liabilities discussed above are classified as Level 3 and Level 2, respectively.

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group measures fair value of the financial instruments using valuation techniques. If there is no active market for a financial instrument, fair value measurement techniques and input variables for each type of financial instruments that are recorded at amortized cost are as follows:

| | Fair value measurement technique | Input variables |
|------------------------------------|---|---|
| Financial assets at amortized cost | The fair value is measured by discounting the cash flows with use of market interest rates applied to the loans, which are similar to the expected cash flow. | Risk-free market rate of return, credit spread and prepayment ratio |
| Debentures | The fair value is measured by discounting the future cash flow of issued bonds by applying market interest rates reflecting the Company's credit rating. (External evaluation agency calculation) | Risk-free market rate of return and credit spread |
| Other financial liabilities | The fair value is measured by discounting the cash flows with use of market interest rates applied to the financial instruments, which are similar to the expected cash flow. | Risk-free market rate of return and credit spread |

10. PREMISES AND EQUIPMENT

- (1) Details of premises and equipment as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | | |
|--------------------------------|-------------------|----------|-----------------------------|-----------------------------|--------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Premises and equipment (owned) | 2,487 | 518 | 24,938 | 1,231 | 29,174 |
| Right-of-use assets | - | - | 1,547 | 22,218 | 23,765 |
| | December 31, 2019 | | | | |
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Premises and equipment (owned) | 2,487 | 544 | 24,369 | 1,436 | 28,836 |
| Right-of-use assets | - | - | 1,889 | 26,143 | 28,032 |

- (2) Details of premises and equipment as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | | |
|--------------------------|---------------|----------|-----------------------------|-----------------------------|----------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Cost of purchases | 2,487 | 953 | 50,547 | 9,952 | 63,939 |
| Accumulated depreciation | - | (435) | (25,609) | (8,721) | (34,765) |
| Net carrying value | 2,487 | 518 | 24,938 | 1,231 | 29,174 |

| | December 31, 2019 | | | | |
|--------------------------|-------------------|----------|-----------------------------|-----------------------------|----------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Cost of purchases | 2,487 | 953 | 45,539 | 9,794 | 58,773 |
| Accumulated depreciation | - | (409) | (21,170) | (8,358) | (29,937) |
| Net carrying value | 2,487 | 544 | 24,369 | 1,436 | 28,836 |

- (3) Details of changes in premises and equipment for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | | |
|-------------------|---------------|----------|-----------------------------|-----------------------------|---------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,487 | 544 | 24,369 | 1,436 | 28,836 |
| Acquisitions | - | - | 4,925 | 120 | 5,045 |
| Depreciation | - | (26) | (4,425) | (347) | (4,798) |
| Others | - | - | 69 | 22 | 91 |
| Ending balance | 2,487 | 518 | 24,938 | 1,231 | 29,174 |

| | June 30, 2019 | | | | |
|-------------------|---------------|----------|-----------------------------|-----------------------------|---------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,487 | 594 | 17,217 | 2,267 | 22,565 |
| Acquisitions | - | - | 5,122 | 170 | 5,292 |
| Depreciation | - | (26) | (3,175) | (279) | (3,480) |
| Others | - | - | (19) | (1,086) | (1,105) |
| Ending balance | 2,487 | 568 | 19,145 | 1,072 | 23,272 |

- (4) Details of right-of-use assets as of June 30, 2020 and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | |
|--------------------------|-----------------------------|-----------------------------|----------|
| | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,697 | 33,997 | 36,694 |
| Accumulated depreciation | (1,150) | (11,779) | (12,929) |
| Ending balance | 1,547 | 22,218 | 23,765 |

| | December 31, 2019 | | |
|--------------------------|-----------------------------|-----------------------------|---------|
| | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,784 | 33,756 | 36,540 |
| Accumulated depreciation | (895) | (7,613) | (8,508) |
| Ending balance | 1,889 | 26,143 | 28,032 |

- (5) Details of changes in right-of-use assets for the six-month periods ended June 30, 2020 and 2019 are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | |
|--------------------------|-----------------------------|-----------------------------|---------|
| | Properties for business use | Structures in leased office | Total |
| Beginning balance | 1,889 | 26,143 | 28,032 |
| New contract | 116 | 304 | 420 |
| Cancellation of contract | (11) | - | (11) |
| Depreciation | (447) | (4,229) | (4,676) |
| Ending balance | 1,547 | 22,218 | 23,765 |

| | June 30, 2019 | | |
|--------------------------|-----------------------------|-----------------------------|---------|
| | Properties for business use | Structures in leased office | Total |
| Beginning balance | 1,638 | 31,814 | 33,452 |
| New contract | 967 | 271 | 1,238 |
| Cancellation of contract | (20) | (68) | (88) |
| Depreciation | (569) | (4,710) | (5,279) |
| Others | - | 890 | 890 |
| Ending balance | 2,016 | 28,197 | 30,213 |

11. INTANGIBLE ASSETS

- (1) Details of intangible assets as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | | Total |
|--------------------------------------|------------------|----------------------------|---------------|-------------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposits (*) | |
| Cost of purchases or appraised value | 29,891 | 146 | 42,715 | 6,128 | 78,880 |
| Accumulated depreciation | (11,795) | (99) | (24,244) | - | (36,138) |
| Accumulated impairment losses | - | - | - | (582) | (582) |
| Net carrying value | <u>18,096</u> | <u>47</u> | <u>18,471</u> | <u>5,546</u> | <u>42,160</u> |

| | December 31, 2019 | | | | Total |
|--------------------------------------|-------------------|----------------------------|---------------|-------------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposits (*) | |
| Cost of purchases or appraised value | 26,150 | 134 | 40,930 | 6,128 | 73,342 |
| Accumulated depreciation | (8,244) | (88) | (21,090) | - | (29,422) |
| Accumulated impairment losses | - | - | - | (582) | (582) |
| Net carrying value | <u>17,906</u> | <u>46</u> | <u>19,840</u> | <u>5,546</u> | <u>43,338</u> |

(*) Membership deposits include golf clubs and condominium membership deposits, and for these intangible assets, the exact period of useful life cannot be measured. Therefore, the Group has recognized impairment loss for the membership deposits since the recoverable amount is lower than the carrying amount.

- (2) Details of changes in intangible assets for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | | Total |
|-------------------|------------------|----------------------------|---------------|--------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposit | |
| Beginning balance | 17,906 | 46 | 19,840 | 5,546 | 43,338 |
| Acquisitions | 3,741 | 12 | 1,784 | - | 5,537 |
| Amortization | (3,551) | (11) | (3,153) | - | (6,715) |
| Ending balance | <u>18,096</u> | <u>47</u> | <u>18,471</u> | <u>5,546</u> | <u>42,160</u> |

| | June 30, 2019 | | | | Total |
|-------------------|------------------|----------------------------|---------------|--------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposit | |
| Beginning balance | 14,016 | 42 | 16,333 | 5,377 | 35,767 |
| Acquisitions | 2,224 | 28 | 4,065 | 169 | 6,487 |
| Amortization | (2,182) | (11) | (2,483) | - | (4,676) |
| Ending balance | <u>14,058</u> | <u>59</u> | <u>17,916</u> | <u>5,546</u> | <u>37,578</u> |

12. OTHER ASSETS

Details of other assets as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|----------------------|---------------|-------------------|
| Advance payments | 295 | 73,296 |
| Prepaid lease assets | 7,614 | 2,995 |
| Prepaid expenses | 9,206 | 5,471 |
| Others | 6,785 | 5,486 |
| Total | <u>23,900</u> | <u>87,248</u> |

13. BORROWINGS AND DEBENTURES

(1) Details of borrowings as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | Provider | Interest rate (%) | Amount | |
|-----------------------|---------------------------------|-------------------|------------------|----------------------|
| | | | June 30, 2020 | December 31, 2019 |
| Short-term borrowings | Woori Bank (Singapore) | 3M LIBOR + 1.4 | 4,803 | 4,631 |
| Commercial paper | BNK Securities. Co., LTD., etc. | 1.85~2.58 | 210,000 | - |
| | Total | | <u>214,803</u> | <u>4,631</u> |

(2) Details of debentures as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | |
|----------------------------------|-----------------------------|-------------------------|------------------|
| | Interest rate (%) | Maturity | Amount |
| Debentures in local currency | 1.32~3.11 | 2020-07-06 ~ 2027-12-21 | 6,205,000 |
| Debentures in foreign currency | LIBOR 1M+0.55 and others | 2021-02-25 ~ 2023-12-27 | 1,016,285 |
| Short-term debentures | 1.75 | 2021-04-02 | 70,000 |
| Electronic short-term debentures | 0.62~0.73 | 2020-07-01 ~ 2020-07-07 | 95,000 |
| | Subtotal | | 7,386,285 |
| | Discount on bonds | | (5,065) |
| | Total | | <u>7,381,220</u> |
| | December 31, 2019 | | |
| | Interest rate (%) | Maturity | Amount |
| Debentures in local currency | 1.39~3.11 | 2020-01-13 ~ 2024-03-04 | 6,350,000 |
| Debentures in foreign currency | LIBOR 1M+0.50 and others | 2020-01-21 ~ 2022-10-25 | 730,888 |
| | Subtotal | | 7,080,888 |
| | Discount on bonds | | (4,920) |
| | Total | | <u>7,075,968</u> |

14. PROVISIONS

- (1) Details of provisions as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|---|---------------|-------------------|
| Provisions for unused commitments | 52,904 | 51,631 |
| Asset retirement obligation | 4,586 | 4,544 |
| Provision for illegal use of credit cards | 383 | 442 |
| Other provisions | 198 | 198 |
| Total | <u>58,071</u> | <u>56,815</u> |

- (2) Changes in provisions for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | |
|---------------------------|-----------------------------|--|------------------|--------------|
| | Asset retirement obligation | Provision for illegal use of credit card | Other provisions | Total |
| Beginning balance | 4,544 | 442 | 198 | 5,184 |
| Provisions provided | - | 48 | - | 48 |
| Reversal of unused amount | (1) | - | - | (1) |
| Provisions used | - | (164) | - | (164) |
| Others | 43 | 57 | - | 100 |
| Ending balance | <u>4,586</u> | <u>383</u> | <u>198</u> | <u>5,167</u> |

| | June 30, 2019 | | | |
|---------------------------|-----------------------------|--|------------------|--------------|
| | Asset retirement obligation | Provision for illegal use of credit card | Other provisions | Total |
| Beginning balance | 5,234 | 467 | 198 | 5,899 |
| Provisions provided | 46 | 84 | - | 130 |
| Reversal of unused amount | (29) | - | - | (29) |
| Provisions used | (357) | (295) | - | (652) |
| Others | - | 168 | - | 168 |
| Ending balance | <u>4,894</u> | <u>424</u> | <u>198</u> | <u>5,516</u> |

- (3) Changes in provisions for guarantees and unused commitments for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | |
|--|-----------------------------------|--|----------------------------------|---------------|
| | Twelve-month expected credit loss | Expected credit loss for the entire period | Credit-impaired financial assets | Total |
| Beginning balance | 33,996 | 13,282 | 4,353 | 51,631 |
| Replaced by 12-month expected credit loss | 4,292 | (4,146) | (146) | - |
| Replaced with expected credit loss for the entire period | (1,000) | 1,494 | (494) | - |
| Replaced with credit-impaired financial assets | (101) | (170) | 271 | - |
| Provisions provided (reversal of unused amount) | (760) | 2,659 | (626) | 1,273 |
| Ending balance | <u>36,427</u> | <u>13,119</u> | <u>3,358</u> | <u>52,904</u> |

| | June 30, 2019 | | | |
|--|-----------------------------------|--|----------------------------------|---------------|
| | Twelve-month expected credit loss | Expected credit loss for the entire period | Credit-impaired financial assets | Total |
| Beginning balance | 32,794 | 14,723 | 1,627 | 49,144 |
| Replaced by 12-month expected credit loss | 4,778 | (4,716) | (62) | - |
| Replaced with expected credit loss for the entire period | (1,161) | 1,242 | (81) | - |
| Replaced with credit-impaired financial assets | (138) | (179) | 317 | - |
| Provisions provided (reversal of unused amount) | (2,460) | 3,946 | 1,375 | 2,861 |
| Ending balance | <u>33,813</u> | <u>15,016</u> | <u>3,176</u> | <u>52,005</u> |

15. NET DEFINED BENEFIT LIABILITIES (ASSETS)

The Group's defined benefit pension plans are based on final salary. The pension plan is a system that pays a certain amount of pension guaranteed throughout the employee's lifetime. The level of pension is calculated on the basis of the employee's working period and final salary. Most of the pension funds are funded and operated by external professional trust companies, and trust companies are regulated by the country.

The Group is exposed to various risks through defined benefit retirement pension plan, and the most significant risks are as follows:

| | |
|---|---|
| Volatility of asset | The defined benefit obligation was estimated with an interest rate calculated based on the yield of high-quality corporate bonds. A deficit may occur if the rate of return of plan assets falls short of the interest rate. |
| Decrease in profitability of high quality corporate bonds | A decrease in profitability of high-quality corporate bond will be offset by some increase in the value of debt securities that the employee benefit plan owns but will bring an increase in the defined benefit liabilities. |
| Risk of inflation | Defined benefit obligations are related to inflation rate; the higher the inflation rate is, the higher the level of liabilities. Therefore, deficit occurs in the system if an inflation rate increases. |

- (1) Details of net defined benefit liabilities (assets) as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|--|---------------|-------------------|
|--|---------------|-------------------|

| | | |
|--|----------|----------|
| Present value of defined benefit obligations | 36,453 | 31,418 |
| Fair value of plan assets | (32,052) | (32,305) |
| Net defined benefit liabilities (assets) | 4,401 | (887) |

- (2) The amounts recognized in the consolidated interim statements of comprehensive income for the six-month periods ended June 30, 2020 and 2019, relating to defined benefit plans are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|---|---------------|---------------|
| Current service cost | 3,007 | 2,801 |
| Net interest cost | (46) | (42) |
| Cost recognized in net income | 2,961 | 2,759 |
| Remeasurements | 2,282 | 3,601 |
| Income tax effect | (628) | (990) |
| Cost recognized in total comprehensive income | 4,615 | 5,370 |

- (3) Changes in the present value of defined benefit obligations for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|----------------------|---------------|---------------|
| Beginning balance | 31,418 | 28,281 |
| Current service cost | 3,007 | 2,801 |
| Interest expense | 366 | 368 |
| Remeasurement | 2,122 | 3,379 |
| Benefit paid | (500) | (748) |
| Others | 40 | (97) |
| Total | 36,453 | 33,984 |

- (4) Changes in the present value of plan assets for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|-------------------------|---------------|---------------|
| Beginning balance | 32,305 | 28,624 |
| Interest income | 412 | 410 |
| Remeasurement | (160) | (222) |
| Payment of contribution | - | 3,000 |
| Benefit paid | (545) | (682) |
| Others | 40 | (97) |
| Total | 32,052 | 31,033 |

- (5) As of June 30, 2020, and December 31, 2019, plan assets consist of regular deposits. The actual return on plan assets on June 30, 2020, and December 31, 2019, is 252 million Won and 187 million Won, respectively.
- (6) The significant actuarial assumptions used in defined benefit obligation assessment as of June 30, 2020, and December 31, 2019, are as follows (Unit: %):

| | June 30, 2020 | December 31, 2019 |
|-------------------------|--|--|
| Discount rate | 2.28 | 2.38 |
| Inflation rate | 2.33 | 2.33 |
| Future wage growth rate | 4.35 | 4.29 |
| Death rate | Korea Insurance Development Institute Standard Rate | Korea Insurance Development Institute Standard Rate |
| Retirement rate | Experienced retirement rate | Experienced retirement rate |

- (7) The sensitivity of actuarial assumptions used in assessment of defined benefit obligation as of June 30, 2020, and December 31, 2019, is as follows (Unit: Korean Won in millions):

| | June 30, 2020(*) | |
|---|--|----------|
| | The impact on the defined benefit obligation | |
| | Increase | Decrease |
| The change of 1% in discount rate | (3,527) | 4,154 |
| The change of 1% in future salary growth rate | 4,112 | (3,560) |

| | December 31, 2019(*) | |
|---|--|----------|
| | The impact on the defined benefit obligation | |
| | Increase | Decrease |
| The change of 1% in discount rate | (3,030) | 3,555 |
| The change of 1% in future salary growth rate | 3,523 | (3,061) |

(*) The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized in the separate statements of financial position.

- (8) Retirement benefit cost measured with respect to the defined contribution for the six-month periods ended June 30, 2020 and 2019, is as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|---|---------------|---------------|
| Severance benefits-defined contribution | 124 | 111 |

16. DERIVATIVES

The hedging relationship in which the Group applies cash flow hedges is affected by interest rate indicators related to interest rate index reform. The interest rate index on which the hedging relationship is exposed is USD 1M LIBOR and USD 3M LIBOR. The nominal amount of hedging instruments associated with 1M LIBOR and 3M LIBOR in the Group hedging relationship is USD 620,000,000 and USD 80,000,000, respectively. The Group is keeping a close eye on market and industry discussions regarding the applicable alternative benchmark interest rate for the exposed interest rate index, and determines that this uncertainty will no longer appear when the exposed interest rate index is replaced by applicable interest rates.

- (1) The Group has entered into interest rate swaps to hedge against cash flow risk arising from floating-rate debentures. Details of derivative assets and derivative liabilities as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | |
|--------------------|-----------------|---------------------------------|-------------|
| | Notional amount | Liabilities for cash flow hedge | |
| | | Assets | Liabilities |
| Interest rate swap | 350,000 | - | 4,439 |
| Currency swap | 1,016,285 | 20,855 | 12,534 |
| Total | 1,366,285 | 20,855 | 16,973 |

| | December 31, 2019 | | |
|--------------------|-------------------|---------------------------------|-------------|
| | Notional amount | Liabilities for cash flow hedge | |
| | | Assets | Liabilities |
| Interest rate swap | 200,000 | - | 1,646 |

| | | | |
|---------------|---------|-------|-------|
| Currency swap | 730,888 | 9,366 | 5,193 |
| Total | 930,888 | 9,366 | 6,839 |

(2) Overview of hedge accounting

As of June 30, 2020, the Group has applied cash flow hedge on Korean won-denominated bonds amounting to 349,808 million Won and foreign currency-denominated bonds amounting to 1,014,453 million Won. The purpose of the hedging is to avoid the cash flow risk of principal and interest arising from fluctuation of interest rate and exchange rate. The Group has designated interest swap contracts and currency swap contracts as hedging instruments in order to achieve such objectives.

Pursuant to the interest rate swap agreement, by swapping the calculated difference between the fixed interest rate and floating interest rate applied to the nominal value, the cash flow fluctuation risk is hedged as the Korean won-denominated debentures' floating interest rate terms are converted to fixed interest rate. In addition, pursuant to the currency swap agreements, a fixed interest rate is applied to the nominal value determined in advance, and the calculated amount is paid, and the amount calculated by applying the floating rate to the US dollar is exchanged. As a result, the cash flow fluctuation risk is eliminated. Pursuant to the interest rate swap agreement and the currency swap agreement, hedge ratio is determined by matching the nominal value to the face value of the hedging instrument.

In this hedging relationship, only the interest rate fluctuation and the exchange rate fluctuation, which are the most significant part of the cash flow fluctuation factors of the items subject to risk, are designated as the hedged risk, and other risk factors, including credit risk, are not included in the hedged risk. Therefore, the ineffective portion of the hedge could arise from fluctuations in the timing of the cash flow of the hedged item, the change in the total amount and price of the hedged item or significant credit risk fluctuation of either party of the hedged item.

The interest rate swap, the currency swap agreements and the hedged items are subject to market interest rates and exchange rate fluctuations. The Group expects the value of the interest rate swap and currency swap agreements and the value of the hedged item to generally change in the opposite direction.

(3) The nominal amounts of the hedging instruments as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions, USD and SGD) :

| | June 30, 2020 | | | |
|--|---------------------|---------------------------|-------------------------|-------------|
| | One year or less | One year to five years | More than five years | Total |
| Cash flow hedge | | | | |
| Interest rate risk | | | | |
| Interest rate swap | 100,000 | 150,000 | 100,000 | 350,000 |
| Foreign currencies translation risk and interest rate risk | | | | |
| Currency swap (USD) | 230,000,000 | 470,000,000 | - | 700,000,000 |
| Foreign currencies translation risk | | | | |
| Currency swap (SGD) | 204,000,000 | - | - | 204,000,000 |
| | | | | |
| | December 31, 2019 | | | |
| | One year or less | One year to five years | More than five years | Total |
| Cash flow hedge | | | | |
| Interest rate risk | | | | |
| Interest rate swap | - | 200,000 | - | 200,000 |
| Foreign currencies translation risk and interest rate risk | | | | |
| Currency swap (USD) | 150,000,000 | 330,000,000 | - | 480,000,000 |

| | | | | |
|-------------------------------------|-------------|------------|---|-------------|
| Foreign currencies translation risk | | | | |
| Currency swap (SGD) | 136,000,000 | 68,000,000 | - | 204,000,000 |

- (4) The average exchange rate and average interest rate of the hedging instruments as of June 30, 2020, and December 31, 2019, are as follows:

| | June 30, 2020 |
|--|---|
| Cash flow hedge | |
| Interest rate risk | |
| Interest rate swap | KRW 3Y CMS+0.40% receipt, KRW 2.38% paid KRW CD+0.69% receipt, KRW 2.06% paid |
| Foreign currencies translation risk and interest rate risk | |
| Currency swap (USD) | USD 3M LIBOR+0.80% receipt, KRW 1.45% paid, KRW/USD = 1,155 won USD 1M LIBOR+0.54% receipt, KRW 1.52% paid, KRW/USD = 1,151 won USD 1M LIBOR+0.82% receipt, KRW 0.75% paid, KRW/USD = 1,233 won |
| Foreign currencies translation risk | |
| Currency swap (SGD) | SGD 1.91% receipt, KRW 1.98% paid, KRW/SGD = 828 won |
| | December 31, 2019 |
| Cash flow hedge | |
| Interest rate risk | |
| Interest rate swap | KRW 3Y CMS+0.40% receipt, KRW 2.38% paid KRW CD+0.63% receipt, KRW 2.31% paid |
| Foreign currencies translation risk and interest rate risk | |
| Currency swap (USD) | USD 3M LIBOR+0.80% receipt, KRW 1.45% paid, KRW/USD = 1,155 won USD 1M LIBOR+0.54% receipt, KRW 1.53% paid, KRW/USD = 1,158 won |
| Foreign currencies translation risk | |
| Currency swap (SGD) | SGD 1.91% received and KRW 1.98% paid, SGD/KRW=₩828 |

- (5) The amounts related to items designated as hedging instruments as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions, USD and SGD) :

| | June 30, 2020 | | | | |
|--|---|---|-------------|--|---|
| | Nominal amounts of the hedging instrument | Carrying amounts of the hedging instrument | | Line item in the consolidated interim statement of financial position where the hedging instrument is located | Change in fair value used for calculating hedge ineffectiveness |
| | | Assets | Liabilities | | |
| Cash flow hedge | | | | | |
| Interest rate risk | | | | | |
| Interest rate swap | 350,000 | - | 4,439 | Derivative liabilities | (2,793) |
| Foreign currencies translation risk and interest rate risk | | | | | |
| Currency swap (USD) | 700,000,000 | 14,074 | 12,534 | Derivative assets | 2,254 |
| Foreign currencies translation risk | | | | | |
| Currency swap(SGD) | 204,000,000 | 6,781 | - | Derivative assets | 1,478 |

| December 31, 2019 | | | | | |
|--|---|---|-------------|---|---|
| | Nominal amounts of the hedging instrument | Carrying amounts of the hedging instrument | | Line item in the consolidated statement of financial position where the hedging instrument is located | Change in fair value used for calculating hedge ineffectiveness |
| | | Assets | Liabilities | | |
| Cash flow hedge | | | | | |
| Interest rate risk | | | | | |
| Interest rate swap | 200,000 | - | 1,646 | Derivative liabilities | (1,243) |
| Foreign currencies translation risk and interest rate risk | | | | | |
| Currency swap (USD) | 480,000,000 | 4,070 | 5,193 | Derivative assets/ liabilities | 22,364 |
| Foreign currencies translation risk | | | | | |
| Currency swap(SGD) | 204,000,000 | 5,296 | - | Derivative assets | 8,918 |

(6) Details of carrying amount to hedged and amount adjusted due to hedge accounting as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| June 30, 2020 | | | | | |
|--|---|-------------|---|--|--------------------------------|
| | Carrying amounts of the hedging item | | Line item in the consolidated interim statement of financial position in which the hedged item is included | Change in fair value used for calculating hedge ineffectiveness | Cash flow hedge reserve (*) |
| | Assets | Liabilities | | | |
| Cash flow hedge | | | | | |
| Interest rate risk | | | | | |
| Interest rate swap | - | 349,808 | Debentures | 3,846 | (3,106) |
| Foreign currencies translation risk and interest rate risk | | | | | |
| Currency swap | - | 838,902 | Debentures | (8,935) | (12,346) |
| Foreign currencies translation risk | | | | | |
| Currency swap | - | 175,551 | Debentures | (1,172) | (1,776) |
| December 31, 2019 | | | | | |
| | Carrying amounts of the hedging item | | Line item in the consolidated statement of financial position in which the hedged item is included | Change in fair value used for calculating hedge ineffectiveness | Cash flow hedge reserve (*) |
| | Assets | Liabilities | | | |
| Cash flow hedge | | | | | |
| Interest rate risk | | | | | |
| Interest rate swap | - | 199,915 | Debentures | 1,301 | (1,059) |
| Foreign currencies translation risk and interest rate risk | | | | | |
| Currency swap | - | 554,433 | Debentures | (25,057) | (2,525) |
| Foreign currencies translation risk | | | | | |
| Currency swap | - | 174,708 | Debentures | (8,315) | (2,304) |

(*) Amount after tax deduction

- (7) Reclassification of profit or loss from other comprehensive income and equity related to cash flow hedges as of June 30, 2020 and 2019, is as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | | | | |
|-----------------|--|---------------------------------------|--|--|--|---|--|
| | | Hedge effectiveness recognized in OCI | Hedge ineffectiveness recognized in profit or loss | Changes in the value of foreign basis spread recognized in OCI | Line item recognized in the profit or loss | Amounts reclassified from cash flow hedge reserve to profit or loss | Line item affected in profit or loss because of the reclassification |
| Cash flow hedge | Interest rate risk | (2,823) | 30 | - | Other net operating income | - | Other net operating income |
| | Foreign currencies translation risk and interest rate risk | 1,581 | 673 | (1,811) | Other net operating income | (9,816) | Other net operating income |
| | Foreign currencies translation risk | 1,172 | 306 | 7 | Other net operating income | (651) | Other net operating income |
| | | June 30, 2019 | | | | | |
| | | Hedge effectiveness recognized in OCI | Hedge ineffectiveness recognized in profit or loss | Changes in the value of foreign basis spread recognized in OCI | Line item recognized in the profit or loss | Amounts reclassified from cash flow hedge reserve to profit or loss | Line item affected in profit or loss because of the reclassification |
| Cash flow hedge | Interest rate risk | (1,341) | (16) | - | Other net operating income | - | Other net operating income |
| | Foreign currencies translation risk and interest rate risk | 18,349 | 65 | 285 | Other net operating income | (19,105) | Other net operating income |
| | Foreign currencies translation risk | 7,423 | - | (2) | Other net operating income | (7,430) | Other net operating income |

- (8) Changes in other comprehensive income related to hedge as of June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|---|---------------|---------------|
| Beginning balance | (5,889) | (3,667) |
| Hedging profit or loss recognized in other comprehensive income: | | |
| Effective part of the fair value change of the hedging instrument | (872) | 25,083 |
| Change in foreign basis spread | (70) | 24,431 |
| Income tax effect | (1,804) | 283 |
| Reclassified profit or loss amount | 1,002 | 369 |
| Ending balance | (10,467) | (26,535) |
| | (17,228) | (5,119) |

17. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES

- (1) Other financial liabilities and other liabilities as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|---|---------------|-------------------|
| Other financial liabilities: | | |
| Accounts payable | 537,299 | 570,992 |
| Accrued expenses | 105,615 | 110,491 |
| Prepaid card liabilities | 13,064 | 14,732 |
| Debit card liabilities | 126,135 | 146,732 |
| Guarantee deposit received for import license | 58,411 | 37,467 |
| Domestic exchange obligation payable | 5,031 | 4,648 |
| Lease liabilities | 24,066 | 27,694 |
| Others | 31,096 | 3,232 |
| Subtotal | 900,717 | 915,988 |
| Other liabilities: | | |
| Advance received | 10,237 | 8,431 |
| Unearned income | 145,144 | 139,375 |
| Others | 40,616 | 52,849 |
| Subtotal | 195,997 | 200,655 |
| Total | 1,096,714 | 1,116,643 |

- (2) The lease payments to be paid in the future as of June 30, 2020, and December 31, 2019 are as follows: (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|------------------------|---------------|-------------------|
| Lease payments: | 25,079 | 29,071 |
| One year or less | 9,071 | 9,557 |
| One year to five years | 16,008 | 19,514 |
| More than five years | - | - |

- (3) The total cash outflows from leasing as of June 30, 2020 and 2019, are as follows.

| | June 30, 2020 | June 30, 2019 |
|---------------------------------|---------------|---------------|
| Total cash outflows from leases | 4,245 | 4,939 |

18. CAPITAL STOCK AND CAPITAL SURPLUS

- (1) Capital stock and capital surplus as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|----------------------------------|----------------------|--------------------------|
| Capital stock: | | |
| Common stock capital | 896,331 | 896,331 |
| Capital surplus: | | |
| Paid in capital in excess of par | 127,097 | 127,097 |
| Others | (5,579) | (5,579) |
| Total | <u>1,017,849</u> | <u>1,017,849</u> |

- (2) The numbers of authorized shares as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean won):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|------------------------------------|----------------------|--------------------------|
| Authorized shares of capital stock | 670,000,000 shares | 670,000,000 shares |
| Par value | 5,000 | 5,000 |
| Issued shares of common stock | 179,266,200 shares | 179,266,200 shares |

- (3) Details of capital surplus as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|----------------------------------|--------------------------|------------------------------|
| Paid in capital in excess of par | 127,097 | 127,097 |
| Others | (5,579) | (5,579) |
| Total | <u>121,518</u> | <u>121,518</u> |

- (4) The bond-type hybrid securities classified as owner's equity as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| <u>Classification</u> | <u>Issue date</u> | <u>Maturity date</u> | <u>Interest rate (%)</u> | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|-----------------------|-------------------|----------------------|------------------------------|--------------------------|------------------------------|
| Hybrid securities | 2020-06-11 | 2050-06-11 | 3.44 | 150,000 | - |
| | Issuing cost | | | (87) | - |
| | Total | | | <u>149,913</u> | <u>-</u> |

The hybrid securities mentioned above are redeemable after 5 years from date of issuance.

19. OTHER EQUITY

- (1) Details of other equity as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---|----------------------|--------------------------|
| Accumulated other comprehensive income: | | |
| Gain (loss) on valuation of financial assets at FVTOCI | 12,057 | 30,549 |
| Remeasurement elements of net defined benefit liabilities | (4,853) | (3,199) |

| | June 30, 2020 | December 31, 2019 |
|---|----------------|-------------------|
| Cash flow hedging gains or losses | (17,228) | (5,889) |
| Changes in other comprehensive income of foreign operations translation | 2,323 | 415 |
| Total | <u>(7,701)</u> | <u>21,876</u> |

(2) Changes in other equity for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | |
|---|-------------------|--------------------------------------|-------------------|----------------|
| | Beginning balance | Increase (decrease) on valuation (*) | Income tax effect | Ending balance |
| Accumulated other comprehensive income: | | | | |
| Gain (loss) on valuation of financial assets at FVTOCI | 30,549 | (25,514) | 7,022 | 12,057 |
| Remeasurement elements of net defined benefit liabilities | (3,199) | (2,282) | 628 | (4,853) |
| Cash flow hedging gains or losses | (5,889) | (12,341) | 1,002 | (17,228) |
| Changes in other comprehensive income of foreign operations translation | 415 | 2,632 | (724) | 2,323 |
| Total | <u>21,876</u> | <u>(37,505)</u> | <u>7,928</u> | <u>(7,701)</u> |

(*) Gain (loss) on valuation of financial assets at FVTOCI includes the amount of (-)48 million Won replaced by retained earnings due to the disposal of equity securities.

| | June 30, 2019 | | | |
|---|-------------------|----------------------------------|-------------------|----------------|
| | Beginning balance | Increase (decrease) on valuation | Income tax effect | Ending balance |
| Accumulated other comprehensive income: | | | | |
| Gain (loss) on valuation of financial assets at FVTOCI | 32,670 | (1,214) | 334 | 31,790 |
| Remeasurement elements of net defined benefit liabilities | (4,203) | (3,601) | 990 | (6,814) |
| Cash flow hedging gains or losses | (3,667) | (1,820) | 369 | (5,118) |
| Changes in other comprehensive income of foreign operations translation | (508) | 763 | (210) | 45 |
| Total | <u>24,292</u> | <u>(5,872)</u> | <u>1,483</u> | <u>19,903</u> |

20. RETAINED EARNINGS

Details of retained earnings as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|------------------------------------|---------------|-------------------|
| Legal reserve: | | |
| Earned surplus reserve | 111,746 | 111,745 |
| Voluntary reserve: | | |
| Regulatory reserve for credit loss | 407,903 | 387,181 |

| | | |
|--|---------|---------|
| Retained earnings before appropriation | 308,399 | 249,516 |
| Total | 828,048 | 748,442 |

(1) Earned surplus reserve

Korean Commercial Code requires a company to appropriate at least 10% of dividends paid as legal reserve for each fiscal period until the reserve equals 50% of paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or can be transferred to capital.

(2) Regulatory reserve for credit loss

The Group accumulated the shortage as bad debt reserve, as the recognized allowance for doubtful accounts was less than the amount in accordance with the Regulations on Supervision of *Credit-Specialized Financial Business Act Article 11*.

21. REGULATORY RESERVE FOR CREDIT LOSS

In accordance with Article 11 of the Regulation on the Supervision of Banking Business (“RSBB”), if provisions for credit loss under Korean IFRS for the accounting purpose are lower than those for the regulatory purpose required by RSBB, the Group is required to reserve such difference as the regulatory reserve for credit loss.

The regulatory reserve for credit loss is classified as appropriated retained earnings. The excess of provisions under RSBB over provisions for credit loss under Korean IFRS can be reversed. If the Group has accumulated deficits, it should recommence setting aside reserve for credit loss at the time when the accumulated deficits are offset.

- (1) Details of balance of the planned regulatory reserve for credit loss as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | December 31, 2019 |
|--|---------------|-------------------|
| Beginning balance | 407,903 | 387,181 |
| Planned reversal of regulatory reserve for credit loss | 3,468 | 20,722 |
| Ending balance | 411,371 | 407,903 |

- (2) Planned reserves provided, adjusted net income after the planned reserves provided and adjusted earnings per share (“EPS”) after the planned reserves provided for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions, except for EPS amount):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Net income | 28,682 | 79,654 | 42,463 | 66,501 |
| Provision (reversal) of regulatory reserve for credit loss | (1,060) | 3,468 | 11,696 | 15,288 |
| Adjusted net income after the provision (reversal) of regulatory reserve | 29,742 | 76,186 | 30,767 | 51,213 |
| Adjusted EPS after the provision (reversal) of regulatory reserve | 166 | 425 | 172 | 285 |

22. NET INTEREST INCOME

Net interest income is the amount of interest expenses deducted from the amount of interest income, whose details for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Interest income: | | | | |
| Interest on due from banks | 495 | 845 | 368 | 759 |
| Interest on financial assets at amortized cost | 179,194 | 361,806 | 177,692 | 354,751 |
| Subtotal | 179,689 | 362,651 | 178,060 | 355,510 |
| Interest expenses: | | | | |
| Interest of borrowings | 1,351 | 1,669 | 236 | 433 |
| Interest of debentures | 39,209 | 79,794 | 43,666 | 86,958 |
| Others | 372 | 896 | 435 | 826 |
| Subtotal | 40,932 | 82,359 | 44,337 | 88,217 |
| Net interest income | 138,757 | 280,292 | 133,723 | 267,293 |

23. NET FEES AND COMMISSIONS INCOME

Net fees and commissions income are the amount of fees and commissions expense deducted from the amount of fees and commissions income, whose details for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Commission received: | | | | |
| Commission received on credit card | 123,903 | 244,938 | 134,113 | 264,959 |
| Commission received on loans and discounts | 669 | 1,350 | 327 | 552 |
| Commission received on installment financing | 237 | 425 | 231 | 469 |
| Commission received on finance lease | 1,737 | 3,344 | 984 | 1,803 |
| Other commission received | 468 | 973 | 234 | 548 |
| Subtotal | 127,014 | 251,030 | 135,889 | 268,331 |
| Commission expenses: | | | | |
| Commission expenses on credit card | 136,981 | 265,307 | 140,118 | 273,698 |
| Commission expenses on loans and discounts | 554 | 1,113 | 756 | 2,055 |
| Commission expenses on installment financing | 365 | 577 | 178 | 451 |
| Commission expenses on finance lease | 1,948 | 4,049 | 452 | 1,500 |
| Other commission expenses | 5,541 | 8,994 | 3,307 | 6,943 |
| Subtotal | 145,389 | 280,040 | 144,811 | 284,647 |
| Net fees and commissions income | (18,375) | (29,010) | (8,922) | (16,316) |

24. DIVIDEND INCOME

Details of dividend income recognized for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--------------------------------------|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Dividend in local currency | - | 5,726 | - | 4,749 |
| Distribution of capital contribution | - | 1,026 | - | 1,087 |
| Total | - | 6,752 | - | 5,836 |

25. GAINS OR LOSSES RELATED TO FINANCIAL INSTRUMENTS AT FVTPL

Details of gains or losses related to financial instruments at FVTPL (Korean IFRS 1109 and Korean IFRS 1039) for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Net gain on disposal of financial instruments at FVTPL | 316 | 754 | 312 | 655 |

26. IMPAIRMENT LOSSES DUE TO CREDIT LOSS

Impairment losses for loans, other receivables, guarantees and unused commitments for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|---|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Provision for impairment loss due to credit loss on financial asset at amortized cost | 56,912 | 108,177 | 63,824 | 126,466 |
| Provision for unused loan commitment sed commitments | (1,085) | 1,273 | 1,541 | 2,861 |
| Total | 55,827 | 109,450 | 65,365 | 129,327 |

27. GENERAL AND ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME (EXPENSE)

- (1) Details of general and administrative expenses for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Salaries: | | | | |
| Short-term employee benefits: | | | | |
| Salaries and wages | 13,717 | 28,327 | 12,952 | 25,271 |
| Employee benefits | 4,713 | 8,646 | 3,588 | 7,078 |
| Retirement benefit service costs | 1,586 | 3,131 | 1,444 | 4,309 |
| Subtotal | 20,016 | 40,104 | 17,984 | 36,658 |
| Depreciation | 4,768 | 9,474 | 4,617 | 8,759 |
| Amortization | 3,399 | 6,715 | 3,087 | 4,676 |
| Other general and administrative expenses: | | | | |
| Reimbursement | 147 | 274 | 149 | 290 |
| Business taskforce cost | 255 | 523 | 242 | 495 |
| Rent expense | 2,188 | 4,184 | 1,869 | 4,127 |
| Advertising | 821 | 1,164 | 1,537 | 2,025 |
| Taxes and public dues | 3,254 | 6,604 | 3,603 | 9,238 |
| Computer and IT-related expense | 9,334 | 19,523 | 8,085 | 16,713 |
| Service charges | 873 | 1,854 | 844 | 1,938 |
| Telephone and communication | 1,265 | 2,671 | 1,579 | 3,062 |
| Supplies | 165 | 319 | 119 | 213 |
| Others | 1,542 | 3,275 | 1,319 | 2,983 |
| Subtotal | 19,844 | 40,391 | 19,346 | 41,084 |
| Total | 48,027 | 96,684 | 45,034 | 91,177 |

- (2) Details of net other operating income (expenses) for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Other operating income: | | | | |
| Reversal of provision for other provisions | - | 1 | (61) | 29 |
| Gain on valuation of derivatives | (8,464) | 20,184 | 12,626 | 26,723 |
| Gain on trading of derivatives | - | 90 | - | - |
| Gain on foreign currency transaction | 8,755 | 9,075 | 937 | 1,203 |
| Other income | 25,288 | 30,663 | 12,667 | 20,458 |
| Subtotal | 25,579 | 60,013 | 26,169 | 48,413 |
| Other operating expenses: | | | | |
| Provision for other provisions | (22) | 48 | 107 | 130 |
| Loss on valuation of derivatives | 8,685 | 8,798 | - | - |
| Loss on trading of derivatives | - | - | 1,078 | 1,078 |
| Loss on foreign currency transaction | (8,766) | 19,188 | 12,643 | 26,675 |
| Other expenses | 4,245 | 8,664 | 3,892 | 7,233 |
| Subtotal | 4,142 | 36,698 | 17,720 | 35,116 |
| Total | 21,437 | 23,315 | 8,449 | 13,297 |

28. NON-OPERATING INCOME (EXPENSES)

Details of other non-operating income (expenses) for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| Classification | Periods ended June 30, 2020 | | Periods ended June 30, 2019 | |
|-------------------------------|-----------------------------|-----------|-----------------------------|-----------|
| | Three-month | Six-month | Three-month | Six-month |
| Other non-operating income: | | | | |
| Others | 1,120 | 1,846 | 17,717 | 20,656 |
| Other non-operating expenses: | | | | |
| Disposal tangible assets, etc | 4 | 4 | 91 | 216 |
| Donation | 337 | 356 | 24 | 42 |
| Others | 45 | 93 | 820 | 859 |
| Subtotal | 386 | 453 | 935 | 1,117 |
| Total | 734 | 1,393 | 16,782 | 19,539 |

29. INCOME TAX EXPENSE

- (1) Details of income tax expense for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|--|---------------|---------------|
| Current income tax payable | 23,345 | 25,859 |
| Adjustment recognized in the period for current tax of prior periods | (2,590) | (1,602) |
| Changes in deferred income taxes due to temporary differences | (4,054) | (4,742) |
| Changes in deferred income taxes directly reflected in equity | 7,928 | 1,483 |
| Other changes | - | (6) |
| Income tax expense | 24,629 | 20,991 |

- (2) The relationship between income tax expense and income before income tax expense for the six-month periods ended June 30, 2020 and 2019, is as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|--|---------------|---------------|
| Net income before income tax expense | 104,283 | 87,491 |
| Tax calculated at statutory tax rate (*) | 25,006 | 20,942 |
| Adjustments: | | |
| Effect of non-taxable income | (410) | (340) |
| Effect of non-deductible expenses | 176 | 142 |
| Adjustment recognized in the period for current tax of prior periods | - | (1,602) |
| Effect of consolidated tax | (376) | 704 |
| Others | 233 | 1,145 |
| Income tax expense | 24,629 | 20,991 |
| Effective tax rate (%) | 23.62 | 23.99 |

(*) The corporate tax rate is 11% for income below 200 million Won, 22% for income more than 200 million Won and below 20 billion Won, 24.2% for income more than 20 billion Won and below 300 billion Won and 27.5% for income more than 300 billion Won.

(3) Changes in cumulative temporary differences as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | | | |
|--|-------------------|-----------------------------|---|----------------|
| | Beginning balance | Recognized as income (loss) | Recognized as other comprehensive income (loss) | Ending balance |
| Unearned income | 34,138 | (6,111) | - | 28,027 |
| Other provisions | 15,578 | 374 | - | 15,952 |
| Gain (loss) on valuation of FVTOCI | (11,595) | - | 7,021 | (4,574) |
| Gain on valuation of securities | (10,713) | (2) | - | (10,715) |
| Unconfirmed expenses | 9,414 | (1,101) | - | 8,313 |
| Retirement benefit obligation | 8,611 | 757 | 628 | 9,996 |
| Provision for retirement insurance benefits | (6,690) | (2,113) | - | (8,803) |
| Asset retirement obligation | 1,250 | 11 | - | 1,261 |
| Impairment loss on membership | 316 | - | - | 316 |
| Discount on present value of installment receivable | 1,634 | (476) | - | 1,158 |
| Loss on valuation of derivatives | 452 | (234) | 1,002 | 1,220 |
| Leased office facilities | (122) | 71 | - | (51) |
| Gain (loss) on fair value of properties for business use | (339) | - | - | (339) |
| Deferred loan origination cost (fee) | (7,011) | (2,180) | - | (9,191) |
| Gain on fair value of buildings for business use | 121 | 4 | - | 125 |
| Right-of-use assets | (7,709) | 1,174 | - | (6,535) |
| Lease liabilities | 7,616 | (998) | - | 6,618 |
| Others | 6,426 | 6,950 | (723) | 12,653 |
| Net deferred tax assets | 41,377 | (3,874) | 7,928 | 45,431 |

| | December 31, 2019 | | | |
|--|-------------------|-----------------------------|---|----------------|
| | Beginning balance | Recognized as income (loss) | Recognized as other comprehensive income (loss) | Ending balance |
| Unearned income | 32,977 | 1,161 | - | 34,138 |
| Other provisions | 14,898 | (1,548) | 2,228 | 15,578 |
| Gain (loss) on valuation of FVTOCI | (12,392) | - | 797 | (11,595) |
| Gain on valuation of securities | (10,713) | - | - | (10,713) |
| Unconfirmed expenses | 6,432 | 2,982 | - | 9,414 |
| Retirement benefit obligation | 7,665 | 1,327 | (381) | 8,611 |
| Provision for retirement insurance benefits | (5,817) | (873) | - | (6,690) |
| Asset retirement obligation | 1,439 | (189) | - | 1,250 |
| Impairment loss on membership | 316 | - | - | 316 |
| Discount on present value of installment receivable | 2,724 | (1,090) | - | 1,634 |
| Loss on valuation of derivatives | 407 | (261) | 306 | 452 |
| Leased office facilities | (197) | 75 | - | (122) |
| Gain (loss) on fair value of properties for business use | (339) | - | - | (339) |
| Deferred loan origination cost (fee) | (6,743) | (268) | - | (7,011) |
| Gain on fair value of buildings for business use | 113 | 8 | - | 121 |
| Right-of-use assets | - | (7,709) | - | (7,709) |
| Lease liabilities | - | 7,616 | - | 7,616 |
| Others | 1,612 | 5,276 | (462) | 6,426 |
| Net deferred tax assets | 32,382 | 6,507 | 2,488 | 41,377 |

- (4) Details of deferred tax relating to items that are recognized directly in equity as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---|----------------------|--------------------------|
| Loss on valuation of financial assets at FVTOCI | (4,573) | (11,595) |
| Remeasurements of net defined benefit plan | 1,841 | 1,213 |
| Cash flow hedging gains or losses | 1,372 | 370 |
| Exchange difference in foreign operation | (881) | (157) |
| Business combination under common control | 2,116 | 2,116 |
| Total | <u>(125)</u> | <u>(8,053)</u> |

- (5) Current tax assets and liabilities as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|-------------------------|----------------------|--------------------------|
| Current tax liabilities | 23,359 | 38,279 |

30. EPS

Details of basic EPS for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

| Classification | <u>Periods ended June 30, 2020</u> | | <u>Periods ended June 30, 2019</u> | |
|--|------------------------------------|------------|------------------------------------|------------|
| | Three-month | Six-month | Three-month | Six-month |
| Net income (Unit: KRW in millions) | 28,682 | 79,654 | 42,463 | 66,501 |
| Weighted-average number of shares outstanding (Unit: KRW in millions) | 179 | 179 | 179 | 179 |
| Net income per share (Unit: KRW) | <u>160</u> | <u>444</u> | <u>237</u> | <u>372</u> |

The Group had not diluted potential ordinary shares for the reporting periods. Accordingly, diluted EPS equals basic EPS for the six-month periods ended June 30, 2020 and 2019.

31. CONTINGENT LIABILITIES AND COMMITMENTS

- (1) Details of guarantees which the Group has provided to others as of June 30, 2020, and December 31, 2019, did not exist.
- (2) Details of loan commitments and other commitments which the Group provided for others as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions, except ratio):

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|-------------------------------------|----------------------|--------------------------|
| Loan commitments in local currency: | | |
| Unused credit limits | 35,387,066 | 33,120,042 |
| Provisions for unused commitments | 52,904 | 51,631 |
| Ratio (%) | 0.15 | 0.16 |

- (3) Details of lawsuits that the Group has filed and faced as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | |
|----------------------|-------------------|--------------|
| | As plaintiff | As defendant |
| Number of cases | 16 | 15 |
| Amount of litigation | 5,383 | 1,223 |
| | December 31, 2019 | |
| | As plaintiff | As defendant |
| Number of cases | 20 | 18 |
| Amount of litigation | 5,487 | 1,305 |

As of June 30, 2020, and December 31, 2019, the lawsuits discussed above do not include litigations in regard to electronic claims for late payment on credit cards. Accordingly, these lawsuits have no significant impact on the consolidated interim financial statements as of June 30, 2020, and December 31, 2019.

- (4) Early redemption in relation to asset securitization
As prescribed by the agreements, risk of investors based on the changes in asset quality is limited due to the trigger condition which is created for credit supplement.
The Group has an obligation to early redeem the asset-backed securities in case the trigger condition is breached.
- (5) Others
Among the receivables that have been written off, the Group recognizes the following items as written-off loans: a) Loans which are legally effective since the statute of limitations has not expired or b) Loans which the Group still has the right to claim against debtors due to the failure of collection of written-off loans.
Accordingly, the balances of the Group's written-off loans as of June 30, 2020, and December 31, 2019, are 1,210,889 million Won and 1,157,060 million Won, respectively.

32. ASSET-BACKED SECURITIZATION

The Group has transferred some of its financial instruments, such as credit card receivables, to the trust company pursuant to the Asset-Backed Securitization Act.

- (1) The initial transfer price of the credit card receivable that the Group sold by the Asset-Backed Securitization Act is as follows (Unit: Korean Won in millions):

| | Initial transfer date | Transfer value (*1) |
|---|-----------------------|---------------------|
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. (*2) | 2017-01-23 | 692,495 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 2017-11-09 | 672,383 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 2018-10-31 | 567,997 |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | 2019-11-12 | 388,498 |
| Woori Card 2020-1 Asset Securitization Specialty Co., Ltd. | 2020-04-09 | 533,100 |

(*1) The effects of provision and present value discount are excluded.

(*2) The liquidation has been completed as of June 30, 2020.

(2) The receivables sold but uncollected by the Asset-Backed Securitization Act as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | Assets sold | June 30, 2020 | December 31, 2019 |
|--|--------------------|---------------|-------------------|
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | - | 322,041 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | Credit card assets | 475,500 | 522,684 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 422,376 | 475,917 |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 335,676 | 396,706 |
| Woori Card 2020-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 480,626 | - |

33. RELATED-PARTY TRANSACTIONS

(1) Related parties of the Group

- 1) The parent company of the Group as of June 30, 2020, is Woori Bank (100% share ratio).
- 2) As of June 30, 2020, related parties of the Group are summarized as follows:

| | Related parties |
|--------|---|
| Parent | Woori Financial Group |
| Others | Woori Bank, Woori FIS Co., Ltd., Woori Private Equity Co., Ltd., Woori Finance Research Institute Co., Ltd., Woori Investment Bank Co., Ltd., Woori Credit Information Co. Ltd., Woori America Bank, PT Bank Woori Saudara Indonesia 1906, Tbk., Woori Global Markets Asia Limited, Woori Bank China Co. Ltd., Woori bank Russia, Banco Woori Bank do Brasil S.A., Korea BTL Infrastructure Fund, Woori Fund Service Co., Ltd., Woori Finance Myanmar Co., Ltd., Wealth Development Bank, Woori Bank Vietnam Limited, WB Finance Co., Ltd, Woori Bank Europe, Woori Asset Trust Co., Ltd., Woori Asset Management Co., Ltd, Bum-gyo Co., Ltd., Woori Global Asset Management Co., Ltd., Woori Bank Principal and Interest Guaranteed Trust, Kumho Trust 1st Co., Ltd. and 57 SPCs, Heungkuk Woori Tech Company Private Placement Investment Trust No. 1 and 15 beneficiary certificates, Woori Service Networks Co., Korea Credit Bureau Co., Ltd., Korea Finance Security Co., Ltd., Chin Hung International, Inc., K BANK Co., Ltd, Lotte Card Co, Ltd., Others (Dong-woo C&C 35 other related companies) |

(2) The Group's key management includes the registered directors and executives with important authority and responsibilities for plans, operations and regulations of the Group's activities. Details of compensation for key management for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | June 30, 2020 | June 30, 2019 |
|-----------------------------------|---------------|---------------|
| Salaries | 1,808 | 1,703 |
| Severance and retirement benefits | 76 | 83 |

- (3) Significant transactions with related parties for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | | | | | |
|-----------------------------|--|------------------|------------------|--------------------|---------------------|-----------------------------|------------------------|-------------------------|
| Related parties | | Interest revenue | Interest expense | Commissions income | Commissions expense | Bad debt expense (reversal) | Other operating income | Other operating expense |
| Parent | Woori Financial Group | - | - | - | 845 | - | - | - |
| Others | Woori Bank | 98 | 184 | 241 | 58,956 | - | 107 | 309 |
| | Woori Credit Information Co. Ltd. | - | - | - | 884 | - | - | 4,306 |
| | Woori FIS Co., Ltd. | - | - | - | - | - | - | 17,411 |
| | Woori Finance Research Institute Co., Ltd. | - | - | - | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 315 | - | - | - | - | - | - |
| | Woori Asset Trust Co., Ltd. | - | - | - | - | (2) | - | - |
| | Woori Asset Management Co., Ltd. | - | - | - | - | - | - | - |
| | Woori Global Asset Management Co., Ltd. | - | - | - | - | (1) | - | - |
| | Korea Credit Bureau Co., Ltd | - | - | - | 1,544 | - | - | - |
| | W Service Networks Co., Ltd. | - | - | - | 226 | (4) | - | 143 |
| | Korea Finance Security Co., Ltd. | - | - | - | - | - | - | 51 |
| | Chin Hung International Inc. | - | - | - | - | (1) | - | - |
| | Total | <u>413</u> | <u>184</u> | <u>241</u> | <u>62,455</u> | <u>(8)</u> | <u>107</u> | <u>22,220</u> |
| | | June 30, 2019 | | | | | | |
| Related parties | | Interest revenue | Interest expense | Commissions income | Commissions expense | Bad debt expense (reversal) | Other operating income | Other operating expense |
| The ultimate parent company | Woori Financial Group | - | - | - | - | - | - | - |
| Parent | Woori Bank | 34 | 298 | 83 | 65,633 | (1) | 62 | 346 |
| Others | Woori Credit Information Co. Ltd. | - | - | - | 4,912 | - | - | - |
| | Woori FIS Co., Ltd. | 2 | - | - | - | - | 13 | 15,184 |
| | Woori Finance Research Institute Co., Ltd. | - | - | - | - | - | 1 | - |
| | Woori Investment Bank Co., Ltd. | 250 | - | - | - | - | - | - |
| | Korea Credit Bureau Co., Ltd. | - | - | - | 1,171 | - | - | - |
| | Woori Service Networks Co., Ltd. | - | - | - | 219 | (1) | - | 138 |
| | Korea Finance Security Co., Ltd. | - | - | - | - | 2 | - | 60 |
| | Chin Hung International Inc. | - | - | - | - | 32 | - | - |
| | Total | <u>286</u> | <u>298</u> | <u>83</u> | <u>71,935</u> | <u>32</u> | <u>76</u> | <u>15,728</u> |

- (4) Significant balances with related parties as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | | | | |
|-----------------|--|------------------------------------|-----------------------|-----------------------------|--------------|------------|-------------------|
| | | Receivables | | | Payables | | |
| | | Financial assets at amortized cost | | | | | |
| Related parties | | Cash and cash equivalents | Gross carrying amount | Provision for credit losses | Other assets | Borrowings | Other liabilities |
| Parent | Woori Financial Group | - | 271 | - | - | - | 21,921 |
| Others | Woori Bank | 193,780 | 16,024 | (3) | 243 | 4,803 | 14,576 |
| | Woori Credit Information Co. Ltd. | - | 143 | - | - | - | 1,144 |
| | Woori Fund Service | - | 61 | - | - | - | - |
| | Woori FIS Co., Ltd. | - | 418 | - | - | - | 2,831 |
| | Woori Private Equity Co., Ltd. | - | 45 | - | - | - | - |
| | Woori Finance Research Institute Co., Ltd. | - | 22 | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 15,000 | 270 | - | - | - | - |
| | Woori Asset Trust Co., Ltd. | - | 256 | - | - | - | - |
| | Woori Asset Management Co., Ltd. | - | 39 | - | - | - | - |
| | Woori Global Asset Management Co., Ltd. | - | 28 | - | - | - | - |
| | Korea Credit Bureau Co., Ltd. | - | 1 | - | - | - | - |
| | W Service Networks Co., Ltd. | - | 21 | - | - | - | 25 |
| | Korea Finance Security Co., Ltd. | - | 42 | - | - | - | 9 |
| | Chin Hung International Inc. | - | 147 | (1) | - | - | 1 |
| | K BANK Co., Ltd. | - | 91 | - | - | - | - |
| | Total | 208,780 | 17,879 | (4) | 243 | 4,803 | 40,507 |

| | | December 31, 2019 | | | | | |
|-----------------|--|------------------------------------|-----------------------|-----------------------------|--------------|------------|-------------------|
| | | Receivables | | | Payables | | |
| | | Financial assets at amortized cost | | | | | |
| Related parties | | Cash and cash equivalents | Gross carrying amount | Provision for credit losses | Other assets | Borrowings | Other liabilities |
| Parent | Woori Financial Group | - | 305 | - | - | - | 37,754 |
| Others | Woori Bank | 52,635 | 17,609 | (4) | 2,199 | 4,631 | 14,117 |
| | Woori Credit Information Co. Ltd. | - | 142 | - | - | - | 1,240 |
| | Woori Fund Service | - | 58 | - | - | - | - |
| | Woori FIS Co., Ltd. | - | 491 | - | - | - | 3,045 |
| | Woori Private Equity Co., Ltd. | - | 39 | - | - | - | - |
| | Woori Finance Research Institute Co., Ltd. | - | 45 | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 50,000 | 279 | - | 41 | - | - |
| | Korea Credit Bureau Co., Ltd. | - | 3 | - | - | - | - |
| | W Service Networks Co., Ltd. | - | 23 | (1) | - | - | 26 |
| | Korea Finance Security Co., Ltd. | - | 60 | - | - | - | - |
| | Chin Hung International Inc. | - | 244 | (2) | - | - | 1 |
| | K BANK Co., Ltd. | - | 141 | - | - | - | - |
| | Total | 102,635 | 19,439 | (7) | 2,240 | 4,631 | 56,183 |

- (5) Changes in credit card assets for the six-month periods ended June 30, 2020 and 2019, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | | |
|-----------------|--|-------------------|----------|----------|----------------|
| Related parties | | Beginning balance | Increase | Decrease | Ending balance |
| Parent | Woori Financial Group | 305 | 31,884 | 31,918 | 271 |
| Others | Woori Bank | 17,609 | 102,290 | 105,286 | 14,613 |
| | Woori Credit Information Co. Ltd. | 142 | 815 | 814 | 143 |
| | Woori Fund Service | 58 | 383 | 380 | 61 |
| | Woori FIS Co., Ltd. | 491 | 3,172 | 3,245 | 418 |
| | Woori Private Equity Co., Ltd. | 39 | 235 | 229 | 45 |
| | Woori Finance Research Institute Co., Ltd. | 45 | 180 | 203 | 22 |
| | Woori Investment Bank Co., Ltd. | 279 | 1,798 | 1,818 | 259 |
| | Woori Asset Trust Co., Ltd. | - | 1,619 | 1,363 | 256 |
| | Woori Asset Management Co., Ltd. | - | 226 | 187 | 39 |
| | Woori Global Asset Management Co., Ltd. | - | 251 | 223 | 28 |
| | Korea Credit Bureau Co., Ltd. | 2 | 8 | 9 | 1 |
| | W Service Networks Co., Ltd. | 22 | 190 | 191 | 21 |
| | Korea Finance Security Co., Ltd. | 59 | 259 | 276 | 42 |
| | Chin Hung International Inc. | 245 | 1,095 | 1,193 | 147 |
| | K BANK Co., Ltd. | 141 | 896 | 946 | 91 |

| | | June 30, 2019 | | | |
|-----------------------------|--|-------------------|----------|----------|----------------|
| Related parties | | Beginning balance | Increase | Decrease | Ending balance |
| The ultimate parent company | Woori Financial Group | - | 1,006 | 806 | 199 |
| Parent | Woori Bank | 11,428 | 121,990 | 118,375 | 15,043 |
| Others | Woori Credit Information Co. Ltd. | 88 | 750 | 705 | 133 |
| | Woori Fund Service | 41 | 303 | 281 | 63 |
| | Woori FIS Co., Ltd. | 559 | 3,073 | 3,222 | 410 |
| | Woori Private Equity Co., Ltd. | 28 | 270 | 256 | 43 |
| | Woori Finance Research Institute Co., Ltd. | 34 | 189 | 192 | 30 |
| | Woori Investment Bank Co., Ltd. | 180 | 1,455 | 1,451 | 184 |
| | Korea Credit Bureau Co., Ltd. | 7 | 14 | 18 | 3 |
| | W Service Networks Co., Ltd. | 69 | 155 | 201 | 24 |
| | Korea Finance Security Co., Ltd. | 57 | 284 | 311 | 30 |
| | Chin Hung International Inc. | 241 | 1,038 | 1,114 | 164 |
| | K BANK Co., Ltd. | 185 | 1,077 | 1,163 | 99 |

- (6) There are no borrowing transactions with the related parties for the six-month periods ended June 30, 2019, but details of borrowing transactions with the related parties for the six-month periods ended June 30, 2020, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | | |
|---------------|---------------------------|------------------------|-----------|---|
| Related party | | Financing transactions | | |
| | | Borrowings | Repayment | |
| Parent | Woori Financial Group (*) | 150,000 | - | - |

(*) This is the amount of hybrid securities issued for the six-month period ended June 30, 2020.

In addition to the above, the settlement of funds is made every business day with Woori Bank regarding the payment and recovery of credit card bills.

- (7) As of June 30, 2020, Woori Investment Bank has taken over 10,000 million Won in bonds issued by the Group.
- (8) Guarantees between the related parties as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

1) Guarantees provided to the related parties are as follows:

| | Warrantee | Warranty | June 30, 2020 | December 31, 2019 |
|--------|--|-----------------|------------------|----------------------|
| Parent | Woori Financial Group | Loan commitment | 229 | 495 |
| Others | Woori Bank | Loan commitment | 171,236 | 167,880 |
| | Woori FIS Co., Ltd. | Loan commitment | 1,182 | 1,109 |
| | Woori Credit Information Co., Ltd. | Loan commitment | 667 | 737 |
| | Woori Private Equity Co., Ltd. | Loan commitment | 155 | 161 |
| | Woori Fund Service | Loan commitment | 39 | 242 |
| | Woori Finance Research Institute Co., Ltd. | Loan commitment | 339 | 302 |
| | Woori Investment Bank Co., Ltd. | Loan commitment | 620 | 422 |
| | Woori Asset Trust Co., Ltd. | Loan commitment | 244 | - |
| | Woori Asset Management Co., Ltd. | Loan commitment | 241 | - |
| | Woori Global Asset Management Co., Ltd. | Loan commitment | 172 | - |
| | Korea Credit Bureau Co., Ltd. | Loan commitment | 34 | 32 |
| | W Service Networks Co., Ltd. | Loan commitment | 99 | 177 |
| | Korea Finance Security Co., Ltd. | Loan commitment | 114 | 200 |
| | Chin Hung International Inc. | Loan commitment | 403 | 306 |
| | K BANK Co., Ltd. | Loan commitment | 209 | 159 |

2) Guarantees received from related parties

Unused commitments received from Woori Bank as of June 30, 2020, and December 31, 2019, are 500,000 million Won each.

- (9) Details of derivative assets and commitment amount related to the liabilities with related parties as of June 30, 2020, and December 31, 2019, are as follows (Unit: Korean Won in millions):

| | | June 30, 2020 | December 31, 2019 |
|------------|----------------------|---------------|-------------------|
| Woori Bank | Unsettled commitment | 200,000 | 100,000 |

INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on March 12, 2020

To the Shareholders and the Board of Directors of Woori Card Co. Ltd. Report on the Audited Consolidated Financial Statements

Audit Opinion

We have audited the accompanying consolidated financial statements of Woori Card Co. Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2019 and 2018, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRSs").

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audits of the consolidated financial statements in the Republic of Korea as required by prevailing audit regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with K-IFRSs, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audits of the Consolidated Financial Statements

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/kr/about to learn more about our global network of member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4A, 3TR, United Kingdom.

Deloitte.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Idnjin LLC

March 12, 2020

Notice to Readers

This report is effective as of March 12, 2020, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors' report.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| (Korean won in millions) | | |
| ASSETS | | |
| Cash and cash equivalents (Notes 4, 5 and 34) | 116,201 | 362,202 |
| Financial assets at fair value through other comprehensive income ("FVTOCI") (Notes 6 and 9) | 85,086 | 87,753 |
| Financial assets at amortized cost (Notes 4, 7, 8, 9, 32 and 34) | 9,646,971 | 9,425,657 |
| Premises and equipment (Note 10) | 56,868 | 22,565 |
| Intangible assets (Note 11) | 43,338 | 35,768 |
| Deferred tax assets (Note 29) | 41,377 | 32,382 |
| Derivative assets (Notes 4, 9 and 16) | 9,366 | 263 |
| Net defined benefit assets (Note 15) | 887 | 343 |
| Other assets (Notes 12 and 34) | 87,248 | 20,467 |
| Total assets | 10,087,342 | 9,987,400 |
| LIABILITIES | | |
| Borrowings (Notes 4, 9, 13 and 34) | 4,631 | 4,485 |
| Debentures (Notes 4, 9 and 13) | 7,075,968 | 7,039,929 |
| Provisions (Notes 14 and 31) | 56,815 | 55,042 |
| Current tax liabilities (Note 29) | 38,279 | 23,623 |
| Derivative liabilities (Notes 4, 9 and 16) | 6,839 | 33,754 |
| Other financial liabilities (Notes 4, 9 and 17) | 915,988 | 1,014,051 |
| Other liabilities (Notes 17 and 34) | 200,655 | 134,552 |
| Total liabilities | 8,299,175 | 8,305,436 |
| EQUITY | | |
| Owners' equity: | 1,788,167 | 1,681,964 |
| Capital stock (Note 18) | 896,331 | 896,331 |
| Capital surplus (Note 18) | 121,518 | 127,097 |
| Other equity (Note 19) | 21,876 | 24,292 |
| Retained earnings (Note 20) | | |
| (Regulatory reserves for credit loss as of December 31, 2019 and 2018, are ₩387,181 million and ₩403,277 million, respectively. | 748,442 | 634,244 |
| Planned provisions for regulatory reserve (reversal) for credit loss as of December 31, 2019 and 2018, are ₩20,722 million and ₩ (-) 16,096 million, respectively. (Note 21) | | |
| Non-controlling interests | - | - |
| Total equity | 1,788,167 | 1,681,964 |
| Total liabilities and equity | 10,087,342 | 9,987,400 |

See accompanying notes.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---------|
| | (Korean won in millions, except for per share data) | |
| Interest income | 725,320 | 668,906 |
| Interest expense | 172,740 | 161,116 |
| Net interest income (Notes 22 and 34) | 552,580 | 507,790 |
| Fees and commissions income | 548,793 | 612,109 |
| Fees and commissions expense | 566,461 | 599,811 |
| Net fees and commissions income (expense) (Notes 23 and 34) | (17,668) | 12,298 |
| Dividend income (Note 24) | 5,836 | 10,154 |
| Net gain on financial instruments at fair value through profit or loss ("FVTPL") (Note 25) | 1,375 | 2,749 |
| Impairment losses due to credit loss (Notes 26 and 34) | 254,823 | 244,762 |
| General and administrative expenses (Note 27) | 190,062 | 170,765 |
| Other net operating income (expense) (Notes 27 and 34) | 32,623 | 49,308 |
| Operating income | 129,861 | 166,772 |
| <hr/> | | |
| Non-operating income (expenses) (Note 28) | 20,160 | (259) |
| Net income before income tax expense | 150,021 | 166,513 |
| Income tax expense (Note 29) | 35,824 | 39,979 |
| Net income (After the provision of regulatory reserves for credit loss for the years ended December 31, 2019 and 2018, net income is ₩ 93,475 million and ₩ 81,908 million, respectively.) (Note 21) | 114,197 | 126,534 |

(Continued)

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (CONTINUED)

| | <u>2019</u> | <u>2018</u> |
|---|---|-----------------------|
| | (Korean won in millions, except for per share data) | |
| Net gain on valuation of financial assets at FVTOCI | (2,120) | (1,531) |
| Remeasurement of the net defined benefit liability | <u>1,004</u> | <u>(1,125)</u> |
| Items that will not be reclassified to profit or loss | (1,116) | (2,656) |
| Net loss on valuation of cash flow hedge | (2,222) | (5,370) |
| Gain (loss) on foreign currency translation of foreign operations | <u>923</u> | <u>(224)</u> |
| Items that may be reclassified to profit or loss | (1,299) | (5,594) |
| Other comprehensive income, net of tax (Note 19) | (2,415) | (8,250) |
| Total comprehensive income | <u><u>111,782</u></u> | <u><u>118,284</u></u> |
| Net income attributable to: | 114,197 | 126,534 |
| Owners | 114,197 | 126,534 |
| Non-controlling interests | - | - |
| Total comprehensive income attributable to: | 111,782 | 118,284 |
| Owners | 111,782 | 118,284 |
| Non-controlling interests | - | - |
| Net income per share (in Korean won) (Note 30) | | |
| Basic earnings per common share and diluted earnings per common share | 637 | 706 |

See accompanying notes.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Capital stock | Capital surplus | Other equity | Retained earnings | Controlling interests | Non- controlling interests | Total |
|--|------------------|--------------------|-----------------|----------------------|--------------------------|----------------------------------|-----------|
| (Korean won in millions) | | | | | | | |
| January 1, 2018 | 896,331 | 127,097 | 32,542 | 564,550 | 1,620,520 | - | 1,620,520 |
| Cumulative effect of change in accounting policy | - | - | - | (56,840) | (56,840) | - | (56,840) |
| Adjusted balance, beginning of year | 896,331 | 127,097 | 32,542 | 507,710 | 1,563,680 | - | 1,563,680 |
| Net income | - | - | - | 126,534 | 126,534 | - | 126,534 |
| Net gain (loss) on valuation of financial assets at FVTOCI | - | - | (1,531) | - | (1,531) | - | (1,531) |
| Remeasurement of the net defined benefit liability | - | - | (1,125) | - | (1,125) | - | (1,125) |
| Net loss on valuation of cash flow hedge | - | - | (5,370) | - | (5,370) | - | (5,370) |
| Gain on foreign currency translation of foreign operations | - | - | (224) | - | (224) | - | (224) |
| December 31, 2018 | 896,331 | 127,097 | 24,292 | 634,244 | 1,681,964 | - | 1,681,964 |
| January 1, 2019 | 896,331 | 127,097 | 24,292 | 634,244 | 1,681,964 | - | 1,681,964 |
| Net income | - | - | - | 114,197 | 114,197 | - | 114,197 |
| Business combination involving entities under common control (Note 33) | - | (5,579) | - | - | (5,579) | - | (5,579) |
| Net gain (loss) on valuation of financial assets at FVTOCI | - | - | (2,120) | - | (2,120) | - | (2,120) |
| Changes in other comprehensive income due to disposal of equity securities at FVTOCI | - | - | (1) | 1 | - | - | - |
| Remeasurement of the net defined benefit liabilities | - | - | 1,004 | - | 1,004 | - | 1,004 |
| Net loss on valuation of cash flow hedge | - | - | (2,222) | - | (2,222) | - | (2,222) |
| Gain on foreign currency translation of foreign operations | - | - | 923 | - | 923 | - | 923 |
| December 31, 2019 | 896,331 | 121,518 | 21,876 | 748,442 | 1,788,167 | - | 1,788,167 |

See accompanying notes.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|--|--------------------------|-------------|
| | (Korean won in millions) | |
| Cash flows from operating activities: | | |
| Adjustments to net income: | | |
| Net income | 114,197 | 126,534 |
| Income tax expense | 35,824 | 39,979 |
| Dividend income | (5,836) | (10,154) |
| Interest income | (725,320) | (668,906) |
| Interest expense | 172,740 | 161,116 |
| | (408,395) | (351,431) |
| Additions of expenses not involving cash outflows: | | |
| Impairment losses due to credit loss | 254,823 | 244,762 |
| Depreciation | 17,905 | 6,158 |
| Disposal loss on tangible assets | 277 | 24 |
| Amortization | 10,463 | 5,320 |
| Disposal loss on intangible assets | - | 27 |
| Retirement benefits | 5,518 | 4,744 |
| Loss on valuation of derivatives | 2,255 | - |
| Loss on transaction of derivatives | 1,125 | - |
| Loss on other provisions | 486 | 390 |
| Loss on translation of foreign currency | 34,136 | 27,597 |
| Others | 1 | - |
| | 326,989 | 289,022 |
| Deductions of revenues not involving cash inflows: | | |
| Gain on disposal of financial instruments at FVTPL | - | 2,749 |
| Gain on impairment loss on intangible assets | - | 270 |
| Gain on valuation of derivatives | 20,452 | 26,698 |
| Gain on transaction of derivatives | 15,955 | - |
| Gain on other provisions | 254 | 59 |
| Gain on translation of foreign currency | 3,390 | - |
| | 40,051 | 29,776 |
| Changes in operating assets and liabilities: | | |
| Financial assets at amortized cost | (488,747) | (1,932,487) |
| Other assets | (67,126) | (1,209) |
| Provision | (957) | (467) |
| Net defined benefit liability | (4,677) | (5,336) |
| Other financial liabilities | (124,607) | 386,943 |
| Other liabilities | 17,527 | (3,341) |
| | (668,587) | (1,555,897) |

(Continued)

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (CONTINUED)

| | 2019 | 2018 |
|--|--------------------------|-------------|
| | (Korean won in millions) | |
| Cash received from (paid for) operating activities: | | |
| Income tax paid | (27,675) | (16,431) |
| Dividend received | 5,836 | 10,154 |
| Interest income received | 725,159 | 670,382 |
| Interest expense paid | (150,923) | (156,205) |
| | 552,397 | 507,900 |
| Net cash used in operating activities | (237,647) | (1,140,182) |
| Cash flows from investing activities: | | |
| Cash inflows from investing activities: | | |
| Disposal of financial instruments at FVTPL | - | 941 |
| Disposal of financial instruments at FVTOCI | 1 | - |
| Disposal of intangible assets | - | 1,470 |
| Decrease of guarantee deposits | 3,960 | 495 |
| Business combination involving entities under common control (Note 33) | 34,743 | - |
| | 38,704 | 2,906 |
| Cash outflows for investing activities: | | |
| Acquisition of financial assets at FVTOCI | 251 | 178 |
| Acquisition of premises and equipment | 13,667 | 8,586 |
| Acquisition of intangible assets | 15,576 | 8,458 |
| Increase of guarantee deposits | 2,850 | 1,002 |
| | 32,344 | 18,224 |
| Net cash used in investing activities | 6,360 | (15,318) |
| Cash flows from financing activities: | | |
| Cash inflows from financing activities: | | |
| Increase in borrowings | - | 3,839 |
| Issuance of debentures | 16,883,735 | 16,207,802 |
| | 16,883,735 | 16,211,641 |
| Cash outflows for financing activities: | | |
| Repayment of debentures | 16,882,280 | 15,320,000 |
| Repayment of lease liabilities | 10,649 | - |
| Decrease in derivative liabilities | 5,520 | - |
| | 16,898,449 | 15,320,000 |
| Net cash provided by (used in) financing activities | (14,714) | 891,641 |
| Net decrease in cash and cash equivalents | (246,001) | (263,859) |
| Cash and cash equivalents at the beginning of year | 362,202 | 626,061 |
| Cash and cash equivalents at the end of year (Notes 5 and 35) | 116,201 | 362,202 |

(Concluded)

See accompanying notes.

WOORI CARD CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. GENERAL:

(1) Summary of the Parent Company

Woori Card Co., Ltd. (the “Company” or “Parent Company”), which is a controlling entity in accordance with Korean International Financial Reporting Standards (“K-IFRSs”) 1110 – *Consolidated Financial Statements*, was incorporated on April 1, 2013, as a result of spin-off from Woori Bank. The Company was established for the purpose of engaging in credit card business, and the Company started its business after the completion of the registration process on April 1, 2013. The Company is engaged in credit sales business under the Specialized Credit Financial Business Act of Korea, cash advance services, card loan services and others. The Company is subject to the laws, regulations and ordinance of the Specialized Credit Financial Business Act.

As of December 31, 2019, the Company maintains approximately ₩13.50 million of credit card and debit card members. As of December 31, 2019, Woori financial group Inc. (“Woori financial group”) holds 100% of the Company’s ownership interest through a comprehensive stock exchange of shares between Woori Bank and Woori financial group for the year ended December 31, 2019.

(2) The consolidated financial statements of Woori Card and subsidiaries (the “Group”) include the following subsidiaries:

| Subsidiaries | Location | Main business | Percentage of ownership (%) | | Financial statements as of |
|--|----------|----------------------|-----------------------------|-------------------|----------------------------|
| | | | December 31, 2019 | December 31, 2018 | |
| TUTU Finance-WCI Myanmar Co., Ltd. | Myanmar | Finance | 100.0 | 100.0 | December 31, 2019 |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | 0.5 | 0.5 | December 31, 2019 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | 0.5 | 0.5 | December 31, 2019 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | | 0.5 | December 31, 2019 |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | 0.5 | - | December 31, 2019 |

(*) Ownership ratio is less than half, but it has control because it is significantly exposed to the variable return of the investee and its power to determine the performance affects the variable return of the investee.

(3) The summarized financial information before the elimination of intercompany transactions of the subsidiaries whose financial information was prepared under K-IFRSs for the Group's consolidated financial statements is as follows (Unit: Korean won):

| Subsidiaries | As of and for the year ended December 31, 2019 | | | | | | | |
|--|--|-------------|---------|---------------|--------------|-------------------|-----------------|------------|
| | Assets | Liabilities | Equity | Capital stock | Other equity | Retained earnings | Operating gains | Net income |
| TUTU Finance-WCI Myanmar Co., Ltd. | 29,707 | 7,451 | 22,256 | 19,664 | 573 | 2,019 | 5,919 | 2,717 |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 60,215 | 60,216 | (1) | - | (1) | - | 23,775 | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 346,855 | 348,917 | (2,062) | - | (2,062) | - | 21,651 | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 300,073 | 300,073 | - | - | - | - | 6,077 | - |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | 233,838 | 234,481 | (643) | - | (643) | - | 2,660 | - |

| Subsidiaries | As of and for the year ended December 31, 2018 | | | | | | | |
|--|--|-------------|---------|---------------|--------------|-------------------|-----------------|------------|
| | Assets | Liabilities | Equity | Capital stock | Other equity | Retained earnings | Operating gains | Net income |
| TUTU Finance-WCI Myanmar Co., Ltd. | 12,583 | 5,502 | 7,081 | 8,480 | (701) | (698) | 1,652 | (346) |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 361,312 | 361,239 | 73 | - | 73 | - | 20,712 | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 337,764 | 341,334 | (3,570) | - | (3,570) | - | 18,109 | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 300,079 | 300,079 | - | - | - | - | 1,030 | - |

(4) The new entity included in subsidiaries for the year ended December 31, 2019, is as follows:

| <u>Subsidiaries</u> | <u>Remark</u> |
|--|-------------------|
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | Newly established |

2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES:

(1) Basis of preparation

The Group's consolidated financial statements are prepared in accordance with K-IFRSs.

The significant accounting policies applied in the preparation of the consolidated financial statements as of and for the year ended December 31, 2019, are stated below, and the accounting policies applied are identical to the ones used in the preparation of previous-period's consolidated financial statements, except for the effects of adopting new standards or interpretations as explained below.

The consolidated financial statements are prepared at the end of each reporting period on the historical cost basis, except for certain non-current assets and financial assets that are either revalued or measured in fair value. Historical cost is generally measured at the fair value of the consideration given to acquire assets.

Fair value is the price that will be paid when the asset is sold or the liability is transferred in a normal transaction between market participants at the measurement date, whether the price is directly observable or whether it is valued using valuation techniques. In estimating the fair value of an asset or liability, the Group considers the nature of the asset or liability that the market participant considers in determining the cost of the asset or liability at the measurement date. Based on the share-based payment transactions included in the scope of K-IFRS 1102 'Share-Based Payment', the lease transactions included in the scope of the 'Lease' of K-IFRS 1017, the net realized value included in the scope of the 'Inventory Assets' of K-IFRS 1002 and the value in use included in the scope of the 'Impairment of Assets' of K-IFRS 1036, except for those measures that are partially similar to fair value, but are not fair value, such as the net realizable value of an asset or the use value of an asset impairment, and the use value of an asset impairment, in accordance with the principles described above will be determined.

1) The Group has newly adopted the following K-IFRSs that affected the Group's accounting policies

- Adoption of K-IFRS 1116 – *Lease*

The Group initially applied K-IFRS 1116 from January 1, 2019. Other accounting standards enacted from January 1, 2019, are not expected to have material impacts on the Group's consolidated financial statements. K-IFRS 1116 introduces an accounting model for the single lessee and as a result, the Group, as a lessee, recognizes right-of-use assets, which represent a lessee's right to use an underlying asset and lease liabilities, which represent an obligation to make lease payments. An accounting model for the lessor is similar to the previous accounting policy.

The Group recognized the cumulative effects due to the initial application of K-IFRS 1116 on January 1, 2019, which is the date of initial application. Therefore, the comparative financial information applies K-IFRS 1017 and the related interpretations as reported previously, and was not restated. The details of the changes to the accounting policy are described below.

i) Definition of a lease

Previously, the Group determined whether an arrangement is, or contains, a lease on the arrangement date by applying K-IFRS 2104, Determining whether an Arrangement contains a Lease. The Group currently determines whether a contract is, or contains, a lease, based on the new definition of the lease. According to K-IFRS 1116, a contract is, or contains, a lease if the right to control the use of an identified asset is transferred in exchange for the consideration received for a period of time.

On the date of initial application of K-IFRS 1116, the Group elected to apply a practical expedient, which does not require it to reassess whether the contract is a lease. The Group applied K-IFRS 1116 only to the contracts that are

previously identified as a lease and did not reassess the contracts that are not identified as a lease in line with K-IFRS 1017 and K-IFRS 2104. Therefore, the definition of a lease under K-IFRS 1116 is only applicable to contracts that are entered into or modified after January 1, 2019.

For a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone prices of the lease and non-lease components.

The Group elected not to recognize right-to-use assets and lease liabilities for certain leases of low-value assets (less than 500 million won) and short-term leases (less than one year). The Group will recognize the related lease payments as expenses equally over the lease period.

ii) Lessee

The Group leases various assets, including structures in leased office and vehicles.

Previously, the Group classified its leases either as operating lease or as finance lease based on whether the lease substantially transfers the risk and reward of owning the underlying assets. According to K-IFRS 1116, the Group recognizes right-of-use assets and lease liabilities for most of its leases, which means most of its leases are presented in the consolidated statements of financial position.

For the right-of-use assets that do not satisfy the definition of an investment property, the Group presents those assets as the same item as the item that the corresponding underlying asset would have been presented for. Right-of-use assets that meet the definition of investment would be presented as investment properties.

The Group presents a lease liability as other financial liabilities in the consolidated statements of financial position.

For leases previously classified as operating leases applying K-IFRS 1017, the Group measures lease liabilities at the present value of the remaining lease payments using the Group's incremental borrowing rates as of January 1, 2019. However, the Group elected not to apply recognition, measurement and presentation requirements for leases of low-value assets. A right-of-use asset is measured using the following method. A right-of-use asset is measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

For leases previously classified as operating leases applying K-IFRS 1017, the Group applies the following practical expedient when applying K-IFRS 1116.

- Any initial direct cost is excluded from the estimation of right-of-use assets on the date of initial application.
- As an alternative to impairment review, K-IFRS 1037 'Provisions, Contingent Liabilities and Contingent Assets' is applied immediately prior to the date of initial application to determine whether the leases are onerous.
- A right-of-use asset and lease liabilities are not recognized to leases for which the lease term ends within 12 months.
- Hindsight is used when determining a lease term for contracts that contain an extension option or termination option.

IFRS Interpretations Committee published its interpretation of ‘Lease Period and Lease Improvement Useful Life’ as of December 16, 2019. The Interpretation Committee discussed the calculation method of renewable lease, cancelable lease, etc., and according to the interpretation, the Group shall identify factors to consider a wide range of economic disadvantages and calculate the lease period based on them. However, as the Group holds a large number of contracts and the conditions of the contract vary, sufficient time is required for analysis of the contract and accounting policy establishment. Therefore, the Group is planning to reflect the effects in the consolidated financial statements after the analysis of the effects of changes in accounting policies over the lease term is completed.

iii) Lessor

The Group provides vehicles as leases and classifies those leases as a financing lease. The accounting policy applied by the Group as a lessor does not differ from the one defined under K-IFRS 1017.

There is no need for the Group to make any adjustment for leases as a lessor as of the transition date. However, when the Group allocates the consideration in the contract to the lease and non-lease components, K-IFRS 1115, Revenue from Contracts with Customers, is applied.

iv) Impact on the consolidated financial statements

As of the transition to K-IFRS 1116, the Group additionally recognized the right-of-use assets and lease liabilities, and the impact is as follows (Unit: Korean won in millions):

| | <u>January 1, 2019</u> |
|---|------------------------|
| Right-of-use assets presented as premises and equipment | 33,452 |
| Lease liability | 33,109 |

The Group recognized the right-of-use assets and lease liabilities amounted to ₩ 33,452 million and ₩ 33,109 million, respectively, as of the transition to K-IFRS 1116. The difference amounted to ₩343 million was transferred to discounted present value of lease deposit. There is no effect on retained earnings.

When measuring lease liabilities for the leases that were previously classified as operating leases, the Group used its incremental borrowing rate as of January 1, 2019, as follows. The applied weighted-average incremental borrowing rate is 2.41% (Unit: Korean won in millions):

| | <u>January 1, 2019</u> |
|---|------------------------|
| Operating leases as of December 31, 2018 | 35,211 |
| - Exemption regulation for leases of low-value assets | (218) |
| - Exemption regulation for leases with less than 12 months remaining at the point of transition | (17) |
| Discounted amount using the incremental borrowing rate as of January 1, 2019 | 33,109 |
| Lease liability recognized on January 1, 2019 | 33,109 |

- Adoption of K-IFRS 1109 ‘Financial Instruments’ and K-IFRS 1107 ‘Financial Instruments: Disclosure’

The Group has adopted the amendments of K-IFRS 1109 and 1107 for the first time in the current year. The amendments mainly deal with the addition of temporary exceptions from applying specific hedge accounting requirements while the uncertainty arises from interest rate benchmark reform. The amendment requires that for the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform. When applying the prospective assessment, the amendment further requires that an entity shall assume that the hedged risk or the interest rate benchmark on which the hedged item or the hedging instrument is based is not altered as a result of the reform. Additionally, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement that the risk component shall be separately identifiable only at the inception of the hedging relationship. Meanwhile, an entity shall prospectively cease applying the temporary exceptions to a hedged item at the earlier of (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and (b) when the hedging relationship that the hedged item is part of is discontinued.

The interest rates to which the hedging relationships are exposed are USD LIBOR. The impact of the amendments on the hedging relationships is described in Note 16.

- The following issued, revised standards are not expected to significantly affect the Group:
 - K-IFRS 1109 *Financial Instrument* (Revised)
 - K-IFRS 1019 *Employee Benefits* (Revised)
 - K-IFRS 1028 *Investment in Associates and Joint Ventures* (Revised)
 - K-IFRS 2123 *Uncertainty over Income Tax Treatments* (Issued)
 - Annual Improvements to K-IFRS 2015-2017 Cycle
 - i) K-IFRS 1103
 - ii) K-IFRS 1111
 - iii) K-IFRS 1012
 - iv) K-IFRS 1023

2) The details of K-IFRS that have been issued and published as of date of issue approval of consolidated financial statements, but have not yet reached the effective date, and which the Group has not applied earlier, are as follows:

- Amendments to the conceptual framework for financial reporting
- Amendments to K-IFRS 1103 *Business combinations*
- Amendments to K-IFRS 1001 *Presentation of Financial Statements* and K-IFRS 1008 *Changes in Accounting Estimates and Errors*

The above amendments are not considered to have any significant impact on the Group.

(2) Basis of consolidated financial statement presentation

The consolidated financial statements incorporate the financial statements of the parent and its subsidiaries (including structured companies) controlled by the parent (and its subsidiaries, which is the “Group”). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- The relative size of the Group’s holding of voting rights and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements;
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owner of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owner of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intragroup transactions and, related assets and liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owner of the Parent Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1109 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured as the sum of the acquisition-date fair values of the assets transferred by the Group in exchange for control of the acquiree, liabilities assumed by the Group for the former owners of the acquiree and the equity interests issued by the Group. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the condition for recognition under K-IFRS 1103 are recognized at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 *Income Taxes* and K-IFRS 1019 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 *Share-Based Payment* at the acquisition date; and
- Non-current assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 *Non-Current Assets Held for Sale and Discontinued Operations* are measured at the lower of their previous carrying amounts or fair value, less costs to sell.

Any excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest (if any) in the acquiree over the net of identifiable assets and liabilities assumed of the acquiree at the acquisition date is recognized as goodwill, which is included in intangible assets.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognized immediately in net income as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration other than the above is remeasured at subsequent reporting dates, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date (i.e., the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in net income (or other comprehensive income, if applicable). Amounts arising from changes in value of interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized, identical to the treatment assuming interests are sold directly.

(4) Investments in joint ventures and associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary or a joint venture. Significant influence is the power to participate in making decision on the financial and operating policy of the investee, but is not control or joint control over those policies.

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

The net income of current period and the assets and liabilities of the joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in the joint ventures and associates is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the net assets of the joint ventures and associates and any impairment. When the Group's share of losses of the joint ventures and associates exceeds the Group's interest in the associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures and associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint ventures and associates recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in net income.

The requirements of K-IFRS 1028 *Investments in Associates and Joint Ventures* to determine whether there has been a loss event are applied to identify whether it is necessary to recognize any impairment loss with respect to the Group's investment in the joint ventures and associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount. Any impairment loss recognized is not allocated to any asset (including goodwill), which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

Upon a loss of significant influence over the joint ventures and associates, the Group discontinues the use of the equity method and measures at fair value of any investment that the Group retains in the former joint ventures and associates from the date when the Group loses significant influence. The fair value of the investment is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group recognized differences between the carrying amount and fair value in net income and it is included in determination of the gain or loss on disposal of joint ventures and associates. The Group accounts for all amounts recognized in other comprehensive income in relation to that joint ventures and associates on the same basis as would be required if the joint ventures and associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate would be reclassified to net income on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to net income as a reclassification adjustment.

When the Group's ownership of interest in an associate or a joint venture decreases, but the Group continues to maintain significant influence over an associate or a joint venture, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that decrease in ownership interest if the gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. Meanwhile, if interest on associate or joint venture meets the definition of non-current asset held for sale, it is accounted for in accordance with K-IFRS 1105.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a subsidiary transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Investment in joint operation

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

When the Group operates as a joint operator, it recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Group enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the Group recognizes gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When the Group enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it does not recognize proportional share of profit or loss until the asset is sold to a third party.

(6) Revenue recognition

1) Revenues from contracts with customers

The Group recognizes revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. When a performance obligation is satisfied, the Group shall recognize as a revenue as the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the Group expects it to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The Group is recognizing revenue by major sources as shown below:

The fees and commission received on credit card consist mainly of merchant account fees and annual fees. The Group recognizes merchant account fees by multiplying agreed commission rate to the amount paid by using the credit card. The annual fees are for performance obligation satisfied over time and are recognized over agreed periods after the annual fees are paid in advance. The business activities relevant to these fees and commission received on credit card are substantially attributable to credit cards segment.

The service-related fees are recognized in accordance with the arrangements for providing services to the customers. Agreements are generally made by contract and service-related costs arise when services are provided. Prices are usually fixed and measurable.

2) Revenues from sources other than contracts with customers

i) Interest income

Interest income on financial assets measured at FVTOCI and financial assets at amortized costs are measured using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating the interest income over the expected life of the asset. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial unamortized cost over the expected period, or shorter if appropriate. Future cash flows include commissions and cost of reward points (limited to the primary component of effective interest rate) and other premiums or discounts that are paid or received between the contractual parties when calculating the effective interest rate, but does not include expected credit losses. All contractual terms of a financial instrument are considered when estimating future cash flows.

For purchased or originated credit-impaired financial assets, interest revenue is recognized by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. Even if the financial asset is no longer impaired in the subsequent periods due to credit improvement, the basis of interest revenue calculation is not changed from amortized cost to unamortized cost of the financial assets.

ii) Loan origination fees and costs

The commission fees earned on loans, which is part of the effective interest of loans, are accounted for as deferred origination fees. Incremental costs related to the origination of loans are accounted for as deferred origination fees and are being added to or deducted to/from interest income on loans using effective interest rate method.

iii) Dividend income

Dividend income is recognized in profit or loss when the Group's right to receive payment is established.

(7) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as a lessor

The Group recognizes lease receivables at the present value of minimum lease payments of a finance lease and any unguaranteed residual value. After the commencement date of the lease, accounting is done to recognize interest income over each reporting period by computing periodic interest income on the Group's net investment.

Rental income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and expensed on a straight-line basis over the lease term. Operating lease assets are included within other asset category in other assets, and depreciated over their economic life.

2) The Group as a lessee

The Group recognizes the right-of-use asset and the lease liability at the commencement date of the lease except for short-term leases with a lease term less than 12 months and leases for which the underlying asset is of low value. The Group recognizes the right-of-use assets measured at cost and are subsequently measured at cost less accumulated depreciation and accumulated impairment losses or adjusted by remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, but if that cannot be readily determined, the Group uses its incremental borrowing rate. The Group generally uses the incremental borrowing rate.

The lease liability is subsequently increased by the interest expense recognized for the lease liability and decreased by reflecting the payment of the lease payments. The lease liability is remeasured if the future lease payments change depending on changes in the index (or a rate), changes in the expected amount to be paid under the residual value guarantee and changes in the assessment of whether the purchase or extension option is reasonably certain to be exercised or not to exercise the terminate option.

The Group applies its judgment when determining the lease term for some lease contracts that include the extension option. The assessment of whether the Group is reasonably certain to exercise the option significantly affects the lease term and therefore has a significant impact on the amount of lease liabilities and the right-of-use asset.

The Group has chosen a practical expedient that does not recognize the right-of-use asset and lease liabilities for short-term leases with a lease term less than 12 months and leases for which the underlying asset is of low value. (less than 5 million won). The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(8) Accounting for foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is the functional currency of the Group.

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the exchange rate at the date of the transaction. At the end of each reporting period, (a) foreign currency monetary items shall be translated using the closing rate; (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in profit or loss in the period in which they arise, except partial exceptions.

(9) Cash and cash equivalents

The Group is classifying cash on hand, demand deposits and interest-earning deposits with original maturities of up to three months on the acquisition date, and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value as cash and cash equivalents.

(10) Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position of the Group when it becomes a party to the contract. Financial assets and financial liabilities are measured initially at fair value. Transaction costs directly attributable to the acquisition of a financial asset or the issuance of a financial liability are initially recognized or deducted from the fair value of the financial asset or financial liability. Gains or losses on disposal of available-for-sale (“AFS”) securities are recognized in profit or loss as incurred.

(11) Financial assets

A regular-way purchase or sale of financial assets is recognized or derecognized on the trade or settlement date. A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose term requires delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

On initial recognition, financial assets are classified into financial assets at FVTPL, financial assets at FVTOCI and financial assets at amortized cost.

1) Classification of financial assets

Debt instruments that satisfy the following conditions are subsequently measured at amortized cost:

- Financial assets are held under a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- Contractual cash flows from such financial assets are solely payments of principal and interest.

Debt instruments that satisfy the following conditions are subsequently measured at FVTOCI:

- Financial assets are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Contractual cash flows from such financial assets are solely payments of principal and interest. All

other financial assets are subsequently measured at FVTPL.

Notwithstanding the foregoing, the Group may make the following irrevocable choice or designation at the time of initial recognition of a financial asset:

- If it meets certain requirements (see 1)-iii) below), the Group may choose to present subsequent changes in fair value of equity instruments in other comprehensive income.
- If designated as fair value accounting metrics, remove inconsistencies or significant write-down process for (see 1)-iv) below) financial assets measured at amortized cost and other comprehensive income to reduce debt to meet the requirements of the valuation of financial assets.
 - It is possible to remove or significantly reduce recognition or measurement mismatch that may otherwise have occurred if not for its designation as financial asset at FVTPL (see 1)-iii) below).
- The financial asset that forms part of the Group’s financial instrument group (a group composed of a combination of financial asset or liability) is measured at fair value and is being evaluated for its performance, and such information is provided internally (see 1)-iv) below).

i) The amortized cost and the effective interest method

Effective interest method is the method that is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period. The effective interest rate inherent in a financial instrument except for purchased or originated credit-impaired financial assets is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument or, where appropriate, a shorter period to the gross carrying amount at initial recognition. The computation includes all fees and points paid or received that are an integral part of the effective interest rate, directly attributable transaction costs and all other premiums or discounts. The financial asset is a purchased or originated credit-impaired financial asset, in which case, the Group shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.

Amortized cost of a financial asset is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. Gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments subsequently measured at amortized cost, plus other comprehensive income - at fair value. For financial assets other than those whose credit quality is impaired, the interest income is calculated by applying the effective interest rate to the total carrying amount of the financial asset (except for financial assets that are subsequently impaired). For subsequent impaired financial assets, interest income is recognized using the effective interest rate on the amortized cost basis of the financial asset. If the credit risk of an impaired financial instrument improves in subsequent reporting periods and the financial asset is no longer impaired, interest income is recognized by applying the effective interest rate to the total carrying amount of the financial asset.

In the case of a financial asset whose credit quality is impaired at the time of acquisition, interest income is recognized from the date of initial recognition by applying the credit-adjustment effective interest rate to the amortized cost of the financial asset. If the financial asset is no longer impaired as a result of a subsequent improvement in the credit risk of the financial asset, the calculation of interest income is not changed based on the gross carrying amount.

ii) Other comprehensive income - debt instruments classified as fair value measurement

At initial recognition, debt instruments are measured at fair value, plus transaction costs. Subsequent changes in the carrying amount of the debt instrument as a result of foreign exchange translation gains and losses, impairment losses (reversals) and interest income resulting from the effective interest rate method are recognized in profit or loss. The amount recognized in profit or loss is the same as the amount that would have been recognized in profit or loss if the debt instrument had been measured at amortized cost. Changes in the carrying amount of all debt instruments are recognized in other comprehensive income and accumulated as accumulated gain or loss. The cumulative gain or loss that was recognized in other comprehensive income when the liability is disposed of is reclassified to profit or loss.

iii) Other comprehensive income – equity instruments classified as fair value measurement

The Group can make irrevocable choices (by product) to designate investments in equity instruments as other comprehensive income - fair value items at initial recognition. If the equity instrument is a short-term trading instrument or the contingent consideration recognized by the acquirer in a business combination, other comprehensive income - designated as a fair value measurement - is not permitted.

Financial assets that are short-term trading items are as follows:

- Acquire financial assets to exercise short-term trades.
- There is evidence that the objective of the management type is to acquire short-term profits as part of a portfolio of specific financial instruments that are jointly managed at the time of initial recognition.
- Derivatives (except financial guarantee contract derivatives and derivatives that are effective and designed to

avoid risk).

Other comprehensive income - investments in equity instruments that correspond to the fair value items are recognized, plus transaction costs, on initial recognition at fair value; subsequently measured at fair value; and any gains or losses arising from changes in fair value are recognized in other comprehensive income and accumulated as accumulated gain or loss. When an equity instrument is disposed of, the cumulative gain or loss is not reclassified to profit or loss and is replaced with retained earnings.

Such dividends are recognized in profit or loss in accordance with K-IFRS 1109, unless dividends on investments in equity instruments clearly represent a recovery of investment costs.

iv) Profit or loss – assets at fair value measurement

Financial assets, which are not qualified for measurement requirements as amortized cost or other comprehensive income, are measured at FVTPL.

- Initial recognition for equity instruments other than short-term trading items and contingent consideration in business combinations - Unless otherwise designated as fair value items, the equity instruments are classified as at FVTPL (see 1)-iii) above).
- Requirement of amortization cost measurement items or other comprehensive income - Debt items that do not satisfy the requirements of fair value measurement items (see 1)-i) and 1)-ii) above) are classified as profit or loss - fair value measurement items. In addition, if the designation as a fair value measurement meets the criteria for measuring or recognizing an asset or liability in accordance with different criteria, it is necessary to eliminate the inconsistency in measurement or recognition ('accounting mismatch'). The requirements of the statutory sponsor metric or other comprehensive income, a debt instrument that meets the requirements for a fair value measurement item, can be designated as a profit or loss - fair value measurement at initial recognition.

Financial assets at FVTPL are measured at fair value at the end of each reporting period and recognized in profit or loss as a result of changes in fair value, except for those designated as hedging relationships.

2) Gain or loss on foreign currency translation

The carrying amount of a financial asset designated as a foreign currency is determined in foreign currencies and is translated at the spot exchange rate at the end of the reporting period.

- For financial assets measured at amortized cost, except for the portion designated as hedging relationship, exchange differences are recognized in profit or loss in the 'foreign exchange gains and losses' line item.
- Other comprehensive income - for debt instruments measured at fair value (except for those designated as hedging instruments), the exchange rate difference between the amortized cost of the debt instrument and the foreign currency gain or loss is recognized in profit or loss. Exchange rate differences, except for these, are recognized in other comprehensive income in the accumulated gain / loss items.
- Gains and losses arising from changes in the fair value of financial assets measured at fair value (except for those designated as hedging instruments) are recognized in profit or loss in the "foreign exchange gains and losses" line.
- Other comprehensive income -for equity instruments measured at fair value, the gain or loss is recognized in other comprehensive income.

3) Impairment of financial assets

The Group recognizes impairment losses, other comprehensive income and expected credit losses on investments in debt instruments measured at fair value, lease receivables, trade receivables and contractual assets and financial guarantee contracts. The amount of expected credit losses is updated to reflect changes in credit risk since the initial recognition of the financial instrument at each reporting period.

If the credit risk is significantly increased after initial recognition of the financial asset, the expected credit loss is recognized for the entire period. However, if the credit risk of a financial asset does not increase significantly after initial recognition, the Group measures the expected credit loss of the instrument as an amount equivalent to the 12-month expected credit loss.

Total expected credit losses represent expected credit losses due to any default event that may occur during the expected life of the instrument. Conversely, a 12-month expected credit loss is a fraction of the expected total credit loss due to a default event of a financial instrument that may occur within 12 months after the end of the reporting period.

i) Significant increase in credit risk

When assessing whether the credit risk of a financial instrument has significantly increased after initial recognition, the risk of default on a financial instrument at the end of the reporting period is compared to the risk of default. We consider both quantitative and qualitative information that can be reasonably supported and supported without undue cost or effort in order to make this assessment.

The Group uses the information below to determine whether a significant increase in credit risk is significant and generally assumes a significant increase in credit risk if one or more of the following are true:

- Delinquency of more than 30 days.
- As of settlement date, the credit rating has fallen more than a certain amount of time compared to the initial recognition.
- Asset quality precaution.
- High-risk assets.

Notwithstanding the foregoing, the Group believes that the credit risk of the instrument has not increased significantly when it determines that the instrument has a lower credit risk at the end of the reporting period: (1) the risk of default on financial instruments is low; (2) the borrower has a strong ability to fulfill the contractual cash flow obligation in the short term; and (3) in the long run, due to adverse economic and business environment changes, the Group determines that a financial instrument has a lower credit risk if the borrower's ability to meet contractual cash flow payment obligations may be weakened, but not necessarily weakened.

ii) Financial assets with impaired credit

The Group generally considers the credit to be impaired if one or more of the following are true:

- Overdue 90 days or more
- Credit rating is below a certain level as of settlement date
- Asset quality – doubtful accounts of collection and expected loss
- Default and others

Damage related to all financial assets, such as doubtful or estimated loss on collection of asset quality or default, is recognized in profit or loss and the carrying amount of the asset. However, in the case of an investment in a debt instrument measured at fair value, it is recognized in other comprehensive income and accumulated in the cumulative gain or loss and does not reduce the carrying amount of the financial asset in the consolidated statements of financial position.

4) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual right to the cash flows from the asset is expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

When a financial asset measured at amortized cost is eliminated, the difference between the carrying amount of the asset and the consideration received or receivable is recognized in profit or loss. Other comprehensive income - when an investment in a debt instrument measured at fair value is eliminated, the cumulative gain or loss previously recognized is reclassified to profit or loss. On the other hand, investments in equity instruments

designated as other comprehensive income - fair value at initial recognition are not reclassified to profit or loss, but are replaced with retained earnings.

(12) Financial liabilities and equity instruments

1) Financial liabilities and equity classification

Debt instruments and equity instruments are classified as financial liabilities or equity depending on the reality of the contract and the definition of financial liabilities and equity instruments.

2) Equity instruments

Equity instruments are all contracts that represent the residual interest after deducting all liabilities from the entity's assets. Equity securities issued by the Group are recognized at their fair value, less costs to sell directly.

When an entity repurchases its own equity instruments, these equity instruments are deducted directly from equity. Gains or losses on the purchase or sale of, or the issue or cancellation of, an equity instrument are not recognized in profit or loss.

3) Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest rate method or at FVTPL - at fair value. However, financial liabilities and financial guarantee contracts that arise when the transfer of a financial asset does not meet the elimination requirements or when a continuing involvement approach is applied is measured in accordance with the specific accounting policies described below.

4) Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL if they are either conditional cost, trading securities or initially designated at FVTPL.

Financial liabilities at FVTPL are measured at fair value and gains or losses arising from changes in fair value other than those designated as hedging instruments are recognized in profit or loss.

If the financial liability is designated as a fair value measurement, the change in the fair value of the financial liability due to changes in the credit risk of the liability is recognized as other comprehensive income if recognizing the effect of changes in credit risk in other comprehensive income does not raise or expand discordance of accounting. Remained changes in the fair value of the liability are recognized in profit or loss. Changes in fair value due to credit risk of financial liabilities recognized in other comprehensive income are not subsequently reclassified to profit or loss and are replaced with retained earnings when the financial liability is removed. Gains or losses on financial guarantee contracts designated as FVTPL are recognized in profit or loss.

5) Measurement of amortization cost

Financial liabilities are measured at amortized cost using the effective interest rate method, unless they are the conditional cost of the acquirer in a business combination, are classified as held for trading or are designated as at FVTPL when initially recognized.

6) Financial guarantee liability

A financial guarantee contract is a contract where the issuer must pay a certain amount of money in order to compensate losses suffered by the creditor when debtor defaults on a debt instrument in accordance with original or modified contractual terms.

A financial guarantee is initially measured at fair value and is subsequently measured at the higher of the amounts below unless it is designated to be measured at FVTPL or when it arises from disposal of an asset.

- Loss allowance in accordance with K-IFRS 1109 (refer to 'Financial assets' above)

- Initial book value less accumulated profit measured in accordance with K-IFRS 1115

7) Foreign exchange gains and losses

Financial liabilities denominated in foreign currencies are measured at amortized cost at the end of the reporting period. Foreign currency translation gains and losses are calculated based on the amortized cost of the financial instruments. Foreign exchange gains and losses on financial liabilities, except for those designated as hedging relationships, are recognized in profit or loss in the consolidated statements of financial position. Foreign currency translation gains and losses are recognized in other comprehensive income and are accumulated as separate items in equity when designated as a hedging instrument to hedge foreign currency risk.

Fair values of financial liabilities denominated in foreign currencies are determined in foreign currency and are translated at the spot exchange rate at the end of the reporting period. For financial liabilities measured at fair value, the foreign currency translation component is a part of fair value gains and losses and is recognized in profit or loss (except for those designated as hedging relationships).

8) Removal of financial liabilities

The Group eliminates financial liabilities only when the Group's obligations are fulfilled, canceled or expired. The difference between the carrying amount of the financial liability and the consideration paid or receivable is recognized in profit or loss.

(13) Property, plant and equipment

Property, plant and equipment are stated at cost and are subsequently carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment is the expenditure incurred directly in connection with the purchase or construction of the asset, including the costs and expenses directly related to bringing it to the place and condition necessary for the operation of the asset in an intended manner by management, and includes the initial estimated costs to be recovered.

Subsequent costs are included in the carrying amount of the tangible asset or, where appropriate, a separate asset, provided it is probable that the future economic benefits of the asset will flow to the Group and the cost can be reliably measured. Costs incurred in connection with ordinary repair and maintenance are recognized in profit or loss as incurred.

Depreciation of property, plant and equipment is not carried out and depreciation of property other than land is calculated by the straight-line method over the following estimated useful lives for the asset, less the cost or revalued amount:

| | Useful life |
|-------------------------------------|-------------|
| Buildings used for business purpose | 40 years |
| Structures in leased office | 5 years |
| Properties for business purpose | 5 years |

The depreciation method, residual value and useful lives of the tangible assets are reviewed at the end of each reporting period, and changes in value are accounted for as changes in accounting estimates. In addition, if there is an indication that the asset is impaired and the carrying amount of the asset exceeds the estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount.

(14) Intangible assets

The Group records the cost of an intangible asset at its acquisition cost or acquisition cost plus any incidental costs. After initial recognition, the cost of the intangible asset is recorded as the carrying amount, less accumulated depreciation and accumulated impairment losses, if any. Intangible assets of the Group are amortized using the straight-line method over the following estimated useful lives. The useful life and amortization method of intangible assets are reviewed at the end of each reporting period, and changes in value are accounted for as changes in accounting estimates.

| | Useful life |
|----------------------------|-------------|
| Industrial property rights | 10 years |
| Development costs | 5 years |

Other intangible assets

5 years

In addition, if there is an indication that the asset is impaired and the carrying amount of the intangible asset exceeds the estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount.

(15) Impairment of non-financial assets

Intangible assets with indefinite useful lives, such as goodwill and membership rights, are tested for impairment annually, irrespective of the indication of impairment, and the impairment test is performed on the remaining assets. At the end of each reporting period, the Group reviews whether there is an indication of impairment and, if there is any indication of impairment, the impairment test is performed to estimate the recoverable amount.

The recoverable amount is measured at the higher of its fair value, less costs to sell or its value in use. When the recoverable amount is less than the carrying amount, the carrying amount is reduced to recoverable amount and the amount is recognized in profit or loss.

(16) Derivatives

The Group enters into derivative contracts, such as interest rate swaps and currency swaps, to manage interest rate risk and foreign currency risk.

Derivatives are measured at fair value at the date of initial recognition and are subsequently remeasured to fair value at the end of each reporting period. Unrealized gains and losses arising from changes in the fair value of derivatives are recognized immediately in profit or loss unless the derivative is designated as a hedging instrument or effective at hedging. If the derivative is designated as a hedging instrument and effective for hedging, the timing of recognition of the hedging instrument is dependent on the nature of the hedging relationship. Derivative instruments whose fair value is positive (+) are recognized as financial assets and derivatives with negative values are recognized as financial liabilities.

1) Embedded derivatives

Embedded derivatives are components of a hybrid financial instrument that includes a non-derivative host contract. It has an effect of modifying part of cash flows of the hybrid financial instrument similar to an independent derivative.

Embedded derivatives that are part of a hybrid contract of which the host contract is a financial asset within the scope of K-IFRS 1109 are not separated. The classification is done by considering the hybrid contract as a whole, and subsequent measurement is either at amortized cost or fair value.

If embedded derivatives are part of a hybrid contract of which the host contract is not a financial asset within the scope of K-IFRS 1109 (e.g., financial liability), then these are treated as separate derivatives if embedded derivatives meet the definition of a derivative, characteristics and risk of the embedded derivatives are not closely related to that of host contract and if the host contract is not measured at FVTPL.

In the previous year, all embedded derivatives that were part of a hybrid contract were treated as separate derivatives if embedded derivatives meet the definition of a derivative, characteristics and risk of the embedded derivatives are not closely related to that of host contract and if the host contract is not measured at FVTPL.

2) Hedge accounting

The Group is applying K-IFRS 1109 in regard to hedge accounting. The Group designates certain derivatives as hedging instrument against fair value changes in relation to the interest rate risk and foreign currency translation risk.

The Group documents the relationship between hedging instruments and hedged items at the commencement of hedging in accordance with their purpose and strategy. Also, the Group documents at the commencement and subsequent dates whether the hedging instrument effectively counters the changes in fair value of hedged items. A hedging instrument is effective only when it meets all of the following criteria:

- When there is an economic relationship between the hedged items and hedging instruments.

- When the effect of credit risk is not stronger than the change in value due to the economic relationship between the hedged items and hedging instruments.
- When the hedge ratio is equal to the proportion and the number of hedged items to those of the hedging instruments.

When a hedging relationship no longer meets the hedging effectiveness requirements related to hedge ratio, but when the purpose of risk management on designated hedging relationship is still maintained, the hedge ratio of the hedging relationship is adjusted so that hedging relationship may meet the requirements again (hedge ratio readjustment).

The Group has designated derivatives as hedging instrument except for the portion on foreign currency basis spread. The fair value change due to foreign currency basis spread is recognized in other comprehensive income and is accumulated in equity. If the hedged item is related to transactions, the accumulated other comprehensive income is reclassified to profit or loss when the hedged item affects the profit or loss. However, when non-monetary items are subsequently recognized due to hedged items, the accumulated equity is removed from the equity directly, and is included in the initial book value of the recognized non-monetary items. Such transfers do not affect other comprehensive income. But if part or all of accumulated equity is not expected to be recovered in the future periods, the amount not expected to be recovered is immediately reclassified to profit or loss. If the hedged item is time-related, then the foreign currency basis spread on the day the derivative is designated as a hedging instrument that is related to the hedged item is reclassified to profit or loss over the term of the hedge.

3) Fair value hedge

Gain or loss arising from valid hedging instrument is recognized in profit or loss. However, when the hedging instrument mitigates risks on equity instruments designated as financial assets at FVTOCI, related gain or loss is recognized in other comprehensive income.

The book value of hedged items that are not measured in fair value is adjusted by the changes in fair value arising from the hedged risk, with resulting gain or loss reflected in net income. In case of debt instruments measured at FVTOCI, book value is an amount that is already adjusted to fair value and thus gain or loss arising from the hedged risk is recognized in profit or loss instead of other comprehensive income without adjustments in book value. When the hedged item is equity instrument measured at FVTOCI, the gain or loss arising from hedged risk is retained at other comprehensive income in order to match the gain or loss with hedging instruments.

Hedge accounting ceases to apply only when hedging relationship (or part of it) does not meet the requirements of hedge accounting (even after hedging relationship readjustment, if applicable). This treatment holds in case of lapse, disposal, expiry and exercise of hedging instruments, and this cease of treatment applies prospectively. The fair value adjustments made to book value of hedged item due to hedged risk are amortized from the date of discontinuance of hedge accounting and is recognized in profit or loss.

4) Cash flow hedges

The Group recognizes the effective portion of changes in the fair value of derivatives and other valid hedging instruments that are designated and qualified as cash flow hedges in other comprehensive income to the extent of cumulative fair value changes of the hedged item from the starting date of hedge accounting and it is cumulated in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately in net income.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to net income when the hedged item affects net income. However, when non-monetary assets or liabilities are subsequently recognized due to expected transactions involving hedged items, the valuation gain or loss accumulated in the equity as other comprehensive income is removed from the equity and included in the initial book value of the recognized non-monetary assets or liabilities. Such transfers do not affect other comprehensive income. Also, if the cash flow hedge reserve is loss and accumulated other comprehensive income is a loss and part or all of the losses are not expected to be recovered in the future periods, the said amount is immediately reclassified to profit or loss.

Hedge accounting ceases to apply only when hedging relationship (or part of it) does not meet the requirements of hedge accounting (even after hedging relationship readjustment, if applicable). This treatment holds in case of lapse, disposal, expiry and exercise of hedging instruments, and this cease of treatment applies prospectively. At the point of cessation of cash flow hedge, the valuation gain or loss recognized as accumulated other comprehensive income

continues to be recognized as equity, and is reclassified to profit or loss when the expected transaction is ultimately recognized as profit or loss. However, when transactions are no longer expected to occur, the valuation gain or loss of hedging instrument recognized as accumulated other comprehensive income is immediately reclassified to profit or loss.

(17) Assets held for sale (disposal group)

The Group classifies non-current assets (or disposal groups) as held for sale if the carrying amount of the non-current assets is likely to be recovered and sold mainly through sale transactions. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of fair value or carrying amount after deducting the sale cost.

(18) Provisions

Provisions are recognized if it has present or contractual obligations as a result of the past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation is reliably estimated.

The amount recognized as a provision is the best estimate at the end of each reporting period for the expenditure required to settle the present obligation, taking into account the unavoidable risks and uncertainties of the related events and circumstances. If the effect of time value of money is material, the provision is measured at the present value of the expenditure expected to be required to settle the obligation. The discount rate is the pretax rate reflecting the current market's assessment of the inherent risk of debt and the time value of money.

Provision for impairment of long-term liabilities is recognized in profit or loss as financial cost.

If it is expected that a third party will repay part or all of the expenditure required to settle the obligation, and if the obligation is substantially guaranteed and the amount can be reliably measured, it is recognized as assets.

The balance of provisions is reviewed at the end of each reporting period and adjusted to reflect the best estimate at the end of the reporting period. If the likelihood of an outflow of resources embodying economic benefits to fulfill an obligation is no longer high, the related provision is reversed.

The Group recognizes provisions for payment guarantees, unused limits and litigations. In addition, if the depreciable assets that are used as sales branches are to be restored after expiration of the contract period based on the lease contract, the present value of expenses estimated to be necessary to recover the depreciable assets is recognized as a provision for restoration.

(19) Retirement benefit costs and termination benefits

The contribution to the defined contribution retirement benefit plan is recognized as an expense when employees provide services that are eligible for payment.

In the case of defined benefit pension plans, defined benefit obligation is calculated by an independent actuarial corporation using actuarial valuation at the end of each reporting period using the projected unit credit method. The remeasurement component of net defined benefit liability, which consists of changes in actuarial gains and losses on plan assets (excluding amounts included in net interest on net defined benefit liabilities (assets)) and changes in the nature of the asset, are recognized in other comprehensive income and are immediately reflected in the consolidated statements of financial position. Reclassification factors recognized in the consolidated statements of comprehensive income are recognized in other comprehensive income and are not reclassified to profit or loss in the succeeding period. Past service costs are recognized as an expense at the earlier of an amendment or reduction in the system or when the Group recognizes an associated restructuring or dismissal benefit. The Group recognizes the settlement of the defined benefit plans at the time settlement occurs.

Net interest is calculated by applying discount rate to net defined benefit obligation (asset). The components of defined benefit costs consist of service costs (current and past service costs, and gains and losses on downsizing and settlement), net interest expenses (revenues) and remeasuring factors.

Operating cost and net interest expense (or net interest income) are recognized as operating expense and rereasurement factors are recognized in other comprehensive income. The profit or loss from the reduction of the system is treated as past service cost.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is recognized as an asset limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Liabilities for termination benefits are recognized at the earlier of either 1) the date when the Group is no longer able to cancel its proposal for termination benefits or 2) the date when the Group has recognized the cost of restructuring that accompanies the payment of termination benefits.

(20) Income tax

Income tax expense consists of current and deferred taxes.

1) Current corporate tax

Current tax liability is calculated based on taxable income for the year. The difference between taxable income and net income arises from items of profit or loss that are added to or deducted from other taxable periods and non-taxable or non-taxable items. Liabilities associated with the Group's current tax are calculated based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

If it is uncertain that the tax will be determined, but there is a strong likelihood of a cash outflow to the taxing authority in the future, a provision is recognized. Provisions are measured at the best estimate of the amount expected to be paid. These assessments are based on the judgment of the tax experts of the Parent Group in the past experience and, in certain cases, are based on the judgment of an independent tax professional.

2) Deferred income tax

Deferred income tax is the tax amount payable or settled in respect of temporary differences, which are the differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases used in the calculation of taxable income, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences when it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. However, if the temporary difference arises from the first recognition of goodwill or the transaction in which the asset or liability is recognized for the first time is not a business combination transaction and does not affect accounting profit and taxable income (tax loss) at the time of the transaction, deferred tax liabilities are not recognized. Deferred tax assets are not recognized if the temporary difference arises from transactions in which the asset or the liability is initially recognized in a transaction that is not a business combination transaction and that does not affect accounting profit and taxable income (tax loss carryforwards) at the transaction date.

Except where the Group can control the timing of the extinguishment of the temporary difference and it is probable that the temporary difference will not cease to exist in the foreseeable future, the additions to the subsidiary, the investment in the associate, the interest in the joint venture and deferred tax liabilities are recognized for temporary differences. Deferred tax assets arising from temporary differences arising from these investments are highly probable to be taxable at the rate of income that would have the appropriate effect on the temporary difference and recognized only if high.

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

Deferred income tax is measured using tax rates that are expected to be applied to the period in which the liability is settled or the asset is realized based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would

follow from the manner in which the entity expects to recover or settle the carrying amount of the related assets and liabilities at the end of the reporting period.

Deferred income tax assets and liabilities are recognized when the Group has the legally enforceable right to offset current tax assets and current tax liabilities and the taxable entity is the same or is subject to taxation with respect to the taxable entity and is intended to settle the liability at the same time as it realizes the asset each fiscal period, if it intends to settle the current tax liability and assets on a net basis, deferred tax liability is settled or a deferred tax asset is recovered only offset.

3) Recognition of current and deferred taxes

Current and deferred taxes are recognized in profit or loss as revenues or expenses, except when arising from transactions, events or business combinations that are recognized directly in equity or other comprehensive income in the same periods. At the time of business combination, the income tax effect is included in the accounting for the business combination.

(21) Earnings per share (“EPS”)

Basic EPS is a calculation of net income per each common stock. It is calculated by dividing net income attributable to ordinary shareholders by the weighted-average number of common shares outstanding. Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of all dilutive potential common shares.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS:

In applying the Group’s accounting policies described in Note 2, management must make judgments that have a significant effect on the amounts recognized in the consolidated financial statements (except for those related to the estimates), assets that are not readily identifiable from other sources and assumptions about the carrying amounts of liabilities. Estimates and related assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The amendments to the accounting estimates are recognized in the period in which the amendment is made if such amendment affects only that period and in the period in which amendments are made and in the future periods if they affect both the current and future periods.

(1) Significant judgments made in the process of applying accounting policies

The following items are important judgments separate from those related to the estimation (see Note 3 (2)) and are those that have the most significant effect on the amounts recognized in the consolidated financial statements:

1) Significant increase in credit risk

As explained in Note 2, if the credit risk of a financial instrument does not increase significantly after initial recognition, the allowance for loss is measured as an amount equivalent to the 12-month expected credit loss. If the credit risk of the instrument has increased significantly after recognition, or for the impaired asset, the allowance is measured as the amount corresponding to the expected credit loss for the whole period. K-IFRS 1109 does not define what constitutes a significant increase in credit risk.

2) Valuation of business models

The classification and measurement of financial assets are based on contractual cash flow characteristics and business models. Business models are determined at a level that reflects how the Group manages a set of financial assets together to achieve a specific business purpose. These assessments include judgments that reflect all relevant evidence, including the manner in which the performance of the asset is assessed and measured, the risks that affect the performance of the asset and how it is managed. The Group recognizes amortization costs or other comprehensive income - if the financial asset measured at fair value is derecognized before maturity and if the reason for such sale is consistent with the objective of the business model for managing the financial asset the Group

is observing. An audit is an integral part of the Group's continued assessment of whether the business model for the remaining financial asset is appropriate and, if not appropriate, a change in the business model and a corresponding change in the classification of the financial asset.

3) Fair value of financial instruments

Financial assets at FVTPL and FVTOCI are recognized in the consolidated financial statements at fair value. All derivatives are measured at fair value. Valuation techniques are required in order to determine fair values of financial instruments where observable market prices do not exist. Financial instruments that are not actively traded and have low price transparency will have less objective fair value and require broad judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks.

4) Income taxes

Income tax expense is recognized in current and deferred income taxes based on the best estimate of future taxable income as a result of operating activities until the end of the reporting period. However, actual future tax expense may not be consistent with recognized asset and liability. Such difference may affect current and deferred income tax assets and liabilities at the time when final tax effect is determined. Deferred income tax assets and liabilities are recognized only if there is a high probability that future taxable income will arise. In this case, the Group evaluates future taxable income based on the related factors, such as operating profit forecasted based on past financial performance. The Group reviews the carrying amount of deferred tax assets at the end of each reporting period and adjusts deferred income tax assets within the scope of taxable income sufficient to use the temporary difference to be deducted if the probability of occurrence of future taxable income changes.

(2) Main sources of estimated uncertainty

Major sources of major assumptions and other estimated uncertainties at the end of the reporting period that have significant risk factors and that could cause material changes to the carrying amounts of assets and liabilities in the next financial year are as follows.

1) Fair value of financial instruments

As described in Note 9, the Group uses valuation techniques that include input variables that are not based on observable market data to estimate the fair value of a particular type of financial instrument. Note 9 provides details of key assumptions used in determining the fair value of financial instruments and sensitivity analysis of these assumptions. Management believes that the valuation techniques and assumptions used to determine the fair value of financial instruments are appropriate.

2) Calculation of allowance for losses

When measuring expected credit losses, the Group uses reasonable and supportive forward-looking information, which is based on future changes in different economic variables and how they affect each other. Default loss is an estimate of the amount of loss in the event of default. This is based on the difference between the contractual cash flows and the cash flows that the creditor expects to receive and takes into account the cash flows from the collateral and credit enhancement.

The probability of default is an important input variable to measure expected credit losses. The probability of default is an estimate of the likelihood of a default event, including past information and assumptions and expectations for the future.

3) Defined benefit retirement plans

The Group operates a defined benefit retirement plan. Defined benefit obligations are calculated by performing an actuarial valuation at the end of each reporting period. In order to apply such actuarial valuation methods, it is necessary to estimate assumptions about discount rates, expected wage growth rates and mortality rates. The retirement benefit plan includes significant uncertainties in these estimates due to its long-term nature.

4. RISK MANAGEMENT:

The Group's operating activity is exposed to various financial risks. The Group is required to analyze and assess the level of complex risks, and determine the permissible level of risks and manage such risks. The Group's risk management procedures have been established to improve the quality of assets for holding or investment purposes by making decisions as how to avoid or mitigate risks through the identification of the source of the potential risks and their impact.

The Group has established an approach to manage the acceptable level of risks and reduce the excessive risks in financial instruments in order to maximize the profit given risks present, for which the Group has implemented processes for risk identification, assessment, control and monitoring and reporting.

The risk is managed by the risk management department in accordance with the Group's risk management policy. The Risk Management Committee makes decisions on the risk strategies such as the allocation of risk capital and the establishment of acceptable level of risk.

(1) Credit risk

Credit risk represents the possibility of financial losses incurred when the counterparty fails to fulfill its contractual obligations. The goal of credit risk management is to maintain the Group's credit risk exposure to a permissible degree and to optimize the rate of return considering such credit risk.

1) Credit risk management

The Group considers the probability of failure in performing the obligation of its counterparties, credit exposure to the counterparty and the related default risk and the rate of default loss. The Group uses the credit rating model to assess the possibility of the counterparty's default risk.

2) Maximum exposure to credit risk

In order to manage credit risk limit, the Group monitors total exposures and large exposures. The maximum exposures to credit risk are as follows (Korean won in millions):

| | | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-------------|--|--------------------------|--------------------------|
| Balance | Financial assets at amortized cost | | |
| | Due from banks | 20,003 | 20,003 |
| | Loans | 236,258 | 268,371 |
| | Credit card assets | 8,129,304 | 7,788,006 |
| | Credit sales | 5,126,469 | 5,057,762 |
| | Cash advances | 555,947 | 577,202 |
| | Card loan | 2,441,999 | 2,149,285 |
| | Other credit card assets | 4,889 | 3,757 |
| | Capital financing receivables | 760,016 | 889,807 |
| | Finance lease receivables | 235,011 | 161,317 |
| | Other financial assets at amortized cost | 266,379 | 298,153 |
| | Subtotal | <u>9,646,971</u> | <u>9,425,657</u> |
| | Derivative assets | <u>9,366</u> | <u>263</u> |
| Subtotal | <u>9,656,337</u> | <u>9,425,920</u> | |
| Off balance | Guarantees | - | - |
| | Unused credit limits | <u>33,120,042</u> | <u>32,174,569</u> |
| | Subtotal | <u>33,120,042</u> | <u>32,174,569</u> |
| | Total | <u>42,776,379</u> | <u>41,600,489</u> |

3) The credit risk of financial assets at amortized cost

The credit risk of financial assets at amortized cost by loan conditions are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | | | | | |
|--|--------------------------------------|--|--------------------------------------|--|----------------|------------------|----------------|------------------|
| | Stage 1 | | Stage 2 | | Stage 3 | Total | Loss allowance | Total, net |
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | | | |
| Due from banks | 20,003 | - | - | - | - | 20,003 | - | 20,003 |
| Loans | 160,804 | 66,549 | 770 | 18,256 | 8,358 | 254,737 | 18,479 | 236,258 |
| Credit card assets | 6,936,486 | 352,742 | 551,417 | 334,417 | 228,365 | 8,403,427 | 274,123 | 8,129,304 |
| Credit sales | 4,570,847 | 255,897 | 179,769 | 166,602 | 28,710 | 5,201,825 | 75,356 | 5,126,469 |
| Cash advances | 446,267 | 58,128 | 23,706 | 46,191 | 11,030 | 585,322 | 29,375 | 555,947 |
| Card loan | 1,914,482 | 38,717 | 347,942 | 121,624 | 188,625 | 2,611,390 | 169,391 | 2,441,999 |
| Other credit card assets | 4,890 | - | - | - | - | 4,890 | 1 | 4,889 |
| Capital financing receivables | 649,925 | 59,563 | 4,630 | 50,905 | 2,065 | 767,088 | 7,072 | 760,016 |
| Finance lease receivables | 200,017 | 11,512 | 3,790 | 22,223 | 697 | 238,239 | 3,228 | 235,011 |
| Other financial assets at amortized cost | 258,928 | 2,078 | 3,715 | 3,234 | 331 | 268,286 | 1,907 | 266,379 |
| Total | 8,226,163 | 492,444 | 564,322 | 429,035 | 239,816 | 9,951,780 | 304,809 | 9,646,971 |

| | December 31, 2018 | | | | | | | |
|--|--------------------------------------|--|--------------------------------------|--|----------------|------------------|----------------|------------------|
| | Stage 1 | | Stage 2 | | Stage 3 | Total | Loss allowance | Total, net |
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | | | |
| Due from banks | 20,003 | - | - | - | - | 20,003 | - | 20,003 |
| Loans | 167,038 | 84,432 | 1,304 | 26,514 | 8,778 | 288,066 | 19,695 | 268,371 |
| Credit card assets | 6,501,251 | 354,676 | 601,892 | 380,841 | 208,959 | 8,047,619 | 259,613 | 7,788,006 |
| Credit sales | 4,481,943 | 267,880 | 171,317 | 182,565 | 28,527 | 5,132,232 | 74,470 | 5,057,762 |
| Cash advances | 452,362 | 54,046 | 31,903 | 57,115 | 11,599 | 607,025 | 29,823 | 577,202 |
| Card loan | 1,563,188 | 32,750 | 398,672 | 141,161 | 168,833 | 2,304,604 | 155,319 | 2,149,285 |
| Other credit card assets | 3,758 | - | - | - | - | 3,758 | 1 | 3,757 |
| Capital financing receivables | 774,120 | 87,045 | 11,572 | 22,555 | 1,871 | 897,163 | 7,356 | 889,807 |
| Finance lease receivables | 151,840 | 7,746 | 306 | 3,204 | 493 | 163,589 | 2,272 | 161,317 |
| Other financial assets at amortized cost | 289,907 | 2,061 | 4,173 | 3,613 | 505 | 300,259 | 2,106 | 298,153 |
| Total | 7,904,159 | 535,960 | 619,247 | 436,727 | 220,606 | 9,716,699 | 291,042 | 9,425,657 |

(*1) Credit grades of corporates are AAA–BBB and retails are 1–6. (*2) Credit grades of corporates are BBB–C and retails are 7–10.

4) Credit risk of unused credit limits

The credit risk of unused credit limits is as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | | | |
|---------------------------|--------------------------------------|--|--------------------------------------|--|---------|------------|
| | Stage 1 | | Stage 2 | | Stage 3 | Total |
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | |
| Unused credit limits (*3) | 32,063,783 | 613,556 | 117,925 | 319,860 | 4,918 | 33,120,042 |

| | December 31, 2018 | | | | | |
|---------------------------|--------------------------------------|--|--------------------------------------|--|---------|------------|
| | Stage 1 | | Stage 2 | | Stage 3 | Total |
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | |
| | | | | | | |
| Unused credit limits (*3) | 31,009,372 | 702,150 | 125,273 | 335,989 | 1,785 | 32,174,569 |

(*1) Credit grades of corporates are AAA–BBB and retails are 1–6. (*2)

Credit grades of corporates are BBB–C and retails are 7–10.

(*3) Provisions for unused credit limit as of December 31, 2019 and 2018, are ₩51,631 million and ₩49,144 million, respectively.

5) Industrial distribution of credit risk

Details of the industrial distribution of credit risk of financial assets are as follows (Unit: Korean won in millions):

| | | December 31, 2019 | | | | | | |
|-------------|--|-------------------|------------------|--------------------|----------------|-------------------|----------------|-------------------|
| | | Service | Manufacturing | Bank and insurance | Construction | Consumers | Others | Total |
| Balance | Due from banks | - | - | 20,003 | - | - | - | 20,003 |
| | Loans | 894 | - | - | - | 235,364 | - | 236,258 |
| | Credit card assets | 504,222 | 209,830 | 74,032 | 71,597 | 7,203,902 | 65,721 | 8,129,304 |
| | Credit sales | 504,162 | 209,819 | 74,015 | 71,597 | 4,206,044 | 60,832 | 5,126,469 |
| | Cash advances | 60 | 11 | 17 | - | 555,859 | - | 555,947 |
| | Card loan | - | - | - | - | 2,441,999 | - | 2,441,999 |
| | Other credit card assets | - | - | - | - | - | 4,889 | 4,889 |
| | Capital financing receivables | 85,690 | 38,424 | 105 | 14,942 | 611,823 | 9,032 | 760,016 |
| | Finance lease receivables | 31,589 | 22,509 | 1,356 | 10,507 | 167,440 | 1,610 | 235,011 |
| | Other financial assets at amortized cost | 369 | 140 | 17,639 | 54 | 30,655 | 217,522 | 266,379 |
| | Subtotal | <u>622,764</u> | <u>270,903</u> | <u>113,135</u> | <u>97,100</u> | <u>8,249,184</u> | <u>293,885</u> | <u>9,646,971</u> |
| | Derivative assets | - | - | 9,366 | - | - | - | 9,366 |
| | Subtotal | <u>622,764</u> | <u>270,903</u> | <u>122,501</u> | <u>97,100</u> | <u>8,249,184</u> | <u>293,885</u> | <u>9,656,337</u> |
| Off balance | Unused credit limits | <u>2,084,319</u> | <u>733,945</u> | <u>305,921</u> | <u>200,143</u> | <u>29,560,620</u> | <u>235,094</u> | <u>33,120,042</u> |
| | Total | <u>2,707,083</u> | <u>1,004,848</u> | <u>428,422</u> | <u>297,243</u> | <u>37,809,804</u> | <u>528,979</u> | <u>42,776,379</u> |

| | | December 31, 2018 | | | | | | |
|-------------|--|-------------------|------------------|--------------------|----------------|-------------------|----------------|-------------------|
| | | Service | Manufacturing | Bank and insurance | Construction | Consumers | Others | Total |
| Balance | Due from banks | - | - | 20,003 | - | - | - | 20,003 |
| | Loans | 1,289 | - | - | - | 266,878 | 204 | 268,371 |
| | Credit card assets | 505,316 | 239,461 | 51,151 | 75,502 | 6,844,126 | 72,450 | 7,788,006 |
| | Credit sales | 505,279 | 239,442 | 51,105 | 75,502 | 4,117,746 | 68,688 | 5,057,762 |
| | Cash advances | 37 | 19 | 46 | - | 577,095 | 5 | 577,202 |
| | Card loan | - | - | - | - | 2,149,285 | - | 2,149,285 |
| | Other credit card assets | - | - | - | - | - | 3,757 | 3,757 |
| | Capital financing receivables | 86,409 | 43,645 | 88 | 16,921 | 734,923 | 7,821 | 889,807 |
| | Finance lease receivables | 19,076 | 14,130 | 935 | 6,451 | 116,243 | 4,482 | 161,317 |
| | Other financial assets at amortized cost | 292 | 120 | 8,528 | 44 | 29,071 | 260,098 | 298,153 |
| | Subtotal | <u>612,382</u> | <u>297,356</u> | <u>80,705</u> | <u>98,918</u> | <u>7,991,241</u> | <u>345,055</u> | <u>9,425,657</u> |
| | Derivative assets | - | - | 263 | - | - | - | 263 |
| | Subtotal | <u>612,382</u> | <u>297,356</u> | <u>80,968</u> | <u>98,918</u> | <u>7,991,241</u> | <u>345,055</u> | <u>9,425,920</u> |
| Off balance | Unused credit limits | <u>2,249,265</u> | <u>800,361</u> | <u>327,677</u> | <u>213,105</u> | <u>28,280,214</u> | <u>303,947</u> | <u>32,174,569</u> |
| | Total | <u>2,861,647</u> | <u>1,097,717</u> | <u>408,645</u> | <u>312,023</u> | <u>36,271,455</u> | <u>649,002</u> | <u>41,600,489</u> |

6) Regional distribution of credit risk

Details of the regional distribution of credit risk of financial assets are as follows (Unit: Korean won in millions):

| | | December 31, 2019 | | |
|-------------|--|-------------------|-----------|------------|
| | | Korea | Myanmar | Total |
| Balance | Financial assets at amortized cost: | | | |
| | Due from banks | 20,003 | - | 20,003 |
| | Loans | 212,540 | 23,718 | 236,258 |
| | Credit card assets | 8,129,304 | - | 8,129,304 |
| | Credit sales | 5,126,469 | - | 5,126,469 |
| | Cash advances | 555,947 | - | 555,947 |
| | Card loan | 2,441,999 | - | 2,441,999 |
| | Other credit card assets | 4,889 | - | 4,889 |
| | Capital financing receivables | 760,016 | - | 760,016 |
| | Finance lease receivables | 235,011 | - | 235,011 |
| | Other financial assets at amortized cost | 266,180 | 199 | 266,379 |
| | Subtotal | 9,623,054 | 23,917 | 9,646,971 |
| | Derivative assets | 9,366 | - | 9,366 |
| Subtotal | 9,632,420 | 23,917 | 9,656,337 | |
| Off balance | Unused credit limits | 33,120,042 | - | 33,120,042 |
| | Subtotal | 33,120,042 | - | 33,120,042 |
| | Total | 42,752,462 | 23,917 | 42,776,379 |
| | | December 31, 2018 | | |
| | | Korea | Myanmar | Total |
| Balance | Financial assets at amortized cost: | | | |
| | Due from banks | 20,003 | - | 20,003 |
| | Loans | 258,484 | 9,887 | 268,371 |
| | Credit card assets | 7,788,006 | - | 7,788,006 |
| | Credit sales | 5,057,762 | - | 5,057,762 |
| | Cash advances | 577,202 | - | 577,202 |
| | Card loan | 2,149,285 | - | 2,149,285 |
| | Other credit card assets | 3,757 | - | 3,757 |
| | Capital financing receivables | 889,807 | - | 889,807 |
| | Finance lease receivables | 161,317 | - | 161,317 |
| | Other financial assets at amortized cost | 298,149 | 4 | 298,153 |
| | Subtotal | 9,415,766 | 9,891 | 9,425,657 |
| | Derivative assets | 263 | - | 263 |
| Subtotal | 9,416,029 | 9,891 | 9,425,920 | |
| Off balance | Unused credit limits | 32,174,569 | - | 32,174,569 |
| | Subtotal | 32,174,569 | - | 32,174,569 |
| | Total | 41,590,598 | 9,891 | 41,600,489 |

(2) Market risk

Market risk refers to the risk that the Group may lose its trading position due to changes in market factors, such as interest rates, stock prices and exchange rates. Market risk arises from changes in interest rates and exchange rates of unsettled financial instruments and all contracts are subject to certain levels of volatility, depending on interest rates, credit spreads, exchange rates and the prices of equity securities.

1) Management of market risk

Management of market risk is a risk by element. This refers to the process of measuring and determining the sources of risk, and making and applying decisions to avoid, burden or mitigate risks by evaluating the appropriateness of the market risk that is borne by the Group. The Risk Management Committee allocates risk capital to market risk. Risk management is measured by a department, granted by risk factors, VaR (Value at Risk, the maximum loss projections) limits, loss limits, etc., on a daily basis, and reports regularly to the Risk Management Committee.

2) Interest rate VaR

Interest rate VaR is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in the interest rate, using the VaR methodology, a key measure of market risk, in interest rate risk assessment.

The interest rate VaR disclosed below is estimated at a 99% confidence level with 2% interest rate shock using the Bank for International Settlements (BIS) standards framework. This methodology employs revised duration proxy by maturity provided by the BIS. The assumption used to calculate the VaR is the expected range of interest rate fluctuation affected by interest rate shock at 200 bp parallel movement of benchmark rate curve.

Although the VaR is generally used as a key measure of market risk, certain limitations to this methodology exist.

VaR measures the potential loss in value of a risky asset or portfolio based on historical market movements over a defined period for a given confidence interval. However, it is not always possible in practice that the historical market movements reflect all future conditions and circumstances, which results in variance in the timing and size of actual loss due to the changes in assumptions used in calculation.

The results of interest rate VaR calculated under normal distribution of interest rate risk are as follows (Korean won in millions):

| | | |
|-------------------|--------------------------|--------------------------|
| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
| Interest rate VaR | (85,010) | (57,475) |

3) Other risks of market risk

i) Interest rate risk

The Group measures and manages the risk of fluctuations in interest rates arising from maturity of assets and liabilities and discrepancies in interest rate conditions. The principal and interest cash flows of assets and liabilities as of the date of interest modification are as follows:

| | December 31, 2019 | | | | | | Total |
|------------------------------------|-------------------|----------------|----------------|-----------------|------------------|-------------------|------------------|
| | Within 3 months | 4 to 6 months | 7 to 9 months | 10 to 12 months | 1 to 5 years | More than 5 years | |
| Financial assets: | | | | | | | |
| Financial assets at amortized cost | 5,796,751 | 906,382 | 505,806 | 502,163 | 1,832,614 | 288,798 | 9,832,514 |
| Financial liabilities: | | | | | | | |
| Borrowings | 4,631 | - | - | - | - | - | 4,631 |
| Debentures | 597,014 | 562,164 | 554,317 | 458,212 | 5,250,699 | - | 7,422,406 |
| Others | 347 | 385 | 539 | 665 | - | - | 1,936 |
| | <u>601,992</u> | <u>562,549</u> | <u>554,856</u> | <u>458,877</u> | <u>5,250,699</u> | <u>-</u> | <u>7,428,973</u> |

| | | December 31, 2018 | | | | | | |
|------------------------|------------------------------------|-------------------|---------------|---------------|-----------------|--------------|-------------------|-----------|
| | | Within 3 months | 4 to 6 months | 7 to 9 months | 10 to 12 months | 1 to 5 years | More than 5 years | Total |
| Financial assets: | | | | | | | | |
| | Financial assets at amortized cost | 5,827,337 | 909,674 | 467,406 | 465,999 | 1,743,131 | 390,716 | 9,804,263 |
| Financial liabilities: | | | | | | | | |
| | Borrowings | 4,485 | - | - | - | - | - | 4,485 |
| | Debentures | 410,034 | 444,135 | 507,273 | 740,524 | 5,280,304 | - | 7,382,270 |
| | Others | 94 | 185 | 224 | 364 | - | - | 867 |
| | | 414,613 | 444,320 | 507,497 | 740,888 | 5,280,304 | - | 7,387,622 |

Repricing date is defined as the date on which interest rates of operational funds and procuring funds can be readjusted before the expiration date. Analysis based on interest expirations is used to analyze assets and liabilities that cause interest margins and interest costs.

ii) Currency risk

Currency risk occurs from the financial instrument denominated in foreign currencies other than the functional currency. Therefore, no currency risk arises from non-monetary items or financial instruments denominated in the functional currency.

Financial instruments in foreign currencies exposed to currency risk are as follows (Unit: USD in thousands and MMK in millions and Korean won in millions):

| | | December 31, 2019 | | | | | | |
|-------------------------------|------------------------------------|-------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-------------------|
| | | USD | | SGD | | MMK | | Total |
| | | Foreign | Korean won | Foreign | Korean won | Foreign | Korean won | Korean won |
| | | <u>currency</u> | <u>equivalent</u> | <u>currency</u> | <u>equivalent</u> | <u>currency</u> | <u>equivalent</u> | <u>equivalent</u> |
| Exposure | | (483,974) | (560,344) | (204,000) | (175,144) | 33,866,489 | 26,497 | (708,991) |
| | Cash and cash equivalents | 1 | 2 | - | - | 5,979,236 | 4,678 | 4,680 |
| Assets | Financial assets at amortized cost | 36 | 42 | - | - | 30,914,045 | 24,187 | 24,229 |
| | Borrowings | (480,000) | (555,744) | (204,000) | (175,144) | - | - | (730,888) |
| Liabilities | Debentures | (4,000) | (4,631) | - | - | - | - | (4,631) |
| | Other financial liabilities | (11) | (13) | - | - | (3,026,792) | (2,368) | (2,381) |
| Off-balance derivative | | 480,000 | 555,744 | 204,000 | 175,144 | - | - | 730,888 |
| exposure amount | | | | | | | | |
| Net foreign currency exposure | | (3,974) | (4,600) | - | - | 33,866,489 | 26,497 | 21,897 |

| | | December 31, 2018 | | | | | | |
|-------------|------------------------------------|-------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-------------------|
| | | USD | | SGD | | MMK | | Total |
| | | Foreign | Korean won | Foreign | Korean won | Foreign | Korean won | Korean won |
| | | <u>currency</u> | <u>equivalent</u> | <u>currency</u> | <u>equivalent</u> | <u>currency</u> | <u>equivalent</u> | <u>equivalent</u> |
| Exposure | | (504,000) | (563,535) | (204,000) | (166,929) | 15,163,220 | 10,969 | (719,495) |
| | Cash and cash equivalents | - | - | - | - | 2,764,227 | 1,999 | 1,999 |
| Assets | Financial assets at amortized cost | - | - | - | - | 13,804,940 | 9,987 | 9,987 |
| | Borrowings | (500,000) | (559,050) | (204,000) | (166,929) | - | - | (725,979) |
| Liabilities | Debentures | (4,000) | (4,485) | - | - | - | - | (4,485) |
| | Other financial liabilities | - | - | - | - | (1,405,947) | (1,017) | (1,017) |

| | | | | | | | |
|-------------------------------|----------------|----------------|----------|----------|-------------------|---------------|--------------|
| Off-balance derivative | 500,000 | 559,050 | 204,000 | 166,929 | - | - | 725,979 |
| exposure amount | | | | | | | |
| Net foreign currency exposure | <u>(4,000)</u> | <u>(4,485)</u> | <u>-</u> | <u>-</u> | <u>15,163,220</u> | <u>10,969</u> | <u>6,484</u> |

(3) Liquidity risk

Liquidity risk refers to the risk that the Group may encounter difficulties in meeting obligations from its financial liabilities.

1) Liquidity risk management

Liquidity risk management is to prevent potential cash shortage as a result of mismatching the use of funds (assets) and sources of funds (liabilities) or unexpected cash outflows. The financial liabilities that are relevant to liquidity risk are incorporated within the scope of risk management. Derivative instruments are excluded from those financial liabilities as they reflect expected cash flows for a predetermined period.

Assets and liabilities are grouped by account under Asset Liability Management (“ALM”) in accordance with the characteristics of the account. The Group manages liquidity risk by identifying maturity gap, and then gap ratio through performing various cash flows analyses (i.e., based on remaining maturity and contract period), while maintaining the gap ratio at or below the target limit.

2) Maturity analysis of non-derivative financial liabilities

Cash flows of principals and interests by remaining contractual maturities of non-derivative financial liabilities are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | | | | Total |
|------------------------|-------------------|---------------|---------------|-----------------|--------------|-------------------|-----------|
| | Within 3 months | 4 to 6 months | 7 to 9 months | 10 to 12 months | 1 to 5 years | More than 5 years | |
| Financial liabilities: | | | | | | | |
| Borrowings | 4,631 | - | - | - | - | - | 4,631 |
| Debentures | 597,014 | 562,164 | 554,317 | 458,212 | 5,250,699 | - | 7,422,406 |
| Lease liabilities | 2,367 | 1,986 | 2,238 | 2,966 | 19,514 | - | 29,071 |
| Other liabilities | 835,610 | 385 | 539 | 665 | 53,809 | - | 891,008 |
| Total | 1,439,622 | 564,535 | 557,094 | 461,843 | 5,324,022 | - | 8,347,116 |

| | December 31, 2019 | | | | | | Total |
|------------------------|-------------------|---------------|---------------|-----------------|--------------|-------------------|-----------|
| | Within 3 months | 4 to 6 months | 7 to 9 months | 10 to 12 months | 1 to 5 years | More than 5 years | |
| Financial liabilities: | | | | | | | |
| Borrowings | 4,485 | - | - | - | - | - | 4,485 |
| Debentures | 410,034 | 444,135 | 507,273 | 740,524 | 5,280,304 | - | 7,382,270 |
| Other liabilities | 972,834 | 161 | 194 | 317 | 40,545 | - | 1,014,051 |
| Total | 1,387,353 | 444,296 | 507,467 | 740,841 | 5,320,849 | - | 8,400,806 |

Maturity analysis above includes both principal and interest cash flows by contractual maturities.

3) Maturity analysis of derivative financial liabilities

Derivative financial instruments for hedging purposes are cash inflows that were estimated by offsetting cash outflows.

The Group’s maturity analysis of non-derivative financial liabilities and cash flows of principals and interests by remaining contractual maturities is as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | | | | Total |
|--------------------------|-------------------|---------------|---------------|-----------------|--------------|-------------------|-----------|
| | Within 3 months | 4 to 6 months | 7 to 9 months | 10 to 12 months | 1 to 5 years | More than 5 years | |
| Net basis cash flow | (122) | (211) | (241) | (253) | (838) | - | (1,665) |
| Total basis cash outflow | (60,908) | (699) | (699) | (691) | (238,302) | - | (301,299) |
| Total basis cash inflow | 59,225 | 1,263 | 1,252 | 1,210 | 239,259 | - | 302,209 |
| Total | (1,805) | 353 | 312 | 266 | 119 | - | (755) |

| | December 31, 2018 | | | | | | Total |
|--------------------------|-------------------|---------------|---------------|-----------------|--------------|-------------------|-----------|
| | Within 3 months | 4 to 6 months | 7 to 9 months | 10 to 12 months | 1 to 5 years | More than 5 years | |
| Net basis cash flow | (28) | (53) | (57) | (58) | (478) | - | (674) |
| Total basis cash outflow | (3,118) | (60,164) | (123,439) | (183,004) | (404,349) | - | (774,074) |
| Total basis cash inflow | 5,040 | 61,329 | 116,594 | 171,259 | 398,752 | - | 752,974 |
| Total | 1,894 | 1,112 | (6,902) | (11,803) | (6,075) | - | (21,774) |

4) Maturity analysis of off-consolidated statements of financial position accounts

There are contractual maturities for financial guarantees, such as guarantees for debentures issued or loans, loan commitments and other guarantees; however, under the terms of the guarantees and loan commitments, funds should be paid upon demand from the counterparty. Details of off-balance accounts are as follows (Unit: Korean Won in millions):

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Guarantees (credit card restricted for purchase) | - | - |
| Loan commitments (unused credit limits) | 33,120,042 | 32,174,569 |

(4) Capital management

The Financial Services Commission establishes laws and regulations in order to enhance the safety and soundness of specialized credit financial companies and avoid potential financial incidents. According to the standard, specialized credit financial companies shall maintain at least 8% of adjusted capital ratio and report the adjusted capital ratio to the Financial Service Commission on a quarterly basis.

The adjusted capital ratio is calculated as adjusted net capital divided by adjusted total assets. The adjusted total assets and adjusted net capital are based upon the consolidated statements of financial position and adjusted by the regulation that considered standards of the BIS and the nature of specialized financing service.

Adjusted total assets consists of total asset, excluding the following items: cash, short-term deposits not pledged as collateral, government bonds with maturity of three months or less from the acquisition date and deductible items. In case of specialized credit financial companies that have adopted K-IFRSs, reserve for bad debts and cumulative unrealized gain on valuation of loans are deducted from the adjusted total assets.

Adjusted net capital comprises the sum of basic and supplementary capital (limited by the extent of the basic capital), less deductible items. Supplementary capital is composed of allowance for credit losses in respect of credits classified as normal or precautionary (i.e., allowance for loans from customers who have never been delinquent, including provision for unused loan commitments and reserve for bad debts) and unsecured subordinate debts. In case of unsecured subordinate debts, there is a prohibition on early repayment of the debts. The amount of the unsecured subordinate debts is up to 100% of the basic capital if the maturity of the debt is longer than 10 years. If the maturity of the debt is longer than five years, the amount is limited to 50% of the basic capital. If the debt will mature in five years, 20% of the debt is annually deducted from the debt. In this case, the amount less than 1.5% of total assets, excluding provisions for unused loan commitments is added to the supplementary capital.

As of December 31, 2019 and 2018, the Group met the regulatory requirement for the adjusted capital ratio.

5. CASH AND CASH EQUIVALENTS:

Details of cash and cash equivalents are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|--------------------|-------------------|-------------------|
| Cash | 15,271 | - |
| Foreign currencies | 13 | - |
| Demand deposits | 100,917 | 362,202 |
| Total | 116,201 | 362,202 |

6. FINANCIAL ASSETS AT FVTOCI:

(1) Details of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|----------------------------|--------------------------|--------------------------|
| Equity securities: | | |
| Unlisted equity securities | 84,626 | 87,544 |
| Other equity investments | 460 | 209 |
| Total | <u>85,086</u> | <u>87,753</u> |

(2) Details of unrealized profit and loss in financial assets at FVTOCI are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | | |
|----------------------------|--------------------------|----------------------------|-------------------|
| | <u>Acquisition cost</u> | <u>Unrealized gain (*)</u> | <u>Fair value</u> |
| Unlisted equity securities | 42,483 | 42,143 | 84,626 |
| Other equity investments | 460 | - | 460 |
| Total | <u>42,943</u> | <u>42,143</u> | <u>85,086</u> |
| | <u>December 31, 2018</u> | | |
| | <u>Acquisition cost</u> | <u>Unrealized gain (*)</u> | <u>Fair value</u> |
| Unlisted equity securities | 42,483 | 45,061 | 87,544 |
| Other equity investments | 209 | - | 209 |
| Total | <u>42,692</u> | <u>45,061</u> | <u>87,753</u> |

(*) These amounts do not include the deferred income tax, which is directly deducted from equity.

7. FINANCIAL ASSETS AT AMORTIZED COST:

(1) Details of financial assets at amortized cost and loans and receivables are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Due from banks | 20,003 | 20,003 |
| Loans | 236,258 | 268,371 |
| Credit card assets | 8,129,304 | 7,788,006 |
| Capital financing receivables | 760,016 | 889,807 |
| Finance lease receivables | 235,011 | 161,317 |
| Other financial assets at amortized cost | 266,379 | 298,153 |
| Total | <u>9,646,971</u> | <u>9,425,657</u> |

(2) Details of due from banks are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-----------------------------------|--------------------------|--------------------------|
| Due from banks in local currency: | | |
| Due from deposit banks | 20,003 | 20,003 |

(3) Details of restricted due from banks are as follows (Unit: Korean won in millions):

| | Counterparty | December 31, 2019 | Reason for restriction |
|-----------------------------------|--------------|----------------------|---|
| Due from banks in local currency: | | | |
| Due from deposit banks | Woori Bank | 3 | Guarantee deposit for checking accounts |

| | Counterparty | December 31, 2018 | Reason for restriction |
|-----------------------------------|--------------|----------------------|---|
| Due from banks in local currency: | | | |
| Due from deposit banks | Woori Bank | 3 | Guarantee deposit for checking accounts |

(4) Details of loans are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Loans | 254,541 | 287,602 |
| Deferred loan origination costs and fees | 196 | 464 |
| Provision for credit losses | (18,479) | (19,695) |
| Total | <u>236,258</u> | <u>268,371</u> |

(5) Details of credit card assets are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Credit card assets: | | |
| Credit sales proceeds: | | |
| Proceeds from general credit sales | 3,099,450 | 2,925,244 |
| Proceeds from installment sales | 1,969,156 | 2,088,840 |
| Proceeds from international credit sales | 139,158 | 128,052 |
| Cash advances | 585,322 | 607,025 |
| Card loan | 2,446,848 | 2,157,120 |
| Refinancing | 164,542 | 147,485 |
| Other credit card assets | 4,890 | 3,757 |
| Provisions for credit losses | (274,123) | (259,613) |
| Present value of discount | (5,939) | (9,904) |
| Total | <u>8,129,304</u> | <u>7,788,006</u> |

(6) Details of capital financing receivables are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Capital financing receivables | 752,960 | 881,014 |
| Deferred loan origination costs and fees | 14,128 | 16,149 |
| Provision for credit losses | (7,072) | (7,356) |
| Total | <u>760,016</u> | <u>889,807</u> |

(7) Details of finance lease receivables are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Finance lease receivables (*) | 227,067 | 155,681 |
| Deferred loan origination costs and fees | 11,172 | 7,908 |
| Provision for credit losses | (3,228) | (2,272) |
| Total | <u>235,011</u> | <u>161,317</u> |

(*) Canceled finance lease receivables amounted to ₩9 million as of December 31, 2019, is included.

(8) Details of other financial assets at amortized cost are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Other financial assets at amortized cost : | | |
| Receivables | 196,919 | 238,549 |
| Accrued income | 49,379 | 38,722 |
| Guarantee deposits | 21,615 | 22,726 |
| Others | 528 | 605 |
| Provisions for credit losses | (1,907) | (2,106) |
| Present value discount | <u>(155)</u> | <u>(343)</u> |
| Total | <u><u>266,379</u></u> | <u><u>298,153</u></u> |

(9) Changes in the provisions for credit losses are as follows (Unit: Korean won in millions):

| | For the year ended December 31, 2019 | | | | | | | Ending balance |
|---------------------------------------|--------------------------------------|---------------------------------------|---|-------------------------------------|--|--|------------------|-------------------|
| | Beginning balance | 12-month expected credit losses | <u>Replaced with</u> Lifetime expected credit losses | Credit-impaired financial assets | Net allowance for credit losses | Recovery from write-off receivables | Charge- off | |
| Loans: | | | | | | | | |
| 12-month expected credit loss | 7,301 | 806 | (583) | (82) | 5,853 | - | (6,534) | 6,761 |
| Lifetime expected credit losses | 5,840 | (801) | 601 | (111) | 5,004 | - | (5,635) | 4,898 |
| Credit-impaired financial assets | 6,554 | (5) | (18) | 193 | 3,340 | 3,279 | (6,523) | 6,820 |
| Credit card assets: | | | | | | | | |
| 12-month expected credit loss | 64,726 | 15,712 | (6,031) | (538) | 98,787 | - | (98,109) | 74,547 |
| Lifetime expected credit losses | 78,128 | (15,231) | 6,317 | (1,043) | 96,434 | - | (93,073) | 71,532 |
| Credit-impaired financial assets | 116,759 | (481) | (286) | 1,581 | 40,343 | 60,366 | (90,238) | 128,044 |
| Capital financing receivables: | | | | | | | | |
| 12-month expected credit loss | 4,073 | 437 | (632) | (22) | (218) | - | (888) | 2,750 |
| Lifetime expected credit losses | 1,696 | (415) | 674 | (41) | 1,027 | - | (464) | 2,477 |
| Credit-impaired financial assets | 1,587 | (22) | (42) | 63 | 610 | 223 | (574) | 1,845 |
| Finance lease receivables: | | | | | | | | |
| 12-month expected credit loss | 1,501 | 67 | (367) | (8) | (274) | - | (27) | 892 |
| Lifetime expected credit losses | 317 | (67) | 402 | (12) | 1,094 | - | (14) | 1,720 |
| Credit-impaired financial assets | 454 | - | (35) | 20 | 426 | 3 | (252) | 616 |
| Other financial assets: | | | | | | | | |
| 12-month expected credit loss | 677 | 62 | (44) | (4) | 14 | - | - | 705 |
| Lifetime expected credit losses | 996 | (62) | 45 | (6) | (36) | - | - | 937 |
| Credit-impaired financial assets | 433 | - | (1) | 10 | (68) | - | (109) | 265 |
| Total | <u>291,042</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>252,336</u> | <u>63,871</u> | <u>(302,440)</u> | <u>304,809</u> |

For the year ended December 31, 2018

| | Beginning balance | 12-month expected credit losses | <u>Replaced with</u> Lifetime expected credit losses | Credit- impaired financial assets | Net allowance for credit losses | Recovery from write- off receivables | Charge- off | Ending balance |
|---------------------------------------|----------------------|---------------------------------------|---|---|--|---|----------------|-------------------|
| Loans: | | | | | | | | |
| 12-month expected credit loss | 7,467 | 973 | (770) | (164) | 10,953 | - | (11,158) | 7,301 |
| Lifetime expected credit losses | 8,445 | (971) | 815 | (272) | 7,930 | - | (10,108) | 5,839 |
| Credit-impaired financial assets | 3,965 | (2) | (45) | 436 | 6,766 | 1,334 | (5,899) | 6,555 |
| Credit card assets: | | | | | | | | |
| 12-month expected credit loss | 57,126 | 13,846 | (5,871) | (530) | 82,030 | - | (81,875) | 64,726 |
| Lifetime expected credit losses | 71,463 | (13,737) | 6,194 | (1,427) | 98,257 | - | (82,622) | 78,128 |
| Credit-impaired financial assets | 102,858 | (109) | (323) | 1,957 | 33,203 | 57,556 | (78,383) | 116,759 |
| Capital financing receivables: | | | | | | | | |
| 12-month expected credit loss | 2,312 | 286 | (147) | (20) | 1,967 | - | (325) | 4,073 |
| Lifetime expected credit losses | 663 | (226) | 217 | (10) | 1,203 | - | (151) | 1,696 |
| Credit-impaired financial assets | 584 | (60) | (70) | 30 | 1,214 | 149 | (260) | 1,587 |
| Finance lease receivables: | | | | | | | | |
| 12-month expected credit loss | 827 | 68 | (23) | (63) | 692 | - | - | 1,501 |
| Lifetime expected credit losses | 158 | (68) | 23 | (37) | 241 | - | - | 317 |
| Credit-impaired financial assets | 111 | - | - | 100 | 245 | - | (2) | 454 |
| Other financial assets: | | | | | | | | |
| 12-month expected credit loss | 624 | 55 | (42) | (5) | 105 | - | (60) | 677 |
| Lifetime expected credit losses | 855 | (55) | 43 | (8) | 250 | - | (89) | 996 |
| Credit-impaired financial assets | 635 | - | (1) | 13 | (175) | - | (39) | 433 |
| Total | 258,093 | - | - | - | 244,881 | 59,039 | (270,971) | 291,042 |

(10) Changes in the gross carrying amount of loans are as follows (Unit: Korean won in millions):

| | For the year ended December 31, 2019 | | | | | | |
|---------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|-------------------------------------|-------------------------------|------------------|-------------------|
| | Beginning balance | Replaced with | | Credit-impaired financial assets | Net increase (decrease) | Charge-off | Ending balance |
| | | 12-month expected credit losses | Lifetime expected credit losses | | | | |
| Loans: | | | | | | | |
| 12-month expected credit loss | 251,470 | 5,446 | (13,864) | (2,321) | (6,832) | (6,546) | 227,353 |
| Lifetime expected credit losses | 27,818 | (5,440) | 13,885 | (532) | (11,070) | (5,635) | 19,026 |
| Credit-impaired financial assets | 8,778 | (6) | (21) | 2,853 | 3,277 | (6,523) | 8,358 |
| Credit card assets: | | | | | | | |
| 12-month expected credit loss | 6,855,927 | 258,674 | (307,101) | (26,567) | 606,405 | (98,109) | 7,289,229 |
| Lifetime expected credit losses | 982,734 | (258,166) | 307,450 | (11,639) | (41,474) | (93,073) | 885,832 |
| Credit-impaired financial assets | 208,958 | (508) | (349) | 38,206 | 72,297 | (90,238) | 228,366 |
| Capital financing receivables: | | | | | | | |
| 12-month expected credit loss | 861,165 | 6,773 | (34,876) | (1,367) | (121,321) | (886) | 709,488 |
| Lifetime expected credit losses | 34,127 | (6,746) | 34,930 | (405) | (5,907) | (464) | 55,535 |
| Credit-impaired financial assets | 1,871 | (27) | (54) | 1,772 | (923) | (574) | 2,065 |
| Finance lease receivables: | | | | | | | |
| 12-month expected credit loss | 159,586 | 1,066 | (11,730) | (713) | 63,347 | (27) | 211,529 |
| Lifetime expected credit losses | 3,510 | (1,066) | 11,776 | (130) | 11,937 | (14) | 26,013 |
| Credit-impaired financial assets | 493 | - | (46) | 843 | (341) | (252) | 697 |
| Other financial assets: | | | | | | | |
| 12-month expected credit loss | 291,968 | 1,503 | (1,678) | (149) | (30,637) | - | 261,007 |
| Lifetime expected credit losses | 7,785 | (1,503) | 1,680 | (73) | (940) | - | 6,949 |
| Credit-impaired financial assets | 506 | - | (2) | 222 | (287) | (109) | 330 |
| Total | 9,696,696 | - | - | - | 537,531 | (302,450) | 9,931,777 |

| For the year ended December 31, 2018 | | | | | | | |
|---------------------------------------|-------------------|---------------------------------|---------------------------------|----------------------------------|-------------------------|------------------|------------------|
| | Beginning balance | Replaced with | | | Net increase (decrease) | Charge-off | Ending balance |
| | | 12-month expected credit losses | Lifetime expected credit losses | Credit-impaired financial assets | | | |
| Loans: | | | | | | | |
| 12-month expected credit loss | 234,591 | 5,529 | (17,231) | (3,459) | 43,204 | (11,164) | 251,470 |
| Lifetime expected credit losses | 36,130 | (5,527) | 17,284 | (1,389) | (8,603) | (10,077) | 27,818 |
| Credit-impaired financial assets | 5,122 | (2) | (53) | 4,848 | 4,781 | (5,918) | 8,778 |
| Credit card assets: | | | | | | | |
| 12-month expected credit loss | 5,717,260 | 221,984 | (287,622) | (22,584) | 1,308,764 | (81,875) | 6,855,927 |
| Lifetime expected credit losses | 935,266 | (221,841) | 288,026 | (13,136) | 77,041 | (82,622) | 982,734 |
| Credit-impaired financial assets | 177,983 | (143) | (404) | 35,720 | 74,185 | (78,383) | 208,958 |
| Capital financing receivables: | | | | | | | |
| 12-month expected credit loss | 546,748 | 3,972 | (10,624) | (1,410) | 322,804 | (325) | 861,165 |
| Lifetime expected credit losses | 10,202 | (3,889) | 10,717 | (118) | 17,366 | (151) | 34,127 |
| Credit-impaired financial assets | 727 | (83) | (93) | 1,528 | 52 | (260) | 1,871 |
| Finance lease receivables: | | | | | | | |
| 12-month expected credit loss | 59,016 | 822 | (1,274) | (311) | 101,333 | - | 159,586 |
| Lifetime expected credit losses | 1,780 | (822) | 1,274 | (241) | 1,519 | - | 3,510 |
| Credit-impaired financial assets | 114 | - | - | 552 | (171) | (2) | 493 |
| Other financial assets: | | | | | | | |
| 12-month expected credit loss | 242,817 | 1,347 | (1,648) | (279) | 49,731 | - | 291,968 |
| Lifetime expected credit losses | 7,615 | (1,347) | 1,649 | (97) | (35) | - | 7,785 |
| Credit-impaired financial assets | 692 | - | (1) | 376 | (373) | (188) | 506 |
| Total | <u>7,976,063</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,991,598</u> | <u>(270,965)</u> | <u>9,696,696</u> |

(11) Changes in deferred loan origination costs are as follows (Unit: Korean won in millions):

| | For the year ended December 31, 2019 | | | |
|---------------------------------|--------------------------------------|----------|----------|----------------|
| | Beginning balance | Increase | Decrease | Ending balance |
| Deferred loan origination costs | 24,521 | 18,821 | (17,846) | 25,496 |
| | For the year ended December 31, 2018 | | | |
| | Beginning balance | Increase | Decrease | Ending balance |
| Deferred loan origination costs | 12,717 | 23,060 | (11,256) | 24,521 |

8. LEASES:

- (1) Present values of finance lease receivables and minimum lease payment are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|------------------------|--------------------------|---|--------------------------|---|
| | <u>Gross investment</u> | <u>Present value of minimum lease payment</u> | <u>Gross investment</u> | <u>Present value of minimum lease payment</u> |
| Within one year | 8,611 | 8,332 | 3,086 | 2,968 |
| One year to five years | <u>248,553</u> | <u>218,726</u> | <u>174,645</u> | <u>152,713</u> |
| Total | <u>257,164</u> | <u>227,058</u> | <u>177,731</u> | <u>155,681</u> |

- (2) Details of finance lease receivables are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | - | <u>December 31, 2018</u> |
|------------------------------------|--------------------------|---|--------------------------|
| Net investment in a lease | 227,058 | - | 155,681 |
| Financial lease expenses | 11,172 | - | 7,908 |
| Provisions for credit losses | (3,228) | - | (2,272) |
| Canceled finance lease receivables | <u>9</u> | - | <u>-</u> |
| Total | <u>235,011</u> | = | <u>161,317</u> |

- (3) Unearned interest income on gross investment in the finance lease are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | - | <u>December 31, 2018</u> |
|--------------------------|--------------------------|---|--------------------------|
| Unearned interest income | 30,106 | - | 22,050 |

9. THE 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: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of financial assets or liabilities generally included in Level 1 are publicly traded equity securities, derivatives and debt securities issued by governmental bodies.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). The types of financial assets or liabilities generally included in Level 2 are debt securities not traded in active markets and derivatives traded in over the counter, but do not require significant judgment.
- Level 3: Fair value measurements are those derived from valuation technique that include inputs for the asset or liability, which are not based on observable market data (unobservable inputs). The types of financial assets or liabilities generally included in Level 3 are non-public securities and derivatives and debt securities of which valuation techniques require significant judgments and subjectivity.

- (1) Fair value hierarchy of financial assets and liabilities measured at fair value is as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | |
|----------------------------|-------------------|----------|--------------|---------------|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at FVTOCI | 85,086 | - | - | 85,086 |
| Derivative assets | <u>9,366</u> | <u>-</u> | <u>9,366</u> | <u>-</u> |
| | <u>94,452</u> | <u>-</u> | <u>9,366</u> | <u>85,086</u> |
| Financial liabilities: | | | | |
| Derivative liabilities | 6,839 | - | 6,839 | - |
| | | | | |
| | December 31, 2018 | | | |
| | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at FVTOCI | 87,753 | - | - | 87,753 |
| Derivative assets | <u>263</u> | <u>-</u> | <u>263</u> | <u>-</u> |
| | <u>88,016</u> | <u>-</u> | <u>2,63</u> | <u>87,753</u> |
| Financial liabilities: | | | | |
| Derivative liabilities | 33,754 | - | 33,754 | - |

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group establishes the fair value using valuation techniques. If there is no active market for a financial instrument, fair value measurement methods for each type of financial instruments are as follows:

| | Fair value measurement technique | Input variables |
|-----------------------------|---|---|
| Financial assets at FVTOCI: | Discounted cash flow model, free cash flow to equity model, comparable companies valuation method, dividend discount model and risk-adjustment discount model - estimate the fair value using one or more of the valuation methods judged to be appropriate considering the nature of the valuation object in the net asset valuation method. | Risk-free market rate of return, market risk premium, corporate beta and others |
| Derivative: | Determining the fair value of derivatives, such as interest rate swaps, currency swaps and others based on input variables observable in the market, is based on the valuation techniques generally used by market participants. | Risk-free market rate of return, forward rate, exchange rate and others |

Measurement techniques of the financial assets and financial liabilities of Level 3 that are recorded at fair value and significant unobservable inputs are as follows:

| | Fair value measurement technique | Input variable | Range |
|----------------------------|-------------------------------------|---------------------------------|-------|
| Financial assets at FVTOCI | External appraisal value and others | Expected growth rate and others | 0%–1% |

Fair value of financial assets and liabilities classified into Level 3 uses external evaluation or value that is independently appraised by the Group. Adequacy of non-observable inputs used in measuring fair value is reviewed at all times.

- (2) Changes in financial assets and liabilities classified into Level 3 are as follows (Unit: Korean won in millions):

| | | December 31, 2019 | | | | | |
|-----------------------------|--|-------------------|------------|----------------------------|-------------|-----------|----------------|
| | | Beginning balance | Net income | Other comprehensive income | Acquisition | Disposals | Ending balance |
| Financial assets: | | | | | | | |
| Financial assets at FVTOCI: | | 87,753 | - | (2,918) | 251 | - | 85,086 |

| | | December 31, 2018 | | | | | |
|-----------------------------|--|-------------------|------------|----------------------------|-------------|-----------|----------------|
| | | Beginning balance | Net income | Other comprehensive income | Acquisition | Disposals | Ending balance |
| Financial assets: | | | | | | | |
| Financial assets at FVTOCI: | | 87,633 | - | (58) | 178 | - | 87,753 |

- (3) The results of the sensitivity analysis of changes in unobservable inputs in financial assets measured at fair value classified into Level 3 are as follows:

The sensitivity analysis of the financial instruments has been performed by classifying the favorable and unfavorable changes based on how changes in unobservable assumptions have effects on the fluctuations of financial instrument value. When the fair value of a financial instrument is affected by more than one unobservable assumption, the table below reflects the most favorable or the most unfavorable changes that result from varying the assumptions individually. There are some instruments, such as stocks and contribution that fair value changes are recognized as other comprehensive income of Level 3 financial instruments, which should be done through sensitivity analysis.

The sensitivity analysis to disclose the effect of reasonably possible alternative assumptions on the fair value of a Level 3 financial instruments is as follows (Unit: Korean won in millions):

| | | December 31, 2019 | | | | |
|----------------------------|--|---|------------|-------------|-----------------------------------|-------------|
| | | Carrying amount of the assets subject to the sensitivity analysis (*) | Net income | | Other comprehensive income (loss) | |
| | | | Favorable | Unfavorable | Favorable | Unfavorable |
| Financial assets: | | | | | | |
| Financial assets at FVTOCI | | 85,086 | - | - | 6,833 | (2,582) |

| | | December 31, 2018 | | | | |
|----------------------------|--|---|------------|-------------|-----------------------------------|-------------|
| | | Carrying amount of the assets subject to the sensitivity analysis (*) | Net income | | Other comprehensive income (loss) | |
| | | | Favorable | Unfavorable | Favorable | Unfavorable |
| Financial assets: | | | | | | |
| Financial assets at FVTOCI | | 87,753 | - | - | 9,281 | (2,949) |

- (*) Fair value changes of equity securities are calculated by increasing or decreasing growth rate (0%–1%) and discount rate (-1%–1%) or liquidation value (-1%–1%) and discount rate (-1–1%). The growth rate, discount rate and liquidation value are major unobservable variables.

- (4) Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | December 31, 2018 | |
|------------------------------------|-------------------|----------------|-------------------|----------------|
| | Fair value | Carrying value | Fair value | Carrying value |
| Financial assets: | | | | |
| Financial assets at amortized cost | 9,892,140 | 9,646,971 | 9,647,423 | 9,425,657 |
| Financial liabilities: | | | | |
| Borrowings (*) | 4,631 | 4,631 | 4,485 | 4,485 |
| Debentures | 7,158,911 | 7,075,968 | 7,036,408 | 7,039,929 |
| Other financial liabilities (*) | 914,186 | 915,988 | 1,012,194 | 1,014,051 |

(*) Financial liabilities that are carrying value considered to provide the best estimate of fair value are included.

The financial assets and liabilities discussed above are classified as Level 2.

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group measures fair value of the financial instruments using valuation techniques. If there is no active market for a financial instrument, fair value measurement techniques and input variable for each type of financial instruments that are recorded at amortized cost are as follows:

| | Fair value measurement technique | Input variables |
|------------------------------------|---|---|
| Financial assets at amortized cost | The fair value is measured by discounting the cash flows with use of market interest rates applied to the loans, which are similar to the expected cash flow. | Risk-free market rate of return, credit spread and prepayment ratio |
| Debentures | The fair value is measured by discounting the projected cash flows of debentures by applying the market discount rate that is reflecting credit rating of the Company. | Risk-free market rate and credit spread |
| Other financial liabilities | The fair value is measured by discounting the projected cash flows of other financial liabilities by applying the market discount rate that is reflecting credit rating of the similar financial instruments. | Risk-free market rate and credit spread |

10. PREMISES AND EQUIPMENT:

- (1) Details of premises and equipment are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | | |
|--------------------------------|-------------------|----------|-----------------------------|-----------------------------|--------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Premises and equipment (owned) | 2,487 | 544 | 24,369 | 1,436 | 28,836 |
| Right-of-use assets | - | - | 1,889 | 26,143 | 28,032 |

- (2) Details of premises and equipment (owned) are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | | | |
|--------------------------|-------------------|----------|-----------------------------|-----------------------------|----------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Acquisition cost | 2,487 | 953 | 45,539 | 9,794 | 58,773 |
| Accumulated depreciation | - | (409) | (21,170) | (8,358) | (29,937) |
| Net carrying value | 2,487 | 544 | 24,369 | 1,436 | 28,836 |

December 31, 2018

| | Land | Building | Properties for business use | Structures in leased office | Total |
|--------------------------|-------|----------|-----------------------------|-----------------------------|----------|
| Acquisition cost | 2,487 | 953 | 31,817 | 10,614 | 45,871 |
| Accumulated depreciation | - | (358) | (14,600) | (8,347) | (23,305) |
| Net carrying value | 2,487 | 595 | 17,217 | 2,267 | 22,566 |

(3) Details of changes in premises and equipment are as follows (Unit: Korean won in millions):

| For the year ended December 31, 2019 | | | | | |
|--------------------------------------|-------|----------|-----------------------------|-----------------------------|---------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,487 | 595 | 17,217 | 2,267 | 22,566 |
| Acquisitions | - | - | 14,246 | 336 | 14,582 |
| Depreciation | - | (51) | (7,156) | (875) | (8,082) |
| Others | - | - | 62 | (292) | (230) |
| Ending balance | 2,487 | 544 | 24,369 | 1,436 | 28,836 |

| For the year ended December 31, 2018 | | | | | |
|--------------------------------------|-------|----------|-----------------------------|-----------------------------|---------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,487 | 646 | 14,038 | 3,022 | 20,193 |
| Acquisitions | - | - | 7,857 | 729 | 8,586 |
| Disposal | - | - | (1) | (23) | (24) |
| Depreciation | - | (51) | (4,765) | (1,341) | (6,157) |
| Others | - | - | 88 | (120) | (32) |
| Ending balance | 2,487 | 595 | 17,217 | 2,267 | 22,566 |

(4) Details of right-of-use assets are as follows (Unit: Korean won in millions):

| December 31, 2019 | | | |
|--------------------------|-----------------------------|-----------------------------|---------|
| | Properties for business use | Structures in leased office | Total |
| Acquisition cost | 2,784 | 33,756 | 36,540 |
| Accumulated depreciation | (895) | (7,613) | (8,508) |
| Net carrying value | 1,889 | 26,143 | 28,032 |

(5) Details of changes in right-of-use assets are as follows (Unit: Korean won in millions):

| For the year ended December 31, 2019 | | | |
|--------------------------------------|-----------------------------|-----------------------------|---------|
| | Properties for business use | Structures in leased office | Total |
| Beginning balance | 1,638 | 31,814 | 33,452 |
| New contract | 1,342 | 3,072 | 4,414 |
| Cancellation of contract | (36) | (212) | (248) |
| Depreciation | (1,055) | (8,768) | (9,823) |
| Others | - | 237 | 237 |
| Ending balance | 1,889 | 26,143 | 28,032 |

11. INTANGIBLE ASSETS:

(1) Details of intangible assets are as follows (Unit: Korean won in millions):

| December 31, 2019 | | | | |
|-------------------|----------------------------|--------|-------------------------|-------|
| Development cost | Industrial property rights | Others | Membership deposits (*) | Total |
| | | | | |

| | | | | | |
|--------------------------------------|---------------|-----------|---------------|--------------|---------------|
| Cost of purchases or appraised value | 26,150 | 134 | 40,930 | 6,128 | 73,342 |
| Accumulated depreciation | (8,244) | (88) | (21,090) | - | (29,422) |
| Accumulated impairment losses | - | - | - | (582) | (582) |
| Net carrying value | <u>17,906</u> | <u>46</u> | <u>19,840</u> | <u>5,546</u> | <u>43,338</u> |

December 31, 2018

| | Development cost | Industrial property rights | Others | Membership deposits (*) | Total |
|--------------------------------------|------------------|----------------------------|---------------|-------------------------|---------------|
| Cost of purchases or appraised value | 17,080 | 106 | 32,165 | 5,959 | 55,310 |
| Accumulated depreciation | (3,064) | (65) | (15,831) | - | (18,960) |
| Accumulated impairment losses | - | - | - | (582) | (582) |
| Net carrying value | <u>14,016</u> | <u>41</u> | <u>16,334</u> | <u>5,377</u> | <u>35,768</u> |

(*) Membership deposits include golf clubs and condominium membership deposits and for these intangible assets, the exact period of useful life cannot be measured. Therefore, the Group has recognized impairment loss for the membership deposits since the recoverable amount is lower than the carrying amount.

(2) Details of changes in intangible assets are as follows (Unit: Korean won in millions):

| | For the year ended December 31, 2019 | | | | |
|-------------------|--------------------------------------|----------------------------|---------------|--------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposit | Total |
| Beginning balance | 14,016 | 41 | 16,334 | 5,377 | 35,768 |
| Acquisitions | 9,070 | 28 | 8,765 | 169 | 18,032 |
| Amortization | (5,180) | (23) | (5,259) | - | (10,462) |
| Ending balance | <u>17,906</u> | <u>46</u> | <u>19,840</u> | <u>5,546</u> | <u>43,338</u> |

| | For the year ended December 31, 2018 | | | | |
|-----------------------------|--------------------------------------|----------------------------|---------------|--------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposit | Total |
| Beginning balance | 13,164 | 58 | 15,256 | 5,378 | 33,856 |
| Acquisitions | 2,236 | 2 | 4,995 | 1,226 | 8,459 |
| Disposal | - | - | - | (1,497) | (1,497) |
| Amortization | (1,384) | (19) | (3,917) | - | (5,320) |
| Reversal of impairment loss | - | - | - | 270 | 270 |
| Ending balance | <u>14,016</u> | <u>41</u> | <u>16,334</u> | <u>5,377</u> | <u>35,768</u> |

12. OTHER ASSETS:

Details of other assets are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|----------------------|-------------------|-------------------|
| Other assets: | | |
| Advance payments | 73,296 | 12,552 |
| Prepaid lease assets | 2,995 | 1,890 |
| Prepaid expenses | 5,471 | 2,978 |
| Others | <u>5,486</u> | <u>3,047</u> |
| Total | <u>87,248</u> | <u>20,467</u> |

13. BORROWINGS AND DEBENTURES:

(1) Details of borrowings are as follows (Unit: Korean won in millions):

| | Provider | Interest rate (%) | December 31, 2019 | December 31, 2018 |
|-----------------------|------------------------|-------------------|----------------------|----------------------|
| Borrowings: | | | | |
| Short-term borrowings | Woori Bank (Singapore) | 3M LIBOR + 1.4 | 4,631 | 4,485 |

(2) Details of borrowings from other financial institutions are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | |
|-----------------------|-------------------|----------|-------|
| | Bank | Non-bank | Total |
| Short-term borrowings | 4,631 | - | 4,631 |

| | December 31, 2018 | | |
|-----------------------|-------------------|----------|-------|
| | Bank | Non-bank | Total |
| Short-term borrowings | 4,485 | - | 4,485 |

(3) Details of debentures are as follows (Unit: Korean won in millions):

| | December 31, 2019 | | |
|---------------------------------|-----------------------------|-----------------------|------------------|
| | Interest rate (%) | Maturity | Amount |
| Carrying value of bond: | | | 7,080,888 |
| Debtentures in local currency | 1.39–3.11 | 2020.01.13–2024.03.04 | 6,350,000 |
| Debtentures in foreign currency | LIBOR 1M +0.5 and others | 2020.01.21–2022.10.25 | 730,888 |
| Less: | | | (4,920) |
| Discount on bonds | | | (4,920) |
| Total | | | <u>7,075,968</u> |

| | December 31, 2018 | | |
|---------------------------------|-----------------------------|-----------------------|------------------|
| | Interest rate (%) | Maturity | Amount |
| Carrying value of bond: | | | 7,045,979 |
| Debtentures in local currency | 1.56–3.61 | 2019.01.16–2023.11.24 | 6,320,000 |
| Debtentures in foreign currency | LIBOR 1M +0.5 and others | 2019.06.28–2021.02.25 | 725,979 |
| Less: | | | (6,050) |
| Discount on bonds | | | (6,050) |
| Total | | | <u>7,039,929</u> |

14. PROVISIONS:

(1) Details of provisions are as follows (Unit: Korean won in millions):

| | December 31, 2019 | - | December 31, 2018 |
|---|-------------------|---|-------------------|
| Provisions for unused commitments | 51,631 | | 49,144 |
| Asset retirement obligation | 4,544 | | 5,234 |
| Provision for illegal use of credit cards | 442 | | 466 |
| Other provisions | 198 | | 198 |
| Total | <u>56,815</u> | = | <u>55,042</u> |

(2) Changes in provisions except provisions for unused commitments are as follows (Unit: Korean won in millions):

For the year ended December 31, 2019

| | Asset retirement obligation | Provision for illegal use of credit card | Other provisions | Total |
|---------------------------|-----------------------------|--|------------------|--------------|
| Beginning balance | 5,234 | 466 | 198 | 5,898 |
| Provisions provided | 91 | 395 | - | 486 |
| Reversal of unused amount | (254) | - | - | (254) |
| Provisions used | (538) | (645) | - | (1,183) |
| Others | 11 | 226 | - | 237 |
| Ending balance | <u>4,544</u> | <u>442</u> | <u>198</u> | <u>5,184</u> |

| For the year ended December 31, 2018 | | | | | |
|--------------------------------------|---------------------------------|-----------------------------|--|------------------|--------------|
| | Provision for credit card point | Asset retirement obligation | Provision for illegal use of credit card | Other provisions | Total |
| Beginning balance | 6,122 | 5,215 | 611 | 208 | 12,156 |
| Adjustments according to K-IFRS 1115 | (6,122) | - | - | - | (6,122) |
| Provisions provided | - | 96 | 294 | - | 390 |
| Reversal of unused amount | - | (49) | - | (10) | (59) |
| Provisions used | - | (91) | (864) | - | (955) |
| Others | - | 63 | 425 | - | 488 |
| Ending balance | <u>-</u> | <u>5,234</u> | <u>466</u> | <u>198</u> | <u>5,898</u> |

(3) Changes in provisions for guarantees and unused commitments are as follows (Unit: Korean won in millions):

| | | For the year ended December 31, 2019 | | | |
|--|---|--------------------------------------|------------------------|----------------------------------|--------|
| | | 12-month | Lifetime | | |
| | | expected credit loss | expected credit losses | Credit-impaired financial assets | Total |
| Provisions for unused loan commitments | Beginning balance | 32,794 | 14,723 | 1,627 | 49,144 |
| | Replaced with 12-month expected credit loss | 6,369 | (5,622) | (747) | - |
| | Replaced with lifetime expected credit losses | (1,310) | 1,442 | (132) | - |
| | Replaced with credit-impaired financial assets | (134) | (240) | 374 | - |
| | Provisions provided (reversal of unused amount) | (3,723) | 2,979 | 3,231 | 2,487 |
| Ending balance | <u>33,996</u> | <u>13,282</u> | <u>4,353</u> | <u>51,631</u> | |

| | | For the year ended December 31, 2018 | | | |
|--|---|--------------------------------------|------------------------|----------------------------------|--------|
| | | 12-month | Lifetime | | |
| | | expected credit loss | expected credit losses | Credit-impaired financial assets | Total |
| Provisions for guarantees | Beginning balance | 3 | - | - | 3 |
| | Replaced with 12-month expected credit loss | - | - | - | - |
| | Replaced with lifetime expected credit losses | - | - | - | - |
| | Replaced with credit-impaired financial assets | - | - | - | - |
| | Provisions provided (reversal of unused amount) | (3) | - | - | (3) |
| Ending balance | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Provisions for unused loan commitments | Beginning balance | 32,778 | 14,770 | 1,712 | 49,260 |
| | Replaced with 12-month expected credit loss | 6,062 | (5,845) | (217) | - |
| | Replaced with lifetime expected credit losses | (1,556) | 1,700 | (144) | - |

Replaced with credit-

| | | | | |
|---|---------------|---------------|--------------|---------------|
| impaired financial assets | (136) | (251) | 387 | - |
| Provisions provided (reversal of unused amount) | (4,354) | 4,349 | (111) | (116) |
| Ending balance | <u>32,794</u> | <u>14,723</u> | <u>1,627</u> | <u>49,144</u> |

15. NET DEFINED BENEFIT LIABILITIES (ASSETS):

- (1) The Group operates benefit plans for all qualifying employees. Employees and directors with one or more years of service are entitled to receive a payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. The assets of the plans are measured at their fair value at the end of the reporting period. The plan liabilities are measured using the projected unit credit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the plan liabilities.
- (2) The Group is exposed to various risks through defined benefit retirement pension plan, and the most significant risks are as follows:

| | |
|---|---|
| Volatility of asset | The defined benefit obligation was estimated with an interest rate calculated based on the yield of high-quality corporate bonds. A deficit may occur if the rate of return of plan assets falls short of the interest rate. |
| Decrease in profitability of high-quality corporate bonds | A decrease in profitability of high-quality corporate bonds will be offset by some increase in the value of debt securities that the employee benefit plan owns, but will bring an increase in the defined benefit liabilities. |
| Risk of inflation | Defined benefit obligations are related to inflation rate; the higher the inflation rate is, the higher the level of liabilities. Therefore, deficit occurs in the system if an inflation rate increases. |

- (3) Details of net defined benefit liability (assets) are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | 31,418 | 28,281 |
| Fair value of plan assets | <u>(32,305)</u> | <u>(28,624)</u> |
| Net defined benefit liability (assets) | <u>(887)</u> | <u>(343)</u> |

- (4) The amounts recognized in the consolidated statements of comprehensive income relating to defined benefit plans are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|---|--------------------------------|--------------|
| | <u>2019</u> | <u>2018</u> |
| Current service cost | 5,601 | 4,866 |
| Net interest cost | (83) | (122) |
| Cost recognized in net income | 5,518 | 4,744 |
| Remeasurements | (1,385) | 1,737 |
| Income tax effect | <u>381</u> | <u>(612)</u> |
| Cost recognized in total comprehensive income | <u>4,514</u> | <u>5,869</u> |

- (5) Changes in the present value of present value of defined benefit obligations are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|----------------------|--------------------------------|---------------|
| | <u>2019</u> | <u>2018</u> |
| Beginning balance | 28,281 | 22,117 |
| Current service cost | 5,601 | 4,866 |
| Interest expense | 736 | 676 |
| Remeasurements | (1,699) | 1,421 |
| Benefit paid | (1,447) | (799) |
| Others | <u>(54)</u> | <u>-</u> |
| Ending balance | <u>31,418</u> | <u>28,281</u> |

(6) Changes in the present value of fair value of plan assets are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|-------------------------|--------------------------------|---------------|
| | 2019 | 2018 |
| Beginning balance | 28,624 | 23,604 |
| Interest income | 819 | 798 |
| Remeasurements | (314) | (316) |
| Payment of contribution | 4,466 | 5,160 |
| Benefit paid | (1,193) | (622) |
| Others | (97) | - |
| Ending balance | <u>32,305</u> | <u>28,624</u> |

(7) Retirement benefit costs measured with respect to the defined contribution for the years ended December 31, 2019 and 2018, are ₩505 and ₩482 million, respectively.

(8) The significant actuarial assumptions used in defined benefit obligation assessment are as follows (Unit: %):

| | December 31, 2019 | December 31, 2018 |
|-------------------------|--|--|
| Discount rate | 2.38 | 2.65 |
| Inflation rate | 2.33 | 2.21 |
| Future wage growth rate | 4.29 | 4.82 |
| Mortality rate | Issued by Korea Insurance Development Institute | Issued by Korea Insurance Development Institute |
| Retirement rate | Experience rate | Experience rate |

(9) The sensitivity of actuarial assumptions used in assessment of defined benefit obligation is as follows (Unit: Korean won in millions):

| | | December 31, 2019 | December 31, 2018 |
|-------------------------|----------------------|-------------------|-------------------|
| Discount rate | Increase by 1% point | (3,030) | (2,938) |
| | Decrease by 1% point | 3,555 | 3,460 |
| Future wage growth rate | Increase by 1% point | 3,523 | 3,443 |
| | Decrease by 1% point | (3,061) | (2,979) |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the consolidated statements of financial position.

(10) Details of plan assets are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|-----------------|-------------------|-------------------|
| Saving deposits | 32,305 | 28,624 |
| Ratio (%) | 100 | 100 |

(11) The contribution expected to be paid in the next accounting year amounts to ₩6,014 million.

(12) Retirement benefit cost measured with respect to the defined contribution is as follows (Unit: Korean won in millions):

| | For the year ended | |
|---|--------------------|-------------------|
| | December 31, 2019 | December 31, 2018 |
| Severance benefits - defined contribution | 213 | 151 |

16. DERIVATIVES:

The hedging relationships the Group applies to fair value hedge accounting and cash flow hedge accounting are affected by interest rate, which is related with Interest Rate Benchmark Reform. The interest rates to which the hedging relationships are exposed are USD 1M LIBOR and USD 3M LIBOR. The nominal amounts of hedging instruments related to USD 1M LIBOR and USD 3M LIBOR are USD 400,000,000 and USD 80,000,000, respectively. The Group pays close attention to discussions in the market and industry regarding the applicable alternative benchmark interest rates for the exposed interest rate. The entity judges that related uncertainty is expected to be no longer present when the exposed interest rates are replaced by the applicable benchmark interest rates.

- (1) The Group has Korean won floating-rate debentures and foreign currency-denominated bonds entered into an interest rate swap and currency swap contracts to hedge the cash flow variation risk of bonds. Details of derivative assets and derivative liabilities are as follows (Unit: Korean won in millions):

| | | December 31, 2019 | | |
|--------------------|-------|---------------------------------|--------|-------------|
| | | Liabilities for cash flow hedge | | |
| | | Notional amount | Assets | Liabilities |
| Interest rate swap | | 200,000 | - | 1,646 |
| Currency swap | | 730,888 | 9,366 | 5,193 |
| | Total | 930,888 | 9,366 | 6,839 |

| | | December 31, 2018 | | |
|--------------------|-------|---------------------------------|--------|-------------|
| | | Liabilities for cash flow hedge | | |
| | | Notional amount | Assets | Liabilities |
| Interest rate swap | | 200,000 | 263 | 665 |
| Currency swap | | 725,979 | - | 33,089 |
| | Total | 925,979 | 263 | 33,754 |

- (2) Overview of hedge accounting

As of December 31, 2019, the Group has applied cash flow hedge on won-denominated bonds amounting to ₩199,915 million and foreign currency-denominated bonds amounting to ₩729,141 million. The purpose of the hedging is to avoid the cash flow risk of principal and interest arising from fluctuation of interest rate and exchange rate. The Group has designated interest swap contracts and currency swap contracts as hedging instruments in order to achieve such objectives.

Pursuant to the interest rate swap agreement, by swapping the calculated difference between the fixed interest rate and floating interest rate applied to the nominal value, the cash flow fluctuation risk is hedged as the Korean won-denominated debentures' floating interest rate terms are converted to fixed interest rate. In addition, in accordance with the currency swap agreement, the principal amount is exchanged on the commencement date, a fixed interest rate is applied to the nominal value determined in advance, the calculated amount is paid and the amount calculated by applying the floating rate to the US dollar is exchanged. On the end date, the principal exchanged on the start date is returned. As a result, it is to eliminate the cash flow fluctuation risk. Pursuant to the interest rate swap agreement and the currency swap agreement, hedge ratio is determined by matching the nominal value to the face value of the hedging instrument.

In this hedging relationship, only the interest rate fluctuation and the exchange rate fluctuation, which are the most significant part of the cash flow fluctuation factors of the items subject to risk, are designated as the hedged risk and other risk factors, including credit risk, and are not included in the hedged risk. Therefore, the ineffective portion of the hedge may arise from the price margin of the trading counterparty and the credit risk fluctuation of either party of the hedged item.

The interest rate swap, the currency swap agreements and the hedged items are subject to market interest rates and exchange rate fluctuations. The Group expects the value of the interest rate swap and currency swap agreements and the value of the hedged item to generally change in the opposite direction.

- (3) The nominal amounts of the hedging instrument are as follows (Unit: Korean won in millions, USD and SGD):

| | As of December 31, 2019 | | | |
|---------------------------------------|-------------------------|-------------------|-------------------|-------------|
| | 1 year or less | 1 year to 5 years | More than 5 years | Total |
| Cash flow hedge | | | | |
| Interest rate risk: | | | | |
| Interest rate swap | - | 200,000 | - | 200,000 |
| Exchange risk and interest rate risk: | | | | |
| Currency swap (USD) | 150,000,000 | 330,000,000 | - | 480,000,000 |
| Exchange risk: | | | | |
| Currency swap (SGD) | 136,000,000 | 68,000,000 | - | 204,000,000 |
| | | | | |
| | As of December 31, 2018 | | | |
| | 1 year or less | 1 year to 5 years | More than 5 years | Total |
| Cash flow hedge | | | | |
| Interest rate risk: | | | | |
| Interest rate swap | - | 200,000 | - | 200,000 |
| Exchange risk and interest rate risk: | | | | |
| Currency swap (USD) | 50,000,000 | 450,000,000 | - | 500,000,000 |
| Exchange risk: | | | | |
| Currency swap (SGD) | - | 204,000,000 | - | 204,000,000 |

- (4) The average exchange rate and average interest rate of the hedging instrument are as follows:

- 1) As of December 31, 2019

| | Average interest rate and average exchange rate |
|---------------------------------------|---|
| Cash flow hedge: | |
| Interest rate risk: | |
| Interest rate swap (KRW) | KRW CD+0.63% received, 2.31% paid KRW 3Y CMS +0.40% received, 2.38% paid |
| Exchange risk and interest rate risk: | |
| Currency swap (USD) | USD 3M LIBOR+0.80% received, KRW 1.45% paid, USD/KRW = ₩1,155.35 USD 1M LIBOR+0.538% received, KRW 1.53% paid, USD/KRW = ₩1,157.68 |
| Exchange risk: | |
| Currency swap (SGD) | SGD 1.91% received, KRW 1.98% paid, SGD/KRW = ₩827.57 |

- 2) As of December 31, 2018

| | Average interest rate and average exchange rate |
|---------------------------------------|--|
| Cash flow hedge: | |
| Interest rate risk: | |
| Interest rate swap (KRW) | KRW CD+0.63% received, 2.31% paid KRW 3Y CMS+0.4% received, 2.38% paid |
| Exchange risk and interest rate risk: | |
| Currency swap (USD) | USD 3M LIBOR+0.7% received and KRW 1.74% paid, USD/KRW=₩1,136 Average USD 1M LIBOR+0.52% received, KRW 1.71% paid, USD/KRW=₩1,178 |
| Exchange risk: | |
| Currency swap (SGD) | SGD 1.91% received and KRW 1.98% paid, SGD/KRW=₩828 |

(5) The amounts related to items designated as hedging instruments are as follows (Unit: Korean won in millions, USD and SGD):

1) As of December 31, 2019

| | Nominal amounts of the hedging instrument | Carrying amounts of the hedging instrument | | Line item in the consolidated statement of financial position where the hedging instrument is located | Change in fair value used for calculating hedge ineffectiveness |
|---------------------------------------|---|---|-------------|---|---|
| | | Assets | Liabilities | | |
| Cash flow hedge: | | | | | |
| Interest rate risk: | | | | | |
| Interest rate swap | 200,000 | - | 1,646 | Derivative assets | (1,243) |
| Exchange risk and interest rate risk: | | | | | |
| Currency swap (USD) | USD 480,000,000 | 4,070 | 5,193 | Derivative assets /liabilities | 22,364 |
| Exchange risk: | | | | | |
| Currency swap (SGD) | SGD 204,000,000 | 5,296 | - | Derivative assets | 8,918 |

2) As of December 31, 2018

| | Nominal amounts of the hedging instrument | Carrying amounts of the hedging instrument | | Line item in the consolidated statement of financial position where the hedging instrument is located | Change in fair value used for calculating hedge ineffectiveness |
|---------------------------------------|---|---|-------------|---|---|
| | | Assets | Liabilities | | |
| Cash flow hedge: | | | | | |
| Interest rate risk: | | | | | |
| Interest rate swap | 200,000 | 263 | 665 | Derivative assets | (1,447) |
| Exchange risk and interest rate risk: | | | | | |
| Currency swap (USD) | USD 50,000,000 | - | 28,907 | Derivative liabilities | 21,582 |
| Exchange risk: | | | | | |
| Currency swap (SGD) | SGD 204,000,000 | - | 4,182 | Derivative liabilities | 2,353 |

(6) Details of the carrying amount to hedged item and amount adjusted due to hedge accounting are as follows (Unit: Korean won in millions):

1) As of December 31, 2019

| | Carrying amounts of the hedging item | | Line item in the consolidated statement of financial position in which the hedged item is included | Change in fair value used for calculating hedge ineffectiveness | Cash flow hedge reserve (*) |
|---------------------------------------|---|-------------|---|--|--------------------------------|
| | Assets | Liabilities | | | |
| Cash flow hedge: | | | | | |
| Interest rate risk: | | | | | |
| Interest rate swap | - | 199,915 | Debentures | 1,301 | (1,059) |
| Exchange risk and interest rate risk: | | | | | |
| Currency swap | - | 554,433 | Debentures | (25,057) | (2,525) |
| Exchange risk: | | | | | |
| Currency swap | - | 174,708 | Debentures | (8,315) | (2,304) |

2) As of December 31, 2018

| | Carrying amounts of the hedging item | | Line item in the consolidated statement of financial position in which the hedged item is included | Change in fair value used for calculating hedge ineffectiveness | Cash flow hedge reserve (*) |
|---------------------------------------|--------------------------------------|-------------|--|---|-----------------------------|
| | Assets | Liabilities | | | |
| Cash flow hedge: | | | | | |
| Interest rate risk: | | | | | |
| Interest rate swap | - | 199,863 | Debentures | 1,461 | (169) |
| Exchange risk and interest rate risk: | | | | | |
| Currency swap | - | 557,185 | Debentures | (16,790) | (1,211) |
| Exchange risk: | | | | | |
| Currency swap | - | 166,123 | Debentures | (1,762) | (2,287) (*) |
| Amount after tax deduction | | | | | |

(7) Reclassification of profit or loss from other comprehensive income and equity related to cash flow hedges is as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2019

| Cash flow | Interest rate risk | Effectiveness of hedging instrument recognized in cash flow hedge reserve | Hedge ineffectiveness recognized in profit or loss | Change in the value of foreign basis spread recognized in other comprehensive income | Line item in the profit or loss that includes hedge ineffectiveness | Amounts reclassified from cash flow hedge reserve to profit or loss | Line item affected in profit or loss because of the reclassification |
|-----------|--------------------------------------|---|--|--|---|---|--|
| | | | | | | | |
| hedge | | (1,228) | (15) | - | Other net operating income | - | Other net operating income |
| | Exchange risk and interest rate risk | 21,420 | 944 | 838 | Other net operating expense | (23,541) | Other net operating income |
| | Exchange risk | 7,638 | 1,280 | 560 | Other net operating income | (8,215) | Other net operating income |

2) For the year ended December 31, 2018

| Cash flow | Interest rate risk | Effectiveness of hedging instrument recognized in cash flow hedge reserve | Hedge ineffectiveness recognized in profit or loss | Change in the value of foreign basis spread recognized in other comprehensive income | Line item in the profit or loss that includes hedge ineffectiveness | Amounts reclassified from cash flow hedge reserve to profit or loss | Line item affected in profit or loss because of the reclassification |
|-----------|--------------------------------------|---|--|--|---|---|--|
| | | | | | | | |
| hedge | | (1,455) | 8 | - | Other net operating income | - | Other net operating income |
| | Exchange risk and interest rate risk | 21,429 | 153 | (882) | Other net operating expense | (23,084) | Other net operating income |
| | Exchange risk | 2,353 | - | (491) | Other net operating income | (3,601) | Other net operating income |

(8) Changes in cash flow hedge reserve related to hedge are as follows (Unit: Korean won in millions):

| | For the year ended December 31, | |
|---|---------------------------------|----------|
| | 2019 | 2018 |
| Beginning balance | (3,667) | 1,704 |
| Profit or loss on hedging recognized in cash flow hedge reserve | 29,534 | 21,314 |
| Effective part of the fair value change of the hedging instrument | 27,830 | 22,327 |
| Change in foreign basis spread | 1,398 | (1,373) |
| Income tax effect | 306 | 360 |
| In profit or loss reclassified amount | (31,756) | (26,685) |
| Ending balance | (5,889) | (3,667) |

17. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES:

(1) Details of other financial liabilities and other liabilities are as follows (Unit: Korean won in millions):

| | December 31, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Other financial liabilities: | | |
| Accounts payable | 570,992 | 719,659 |
| Accrued expenses | 110,491 | 100,043 |
| Prepaid card liabilities | 14,732 | 14,382 |
| Debit card liabilities | 146,732 | 143,322 |
| Guarantee deposit received for import license | 37,467 | 26,547 |
| Domestic exchange obligation payable | 4,648 | 7,260 |
| Lease liabilities | 27,694 | - |
| Others | 3,232 | 2,838 |
| Subtotal | 915,988 | 1,014,051 |
| Other liabilities: | | |
| Advance received | 8,431 | 3,936 |
| Unearned income | 139,375 | 121,748 |
| Other payable | 7,011 | 752 |
| Others | 45,838 | 8,116 |
| Subtotal | 200,655 | 134,552 |
| Total | 1,116,643 | 1,148,603 |

(2) The lease payments to be paid in the future are as follows (Unit: Korean won in millions):

| | December 31, 2019 |
|------------------------|-------------------|
| Lease payments: | 29,071 |
| Within one year | 9,557 |
| One year to five years | 19,514 |
| More than five years | - |

(3) The total cash outflows from leasing are as follows (Unit: Korean won in millions):

| | December 31, 2019 |
|---------------------------------|-------------------|
| Total cash outflows from leases | 10,649 |

- (4) Details of lease payments that are not included in the measurement of lease liabilities due to the fact that they are short-term leases or leases for which the underlying asset is of low value are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> |
|---|--------------------------|
| Lease payments for short-term leases | 452 |
| Lease payments for which the underlying asset is of low value | 137 |
| Total | <u>589</u> |

- (5) Details of interest expenses for the lease are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> |
|-----------------------------|--------------------------|
| Properties for business use | 48 |
| Structures in leased office | <u>793</u> |
| Total | <u>841</u> |

18. CAPITAL STOCK AND CAPITAL SURPLUS:

- (1) Capital stock and capital surplus are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--------------------------------|--------------------------|--------------------------|
| Capital stock: | | |
| Common stock | 896,331 | 896,331 |
| Capital surplus: | | |
| Capital in excess of par value | 127,097 | 127,097 |
| Other capital surplus | <u>(5,579)</u> | - |
| Total | <u>1,017,849</u> | <u>1,023,428</u> |

- (2) The number of authorized shares are as follows (Unit: Korean won):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|------------------------------------|--------------------------|--------------------------|
| Authorized shares of capital stock | 670,000,000 shares | 670,000,000 shares |
| Par value | 5,000 | 5,000 |
| Issued shares of common stock | 179,266,200 shares | 179,266,200 shares |

- (3) Details of capital surplus are as follows (Unit: Korean won in millions):

| | | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--------------------------------|--------------------------------------|------------------------------|------------------------------|
| Capital in excess of par value | Increase by issuance of common stock | 127,097 | 127,097 |
| Other capital surplus | | <u>(5,579)</u> | - |
| | | <u>121,518</u> | <u>127,097</u> |

19. OTHER EQUITY:

(1) Details of other equity are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Accumulated other comprehensive income: | | |
| Gain on valuation of financial assets at FVTOCI | 30,549 | 32,670 |
| Remeasurement loss related to defined benefit plan | (3,199) | (4,203) |
| Net loss on valuation of cash flow hedge | (5,889) | (3,667) |
| Gain (loss) on foreign currency translation of foreign operations | <u>415</u> | <u>(508)</u> |
| Total | <u><u>21,876</u></u> | <u><u>24,292</u></u> |

(2) Changes in other equity are as follows (Unit: Korean won in millions):

| | <u>For the year ended December 31, 2019</u> | | | |
|---|---|---|--------------------------|-----------------------|
| | <u>Beginning balance</u> | <u>Increase (decrease) on valuation (*)</u> | <u>Income tax effect</u> | <u>Ending balance</u> |
| Accumulated other comprehensive income: | | | | |
| Gain on valuation of financial assets at FVTOCI | 32,670 | (2,918) | 797 | 30,549 |
| Remeasurement loss related to defined benefit plan | (4,203) | 1,385 | (381) | (3,199) |
| Net loss on valuation of cash flow hedge | (3,667) | (2,528) | 306 | (5,889) |
| Gain (loss) on foreign currency translation of foreign operations | (508) | 1,273 | (350) | 415 |
| Total | <u><u>24,292</u></u> | <u><u>(2,788)</u></u> | <u><u>372</u></u> | <u><u>21,876</u></u> |

(*) Net gain (loss) on valuation of financial assets at FVTOCI included ₩1 million transfer to retained earnings due to disposal of equity securities.

| | <u>For the year ended December 31, 2018</u> | | | |
|---|---|---|--------------------------|-----------------------|
| | <u>Beginning balance</u> | <u>Increase (decrease) on valuation</u> | <u>Income tax effect</u> | <u>Ending balance</u> |
| Accumulated other comprehensive income: | | | | |
| Gain on valuation of financial assets at FVTOCI | 34,201 | (58) | (1,473) | 32,670 |
| Remeasurement loss related to defined benefit plan | (3,077) | (1,738) | 612 | (4,203) |
| Net loss on valuation of cash flow hedge | 1,704 | (5,731) | 360 | (3,667) |
| Gain (loss) on foreign currency translation of foreign operations | <u>(286)</u> | <u>(324)</u> | <u>102</u> | <u>(508)</u> |
| Total | <u><u>32,542</u></u> | <u><u>(7,851)</u></u> | <u><u>(399)</u></u> | <u><u>24,292</u></u> |

20. RETAINED EARNINGS:

Details of retained earnings are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Legal reserve: | | |
| Earned surplus reserve | 111,745 | 111,745 |
| Voluntary reserve: | | |
| Regulatory reserve for credit loss | 387,181 | 403,277 |
| Retained earnings before appropriation | <u>249,516</u> | <u>119,222</u> |
| Total | <u>748,442</u> | <u>634,244</u> |

1) Legal reserve

Korean Commercial Code requires a company to appropriate at least 10% of dividends paid as legal reserve for each fiscal period until the reserve equals 50% of paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or can be transferred to capital.

2) Regulatory reserve for credit loss

The Company accumulated the shortage as bad debt reserve as the recognized allowance for doubtful accounts was less than the amount in accordance with the *Regulations on Supervision of Credit-Specialized Financial Business Act Article 11*.

21. REGULATORY RESERVE FOR CREDIT LOSS:

In accordance with Article 11 of the Regulation on the Supervision of Banking Business (“RSBB”), if provisions for credit loss under K-IFRS for the accounting purpose are lower than those for the regulatory purpose required by RSBB, the Group is required to reserve such difference as regulatory reserve for credit loss.

The regulatory reserve for credit loss is classified as appropriated retained earnings. The excess of provisions under RSBB over provisions for credit loss under K-IFRS can be reversed. If the Group has accumulated deficits, the Group should recommence setting aside reserve for credit loss at the time when the accumulated deficits are offset.

(1) Details of balance of the planned regulatory reserve for credit loss are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Beginning balance | 387,181 | 403,277 |
| Planned reversal of regulatory reserve for credit loss | <u>20,722</u> | <u>(16,096)</u> |
| Ending balance | <u>407,903</u> | <u>387,181</u> |

(2) Planned reserves provided, adjusted net income after the planned reserves provided and adjusted EPS after the planned reserves provided for credit loss are as follows (Unit: Korean won in millions, except for EPS amount):

| | <u>For the years ended December 31</u> | |
|--|--|-------------|
| | <u>2019</u> | <u>2018</u> |
| Net income | 114,197 | 126,534 |
| Provision of regulatory reserve for credit loss | 20,722 | 44,626 |
| Adjusted net income after the provision of regulatory reserve | 93,475 | 81,908 |
| Adjusted EPS after the provision of regulatory reserve (Unit: Korean won) | 522 | 458 |

22. NET INTEREST INCOME:

Net interest income is the amount of interest expense deducted from the amount of interest income whose details are as follows (Unit: Korean won in millions):

| | For the years ended December 31 | |
|--|---------------------------------|-----------------------|
| | 2019 | 2018 |
| Interest income: | | |
| Interest on due from banks | 1,631 | 1,719 |
| Interest on financial assets at amortized cost | <u>723,689</u> | <u>667,187</u> |
| Subtotal | <u>725,320</u> | <u>668,906</u> |
| Interest expenses: | | |
| Interest on borrowings | 793 | 998 |
| Interest on debentures | 170,122 | 159,588 |
| Others | <u>1,825</u> | <u>530</u> |
| Subtotal | <u>172,740</u> | <u>161,116</u> |
| Net interest income | <u><u>552,580</u></u> | <u><u>507,790</u></u> |

23. NET FEES AND COMMISSION INCOME:

Net fees and commission income are the amount of fees and commission expense deducted from the amount of fees and commission income, whose details are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|--|--------------------------------|----------------------|
| | 2019 | 2018 |
| Commission received: | | |
| Commission received on credit card | 540,678 | 607,351 |
| Commission received on loans and discounts | 1,695 | 997 |
| Commission received on installment financing | 808 | 825 |
| Commission received on financial lease | 4,288 | 1,971 |
| Other commission received | <u>1,324</u> | <u>965</u> |
| Subtotal | <u>548,793</u> | <u>612,109</u> |
| Commission expenses: | | |
| Commission expenses on credit card | 542,182 | 580,971 |
| Commission expenses on loans and discounts | 2,815 | 4,345 |
| Commission expenses on installment financing | 889 | 1,409 |
| Commission expenses on financial lease | 5,227 | 1,597 |
| Other commission expenses | <u>15,348</u> | <u>11,489</u> |
| Subtotal | <u>566,461</u> | <u>599,811</u> |
| Net fees and commission income | <u><u>(17,668)</u></u> | <u><u>12,298</u></u> |

24. DIVIDEND INCOME:

Details of dividend income recognized for credit loss are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|--------------------------------------|--------------------------------|----------------------|
| | 2019 | 2018 |
| Financial assets at FVTOCI: | | |
| Dividend in local currency | 4,749 | 9,026 |
| Distribution of capital contribution | <u>1,087</u> | <u>1,128</u> |
| Total | <u><u>5,836</u></u> | <u><u>10,154</u></u> |

25. GAINS OR LOSSES RELATED TO FINANCIAL INSTRUMENTS AT FVTPL:

Details of gains or losses related to financial assets at FVTPL for credit loss are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|---|--------------------------------|-------|
| | 2019 | 2018 |
| Net gain (loss) on disposal of financial instruments at FVTPL | 1,375 | 2,749 |

26. IMPAIRMENT LOSSES DUE TO CREDIT LOSS:

Impairment losses for loans, other receivables, guarantees and unused commitments are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|---|--------------------------------|---------|
| | 2019 | 2018 |
| Financial assets at amortized cost: | | |
| Bad debt expense | 252,336 | 244,881 |
| Guarantees and commitments: | | |
| Provision for guarantees: | | |
| Reversal of provision for guarantees | - | (3) |
| Provision for unused commitments: | | |
| Reserve (reversal) for provision for unused commitments | 2,487 | (116) |
| Subtotal | 2,487 | (119) |
| Total | 254,823 | 244,762 |

27. GENERAL AND ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME (EXPENSE):

(1) Details of general and administrative expenses for credit loss are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|---|--------------------------------|---------|
| | 2019 | 2018 |
| Salaries | | |
| Short-term employee benefits | | |
| Salaries and wages | 59,474 | 56,073 |
| Employee benefits | 15,501 | 12,733 |
| Retirement benefit service costs | 8,100 | 4,895 |
| Subtotal | 83,075 | 73,701 |
| Depreciation | 17,905 | 6,158 |
| Amortization | 10,462 | 5,320 |
| Other general and administrative expenses | | |
| Reimbursement | 621 | 787 |
| Business taskforce cost | 1,071 | 1,351 |
| Rent expense | 8,034 | 17,726 |
| Advertising | 2,996 | 4,022 |
| Taxes and public dues | 15,508 | 13,693 |
| Computer and IT-related expense | 32,526 | 31,716 |
| Service charges | 3,946 | 3,787 |
| Telephone and communication | 6,060 | 5,793 |
| Supplies | 501 | 527 |
| Others | 7,357 | 6,184 |
| Subtotal | 78,620 | 85,586 |
| Total | 190,062 | 170,765 |

- (2) Details of net other operating income (expenses) for credit loss as of December 31, 2019 and 2018, are as follows (Unit: Korean won in millions):

| | For the years ended December 31 | |
|---|---------------------------------|---------------|
| | 2019 | 2018 |
| Other operating income: | | |
| Gain on sale of loans | 17,795 | 35,350 |
| Gain on other provisions | 254 | 59 |
| Gain on valuation of derivatives | 20,452 | 26,698 |
| Gain on transaction of derivatives | 15,955 | - |
| Other income | <u>32,360</u> | <u>30,687</u> |
| Subtotal | <u>86,816</u> | <u>92,794</u> |
| Other operating expenses: | | |
| Loss on sale of loans | 29 | 5 |
| Loss on other provisions | 486 | 390 |
| Loss on valuation of derivatives | 2,255 | - |
| Loss on disposal of derivatives | 1,125 | - |
| Loss on transaction of foreign currency | 34,136 | 27,601 |
| Other expenses | <u>16,162</u> | <u>15,490</u> |
| Subtotal | <u>54,193</u> | <u>43,486</u> |
| Total | <u>32,623</u> | <u>49,308</u> |

28. NON-OPERATING INCOME (EXPENSES):

Details of other non-operating income (expenses) for credit loss are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|---|--------------------------------|--------------|
| | 2019 | 2018 |
| Non-operating income: | | |
| Reversal of intangible asset impairment loss | - | 270 |
| Other income | <u>22,144</u> | <u>3,478</u> |
| Subtotal | <u>22,144</u> | <u>3,748</u> |
| Non-operating expenses: | | |
| Loss on disposal of premises and equipment and others | 277 | 51 |
| Donation | 716 | 3,846 |
| Other expenses | <u>991</u> | <u>110</u> |
| Subtotal | <u>1,984</u> | <u>4,007</u> |
| Total | <u>20,160</u> | <u>(259)</u> |

29. INCOME TAX EXPENSE:

- (1) Details of income tax expense are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|--|--------------------------------|---------------|
| | 2019 | 2018 |
| Current income tax payable | 45,979 | 26,787 |
| Adjustment recognized in the period for current tax of prior periods | (3,458) | (224) |
| Changes in deferred income taxes due to temporary differences | (8,995) | (4,333) |
| Changes in deferred income taxes directly reflected in equity | 2,488 | (399) |
| Other changes | <u>(190)</u> | <u>18,148</u> |
| Income tax expense | <u>35,824</u> | <u>39,979</u> |

- (2) The relationship between income tax expense and income before income tax expense for credit loss are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Net income before income tax expense | 150,021 | 166,513 |
| Tax calculated at statutory tax rate (*) | 35,843 | 39,834 |
| Adjustments: | | |
| Effect of non-taxable income | (344) | (8,169) |
| Effect of non-deductible expenses | 399 | 4,125 |
| Adjustment recognized in the period for current tax of prior periods | (3,458) | (224) |
| Consolidated income tax return | 1,298 | - |
| Others | <u>2,086</u> | <u>4,413</u> |
| Income tax expense | <u>35,824</u> | <u>39,979</u> |
| Effective tax rate | 23.88% | 24.01% |

- (*) The corporate tax rate is 11% for income below ₩200 million, 22% for income more than ₩200 million and below ₩20 billion, 24.2% for income more than ₩20 billion and below ₩300 billion and 27.5% for income more than ₩300 billion.

- (3) Changes in cumulative temporary differences are as follows (Unit: Korean won in millions):

| | <u>For the year ended December 31, 2019</u> | | | |
|---|---|------------------------------------|-----------------------------|-----------------------|
| | <u>Beginning balance</u> | <u>Recognized as income (loss)</u> | <u>Recognized as equity</u> | <u>Ending balance</u> |
| Unearned income | 32,977 | 1,161 | - | 34,138 |
| Other provisions | 14,898 | (1,548) | 2,228 | 15,578 |
| Gain on valuation of FVTOCI | (12,392) | - | 797 | (11,595) |
| Gain on valuation of securities | (10,713) | - | - | (10,713) |
| Unconfirmed expenses | 6,432 | 2,982 | - | 9,414 |
| Retirement benefit obligation | 7,665 | 1,327 | (381) | 8,611 |
| Provision for retirement insurance benefits | (5,817) | (873) | - | (6,690) |
| Asset retirement obligation | 1,439 | (189) | - | 1,250 |
| Impairment loss on membership | 316 | - | - | 316 |
| Discount on present value of installment receivable | 2,724 | (1,090) | - | 1,634 |
| Amortization of goodwill | 407 | (261) | 306 | 452 |
| Asset retirement obligation on leased office facilities | (1,342) | 41 | - | (1,301) |
| Gain (loss) on fair value of properties for business use | (339) | - | - | (339) |
| Deferred loan origination cost (fee) | (6,743) | (268) | - | (7,011) |
| Leased office facilities | 1,145 | 34 | - | 1,179 |
| Gain on fair value of buildings for business use | 113 | 8 | - | 121 |
| Gain (loss) on foreign currency translation of foreign operations | 193 | - | (350) | (157) |
| Right-of-use assets | - | (7,709) | - | (7,709) |
| Lease liability | - | 7,616 | - | 7,616 |
| Others | <u>1,419</u> | <u>5,276</u> | <u>(112)</u> | <u>6,583</u> |
| Net deferred tax assets (liabilities) | <u>32,382</u> | <u>6,507</u> | <u>2,488</u> | <u>41,377</u> |

For the year ended December 31, 2018

| | Beginning balance | Recognized as income (loss) | Recognized as equity | Ending balance |
|---|----------------------|-----------------------------------|-------------------------|-------------------|
| Unearned income in local currency (card point) | 28,898 | 4,079 | - | 32,977 |
| Other provisions | 8,893 | 6,005 | - | 14,898 |
| Gain on valuation of FVTOCI | (10,922) | 3 | (1,473) | (12,392) |
| Gain on valuation of securities | (9,348) | (1,365) | - | (10,713) |
| Unconfirmed expenses | 8,972 | (2,540) | - | 6,432 |
| Retirement benefit obligation | 5,212 | 1,841 | 612 | 7,665 |
| Provision for retirement insurance benefits | (4,111) | (1,706) | - | (5,817) |
| Asset retirement obligation | 1,262 | 177 | - | 1,439 |
| Impairment loss on membership | 661 | (345) | - | 316 |
| Discount on present value of installment receivable | 830 | 1,894 | - | 2,724 |
| Loss on valuation of derivatives | 735 | (688) | 360 | 407 |
| Amortization of goodwill | 307 | (307) | - | - |
| Asset retirement obligation on leased office facilities | (677) | (665) | - | (1,342) |
| Gain (loss) on fair value of properties for business use | (298) | (41) | - | (339) |
| Deferred loan origination cost (fee) | (3,078) | (3,665) | - | (6,743) |
| Leased office facilities | 342 | 803 | - | 1,145 |
| Gain on fair value of buildings for business use | 92 | 21 | - | 113 |
| Gain (loss) on foreign currency translation of foreign operations | 91 | - | 102 | 193 |
| Others | 188 | 1,231 | - | 1,419 |
| Net deferred tax assets (liabilities) | <u>28,049</u> | <u>4,732</u> | <u>(399)</u> | <u>32,382</u> |

- (4) Details of deferred tax relating to items that are recognized directly in equity are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Loss on valuation of financial assets at FVTOCI | (11,595) | (12,392) |
| Remeasurements of net defined benefit plan | 1,213 | 1,594 |
| Cash flow hedging gains or losses | 370 | 64 |
| Exchange difference in foreign operation | (157) | 193 |
| Business combination involving entities under common control | 2,116 | - |
| Total | <u>(8,053)</u> | <u>(10,541)</u> |

- (5) Current tax assets and liabilities are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-------------------------|--------------------------|--------------------------|
| Current tax assets | - | - |
| Current tax liabilities | 38,279 | 23,623 |

30. EARNING PER SHARE (“EPS”):

Details of basic EPS for credit loss are as follows:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Net income (Unit: KRW in millions) | 114,197 | 126,534 |
| Weighted-average number of shares outstanding (Unit: In millions) | 179 | 179 |
| Net income per share (Unit: KRW) | <u>637</u> | <u>706</u> |

The Group had not diluted potential ordinary shares for the reporting periods. Accordingly, diluted EPS equals basic EPS for credit loss as of December 31, 2019 and 2018.

31. CONTINGENT LIABILITIES AND COMMITMENTS:

- (1) Details of guarantees, which the Group has provided to others as of December 31, 2019 and 2018, did not exist.
- (2) Details of loan commitments and other commitments, which the Group provided for others are as follows (Unit: Korean won in millions, except ratio):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-------------------------------------|--------------------------|--------------------------|
| Loan commitments in local currency: | | |
| Unused credit limits | 33,120,042 | 32,174,569 |
| Provisions for unused commitments | 51,631 | 49,144 |
| Ratio (%) | 0.16 | 0.15 |

- (3) Details of lawsuits that the Group has filed and faced are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | | <u>December 31, 2018</u> | |
|----------------------|--------------------------|---------------------|--------------------------|---------------------|
| | <u>As plaintiff</u> | <u>As defendant</u> | <u>As plaintiff</u> | <u>As defendant</u> |
| Number of cases | 20 cases | 18 cases | 17 cases | 12 cases |
| Amount of litigation | 5,487 | 1,305 | 29,032 | 184 |

As of December 31, 2019 and 2018, the lawsuits discussed above do not include litigations in regard to electronic claims for late payment on credit cards. Accordingly, these lawsuits have no significant impact on the consolidated financial statements as of December 31, 2019 and 2018.

- (4) Early redemption in relation to asset securitization

As prescribed by the agreements, risk of investors based on the changes in asset quality is limited due to the trigger condition that is created for credit supplement. The Group has an obligation to early redeem the asset-backed securities in case the trigger condition is breached.

- (5) Details of loan commitments and the other commitments, which the Group was provided are as follows (Unit: Korean won in millions):

| <u>Classification</u> | <u>Counterparty</u> | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-----------------------|-------------------------|--------------------------|--------------------------|
| Loan commitment | Woori Bank | 500,000 | 500,000 |
| | Busan Bank | 30,000 | 30,000 |
| | Hana Bank | 50,000 | 50,000 |
| | Shinhan Bank | 150,000 | 150,000 |
| | Industrial Bank | 100,000 | 100,000 |
| | Standard Chartered Bank | 120,000 | 100,000 |
| | ANZ Bank | 50,000 | 50,000 |
| | China Bank | 30,000 | 30,000 |
| | Suhyup Bank | - | 20,000 |
| | Total | | <u>1,030,000</u> |

- (6) Others

Among the receivables that have been written off, the Group recognizes the following items as written-off loans:
a) Loans that are legally effective since the statute of limitations has not expired or b) Loans that the Group still has the right to claim against debtors due to the failure of collection of written-off loans. Accordingly, the balances of the Group's written-off loans as of December 31, 2019 and 2018, are ₩1,157,060 million and ₩1,026,370 million, respectively.

32. ASSET-BACKED SECURITIZATION:

The Group has transferred some of its financial instruments, such as credit card receivables, to the trust company pursuant to the Asset-Backed Securitization Act.

- (1) The initial transfer price of the credit card receivable that the Group sold by the Asset-Backed Securitization Act is as follows (Unit: Korean won in millions):

| | <u>Initial transfer date</u> | <u>Transfer value (*)</u> |
|--|------------------------------|---------------------------|
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 2017.01.23 | 692,495 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 2017.11.09 | 672,383 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 2018.10.31 | 567,997 |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | 2019.11.12 | 388,498 |

(*) The effects of provision and present value discount are excluded.

- (2) The receivables sold but uncollected by the Asset-Backed Securitization Act are as follows (Unit: Korean won in millions):

| <u>Classification</u> | <u>Assets sold</u> | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------|--------------------------|--------------------------|
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 322,041 | 631,282 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | Credit card assets | 522,684 | 565,691 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 475,917 | 524,552 |
| Woori Card 2019-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 396,706 | - |

33. BUSINESS COMBINATION

As of July 31, 2019, the Group acquired WiBee members business in Woori Bank. Because the transaction is between Woori Bank and Woori card that is a combination of entities under common control, the identifiable assets acquired and the liabilities assumed in a business combination are measured by using the book value method. Details of the transaction are as follows:

- (1) Overview

| | |
|------------------|---|
| Acquiree | <u>Assets sold</u> |
| Acquirer | Woori Bank |
| Underlying asset | Woori card |
| Acquisition date | WiBee members business July 31, 2019 |

- (2) Accounting method

The identifiable assets acquired and the liabilities assumed in a business combination are measured by using the book value as of acquisition date. The consideration transferred and book value of net assets are ₩34,743 million and ₩(-)42,438 million, respectively, and the Group recognized an amount ₩ (-)7,695 million that differs as capital surplus.

(3) Book value of the significant assets and the significant liabilities and the consideration transferred are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019 (*)</u> |
|---------------------------------------|------------------------------|
| I. Book value of net assets acquired | |
| Assets | |
| Financial assets at amortized cost | 4,631 |
| Premises and equipment | 916 |
| Intangible assets | <u>2,456</u> |
| Total assets | <u>8,003</u> |
| Liabilities | |
| Provisions | 48,575 |
| Other financial liabilities | <u>1,866</u> |
| Total liabilities | <u>50,441</u> |
| Net assets | <u>(42,438)</u> |
| II. The consideration transferred (*) | <u>(34,743)</u> |
| III. Income tax effect | <u>(2,116)</u> |
| IV. Capital surplus (I-II-III) | <u>(5,579)</u> |

(*) The Group received an amount that is measured as the assets acquired and the liabilities assumed as fair value from Woori Bank.

34. RELATED-PARTY TRANSACTIONS:

(1) Related parties of the Group

- 1) The Parent Company of the Group as of December 31, 2019, is Woori financial group (100% share ratio).
- 2) As of December 31, 2019, related parties of the Group are summarized as follows:

| | <u>Related parties</u> |
|--------|--|
| Parent | Woori financial group |
| Others | Woori Bank, Woori FIS Co., Ltd., Woori Private Equity Co., Ltd., Woori Finance Research Institute Co., Ltd., Woori Investment Bank Co., Ltd., Woori Credit Information Co., Ltd., Woori America Bank, PT Bank Woori Saudara Indonesia 1906 Tbk, Woori Global Markets Asia Limited, Woori Bank China Limited, Ao Woori Bank, Banco Woori Bank do Brasil S.A., Korea BTL Infrastructure Fund, Woori Fund Service Co., Ltd., Woori Finance Cambodia PLC, Woori Finance Myanmar Co., Ltd., Wealth Development Bank, Woori Bank Vietnam Limited, WB Finance Co., Ltd., Woori Bank Europe, Woori Bank Principal and Interest Guaranteed Trust, Woori Bank Principal Guaranteed Trust, Kumho Trust 1st Co., Ltd. and 58 SPCs, Heungkuk Woori Tech Company Private Placement Investment Trust No. 1 and 8 beneficiary certificates, Woori Service Networks Co., Ltd., Korea Credit Bureau Co., Ltd., Korea Finance Security Co., Ltd., Chin Hung International Inc., Woori asset trust. Ltd., 2016KIF-IMM Woori Bank Technology Venture Fund, K BANK Co., Ltd., Lotte Card Co., Ltd., Well to Sea No.3 Private Equity Fund and others (Dongwoo C & C Co., Ltd and 29 Associates), Godo Kaisha Oceanos 1, Uri Hanhwa Eureka Private Equity Fund, Japanese Hotel Real Estate Private Equity Fund 1, Woori Asset Management Co., Ltd., Woori global asset management co., Ltd., WOORIG China Value Equity (C/C(F)), Tongyang China Convertible Bond Fund and Woori Growth Partnerships New Technology Private Equity Fund 1 |

(*) As of December 31, 2019, Woori financial group holds 100% of the Group's ownership interest through a comprehensive stock exchange of shares between Woori Bank and Woori financial group for the year ended December 31, 2019.

(2) The Group's key management includes the registered directors and executives with important authority and responsibilities for plans, operations and regulations of the Group's activities. Details of compensation for key management are as follows (Unit: Korean won in millions):

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|-----------------------------------|--------------------------|--------------------------|
| Salaries | 3,429 | 3,215 |
| Severance and retirement benefits | 147 | 121 |

(3) Gain or loss from transactions with related parties is as follows (Unit: Korean won in millions):

| | | <u>For the year ended December 31, 2019</u> | | | | | |
|------------------------|--|---|-------------------------|--------------------------|---------------------------|------------------------------------|-------------------------------|
| <u>Related parties</u> | | <u>Interest revenue</u> | <u>Interest expense</u> | <u>Commission income</u> | <u>Commission expense</u> | <u>Bad debt expense (reversal)</u> | <u>Other operating income</u> |
| Parent | Woori financial group | - | - | - | - | - | - |
| Others | Woori Bank | 185 | 775 | 83 | 125,619 | (1) | 378 |
| | Woori Credit Information Co. Ltd. | - | - | - | 1,817 | - | 8,769 |
| | Woori FIS Co., Ltd. | - | - | - | - | - | 30,501 |
| | Woori Finance Research Institute Co., Ltd. | - | - | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 486 | - | - | - | - | - |
| | Korea Credit Bureau Co., Ltd. | - | - | - | 2,608 | - | - |
| | Woori Service Networks Co., Ltd. | - | - | - | 448 | (3) | 277 |
| | Korea Finance Security Co., Ltd. | - | - | - | - | 8 | 112 |
| | Chin Hung International Inc. | - | - | - | - | 44 | - |
| | Total | <u>671</u> | <u>775</u> | <u>83</u> | <u>130,492</u> | <u>48</u> | <u>40,037</u> |
| | | <u>For the year ended December 31, 2018</u> | | | | | |
| <u>Related parties</u> | | <u>Interest revenue</u> | <u>Interest expense</u> | <u>Commission income</u> | <u>Commission expense</u> | <u>Bad debt expense (reversal)</u> | <u>Other operating income</u> |
| Parent | Woori Bank | 62 | 997 | 211 | 142,430 | - | 968 |
| Others | Woori Credit Information Co. Ltd. | - | - | - | 7,434 | - | 3,099 |
| | Woori FIS Co., Ltd. | 4 | - | 27 | 12 | - | 29,677 |
| | Woori Finance Research Institute Co., Ltd. | - | - | 2 | 1 | - | - |
| | Woori Investment Bank Co., Ltd. | 361 | - | - | - | - | - |
| | Korea Credit Bureau Co., Ltd. | - | - | - | 2,310 | - | - |
| | Woori Service Networks Co., Ltd. | - | - | - | 490 | - | 277 |
| | Korea Finance Security Co., Ltd. | - | - | - | - | 4 | 146 |
| | Chin Hung International Inc. | - | - | - | - | 12 | - |
| | Total | <u>427</u> | <u>997</u> | <u>240</u> | <u>152,677</u> | <u>16</u> | <u>34,167</u> |

(4) Assets and liabilities from transactions with related parties are as follows (Unit: Korean won in millions):

| | | December 31, 2019 | | | | | |
|-----------------|---|---------------------------------|---------------------------------------|-------------------|-----------------|------------|----------------------|
| | | Receivables | | | Payables | | |
| | | Cash and cash equivalents | Financial assets at amortized cost | | Other assets | Borrowings | Other liabilities |
| Related parties | | | Gross carrying amount | Loss allowance | | | |
| Parent | Woori financial group | - | 305 | - | - | - | 37,754 |
| Others | Woori Bank | 52,635 | 17,609 | (4) | 2,199 | 4,631 | 14,117 |
| | Woori Credit Information Co. Ltd. | - | 142 | - | - | - | 1,240 |
| | Woori Fund Service Co., Ltd. | - | 58 | - | - | - | - |
| | Woori FIS Co., Ltd. | - | 491 | - | - | - | 3,045 |
| | Woori Private Equity Co., Ltd. | - | 39 | - | - | - | - |
| | Woori Finance Research Institute Co., Ltd. | - | 45 | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 50,000 | 279 | - | 41 | - | - |
| | Korea Credit Bureau Co., Ltd. | - | 3 | - | - | - | - |
| | Woori Service Networks Co., Ltd. | - | 23 | (1) | - | - | 26 |
| | Korea Finance Security Co., Ltd | - | 60 | - | - | - | - |
| | Chin Hung International Inc. | - | 244 | (2) | - | - | 1 |
| | K BANK Co., Ltd. | - | 141 | - | - | - | - |
| | Total | 102,635 | 19,439 | (7) | 2,240 | 4,631 | 56,183 |

| | | December 31, 2018 | | | | | |
|-----------------|---|---------------------------------|---------------------------------------|-------------------|-----------------|------------|----------------------|
| | | Receivables | | | Payables | | |
| | | Cash and cash equivalents | Financial assets at amortized cost | | Other assets | Borrowings | Other liabilities |
| Related parties | | | Gross carrying amount | Loss allowance | | | |
| Parent | Woori Bank | 78,490 | 11,428 | (3) | 3,088 | 4,485 | 14,961 |
| Others | Woori Credit Information Co. Ltd. | - | 88 | - | - | - | 1,040 |
| | Woori Fund Service Co., Ltd. | - | 41 | - | - | - | - |
| | Woori FIS Co., Ltd. | - | 559 | - | - | - | 3,911 |
| | Woori Private Equity Co., Ltd. | - | 28 | - | - | - | - |
| | Woori Finance Research Institute Co., Ltd. | - | 34 | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 50,000 | 180 | - | 23 | - | - |
| | Korea Credit Bureau Co., Ltd. | - | 7 | - | - | - | - |
| | Woori Service Networks Co., Ltd. | - | 69 | - | - | - | - |
| | Korea Finance Security Co., Ltd | - | 58 | (4) | - | - | 5 |
| | Chin Hung International Inc. | - | 241 | (34) | - | - | 14 |
| | K BANK Co., Ltd. | - | 185 | - | - | - | - |
| | Total | 128,490 | 12,918 | (41) | 3,111 | 4,485 | 19,931 |

(5) Major loan transactions with related parties are as follows (Unit: Korean won in millions):

| | | For the year ended December 31, 2019 | | | |
|-----------------|--|--------------------------------------|----------|----------|----------------|
| Related Parties | | Beginning balance | Increase | Decrease | Ending balance |
| Parent | Woori financial group | - | 2,785 | 2,480 | 305 |
| Others | Woori Bank | 11,428 | 223,893 | 217,712 | 17,609 |
| | Woori Credit Information Co. Ltd. | 88 | 1,623 | 1,569 | 142 |
| | Woori Fund Service | 41 | 648 | 631 | 58 |
| | Woori FIS Co., Ltd. | 559 | 6,465 | 6,533 | 491 |
| | Woori Private Equity Co., Ltd. | 28 | 591 | 580 | 39 |
| | Woori Finance Research Institute Co., Ltd. | 34 | 401 | 390 | 45 |
| | Woori Investment Bank Co., Ltd. | 180 | 3,221 | 3,122 | 279 |
| | Korea Credit Bureau Co., Ltd. | 7 | 26 | 30 | 3 |
| | Woori Service Networks Co., Ltd. | 69 | 315 | 361 | 23 |
| | Korea Finance Security Co., Ltd | 57 | 626 | 623 | 60 |
| | Chin Hung International Inc. | 241 | 2,338 | 2,335 | 244 |
| | K BANK Co., Ltd. | 185 | 2,249 | 2,293 | 141 |

| | | For the year ended December 31, 2018 | | | |
|-----------------|--|--------------------------------------|----------|----------|----------------|
| Related Parties | | Beginning balance | Increase | Decrease | Ending balance |
| Parent | Woori Bank | 11,088 | 216,989 | 216,649 | 11,428 |
| Others | Woori Credit Information Co. Ltd. | 123 | 1,602 | 1,637 | 88 |
| | Woori Fund Service | 40 | 571 | 570 | 41 |
| | Woori FIS Co., Ltd. | 511 | 6,258 | 6,210 | 559 |
| | Woori Private Equity Co., Ltd. | 18 | 379 | 369 | 28 |
| | Woori Finance Research Institute Co., Ltd. | 36 | 252 | 254 | 34 |
| | Woori Investment Bank Co., Ltd. | 168 | 2,549 | 2,537 | 180 |
| | Korea Credit Bureau Co., Ltd. | 6 | 54 | 53 | 7 |
| | Woori Service Networks Co., Ltd. | 45 | 422 | 398 | 69 |
| | Korea Finance Security Co., Ltd | 56 | 638 | 636 | 58 |
| | Chin Hung International Inc. | 408 | 2,269 | 2,436 | 241 |
| | K BANK Co., Ltd. | 212 | 2,073 | 2,100 | 185 |

(6) Details of borrowing transactions with the related parties are as follows (Unit: Korean won in millions):

| | | December 31, 2019 | |
|-----------------|------------------------|------------------------|-----------|
| Related parties | | Financing transactions | |
| | | Borrowings | Repayment |
| Others | Woori Bank (Singapore) | - | - |

| | | December 31, 2018 | |
|-----------------|------------------------|------------------------|-----------|
| Related parties | | Financing transactions | |
| | | Borrowings (*) | Repayment |
| Parent | Woori Bank (Singapore) | 4,485 | - |

(*) The present value discount is excluded.

(7) There are no significant equity transactions with the related parties for credit loss as of December 31, 2019 and 2018.

(8) Guarantees between the related parties as of December 31, 2019 and 2018, are as follows (Unit: Korean won in millions):

1) Guarantees provided to the related parties are as follows:

| | Related parties | Warranty | December 31, 2019 | December 31, 2018 |
|--------|--|-----------------|----------------------|----------------------|
| Parent | Woori financial group | Loan commitment | 495 | - |
| Others | Woori Bank | Loan commitment | 167,880 | 174,287 |
| | Woori FIS Co., Ltd. | Loan commitment | 1,109 | 1,154 |
| | Woori Credit Information Co., Ltd. | Loan commitment | 737 | 695 |
| | Woori Private Equity Co., Ltd. | Loan commitment | 161 | 172 |
| | Woori Fund Service | Loan commitment | 242 | 59 |
| | Woori Finance Research Institute Co., Ltd. | Loan commitment | 302 | 294 |
| | Woori Investment Bank Co., Ltd. | Loan commitment | 422 | 320 |
| | Korea Credit Bureau Co., Ltd | Loan commitment | 32 | 28 |
| | Woori Service Networks Co., Ltd. | Loan commitment | 177 | 131 |
| | Korea Finance Security Co., Ltd. | Loan commitment | 200 | 203 |
| | Chin Hung International Inc. | Loan commitment | 306 | 309 |
| | K BANK Co., Ltd. | Loan commitment | 159 | 15 |

2) Guarantees received from related parties

Unused commitments received from Woori Bank as of December 31, 2019 and 2018, are ₩500,000 million respectively.

(9) Details of derivative assets and commitment amount related to the liabilities with related parties are as follows (Unit: Korean won in millions):

| Related parties | | December 31, 2019 | December 31, 2018 |
|-----------------|----------------------|-------------------|-------------------|
| Woori Bank | Unsettled commitment | 100,000 | 100,000 |

(10) The Group has the responsibility to jointly reimburse Woori Bank for the debts of Woori Bank prior to the split.

35. CONSOLIDATED STATEMENTS OF CASH FLOWS:

(1) Major transactions without cash inflows and outflows are as follows (Unit: Korean won in millions):

| | For the year ended December 31 | |
|---|--------------------------------|---------|
| | 2019 | 2018 |
| Changes in other comprehensive income related to valuation of financial assets at FVTOCI | (2,918) | (58) |
| Changes in other comprehensive income related to remeasurement of defined benefit plans | 1,385 | (1,737) |
| Changes in other comprehensive income related to valuation loss on cash flow hedge | (2,528) | (5,730) |
| Changes in other comprehensive income related to foreign currency translation of foreign operations | 1,273 | (320) |

(2) Changes in liabilities arising from financial activities are as follows (Unit: Korean won in millions):

| Classification | Beginning balance | Cash flow | For the year ended December 31, 2019 Not involving cash inflows and outflows | | | | Ending balance |
|------------------------|-------------------|-----------|---|--------------|---------------------------------|-------------------------|----------------|
| | | | Foreign exchange | Amortization | Variation of gains on valuation | New contract and others | |
| Debentures | 7,039,929 | 1,455 | 30,961 | 3,623 | - | - | 7,075,968 |
| Derivative liabilities | 33,491 | (5,520) | - | - | (30,498) | - | (2,527) |
| Lease liabilities | 33,109 | (10,649) | - | 842 | - | 4,392 | 27,694 |

| Classification | Beginning balance | Cash flow | For the year ended December 31, 2018 Not involving cash inflows and outflows | | Ending balance | |
|----------------|-------------------|-----------|---|--------------|----------------|-----------|
| | | | Foreign exchange | Amortization | | |
| Borrowings | - | 3,839 | - | 646 | - | 4,485 |
| Debentures | 6,121,803 | 887,802 | - | 26,951 | 3,373 | 7,039,929 |

36. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements of the Group were approved for the issuance on February 6, 2020, by the Board of Directors, and the final approval will be made in the annual general shareholders' meeting on March 20, 2020.



Deloitte Anjin LLC
9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

INDEPENDENT AUDITORS' REPORT

English Translation of a Report Originally Issued in Korean on March 18, 2019

To the Shareholders and the Board of Directors of Woori Card Co. Ltd.

Report on the Audited Consolidated Financial Statements

Our Opinion

We have audited the accompanying consolidated financial statements of Woori Card Co. Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in the Republic of Korea as required by prevailing audit regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The comparative consolidated financial statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2017, of the Group were audited by Ernst & Young Hanyoung in accordance with K-IFRSs. The audit report shows unqualified opinion, issued on March 5, 2018. The consolidated financial statements that were audited do not include the adjustments described in Note 37, but the comparative consolidated financial statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended December 31, 2017, include the adjustments.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with K-IFRSs, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Idnjia LLC

March 18, 2019

Notice to Readers

This report is effective as of March 18, 2019, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors' report.



Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 07241 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

Independent auditors' report

The Board of Directors and the Shareholder Woori Card Co., Ltd.

We have audited the accompanying consolidated financial statements of Woori Card Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Other matter



The consolidated financial statements of the Group as at December 31, 2016 and for the year then ended were audited by Deloitte Anjin LLC who expressed an unqualified opinion on those statements on March 3, 2017.

Ernst & Young Han Young

March 5, 2018

This audit report is effective as at March 5, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

| | December 31, 2018 (*) | December 31, 2017 (*) |
|---|--------------------------|--------------------------|
| (Korean won in millions) | | |
| ASSETS | | |
| Cash and cash equivalents (Notes 5 and 35) | 362,202 | 626,061 |
| Financial assets at FVTOCI (Notes 6 and 9) | 87,753 | - |
| AFS financial assets (Notes 6 and 9) | - | 87,633 |
| Financial assets at amortized cost (Notes 4, 7, 8, 9, 33 and 34) | 9,425,657 | - |
| Loans and receivables (Notes 4, 7, 8, 9, 33 and 34) | - | 7,793,507 |
| Premises and equipment (Note 10) | 22,565 | 20,193 |
| Intangible assets (Note 11) | 35,768 | 33,856 |
| Deferred tax assets (Notes 30 and 37) | 32,382 | 28,049 |
| Derivative assets (Notes 4, 9 and 16) | 263 | 1,193 |
| Net defined benefit assets (Notes 15 and 34) | 343 | 1,487 |
| Other assets (Notes 12 and 34) | 20,467 | 19,259 |
| Total assets | 9,987,400 | 8,611,238 |
| LIABILITIES | | |
| Borrowings (Notes 4, 9, 13, 34 and 35) | 4,485 | - |
| Debentures (Notes 4, 9, 13 and 35) | 7,039,929 | 6,121,803 |
| Provisions (Notes 14 and 32) | 55,042 | 41,964 |
| Current tax liabilities (Note 30) | 23,623 | 13,485 |
| Derivative liabilities (Notes 4, 9 and 16) | 33,754 | 55,651 |
| Other financial liabilities (Notes 4, 9 and 17) | 1,014,051 | 626,044 |
| Other liabilities (Notes 17, 34 and 37) | 134,552 | 131,771 |
| Total liabilities | 8,305,436 | 6,990,718 |
| EQUITY | | |
| Owners' equity: | | |
| Capital stock (Note 18) | 896,331 | 896,331 |
| Capital surplus (Note 18) | 127,097 | 127,097 |
| Other equity (Note 19) | 24,292 | 32,542 |
| Retained earnings (Notes 20 and 21) | 634,244 | 564,550 |
| (Regulatory reserves for credit loss as of December 31, 2018, and December 31, 2017, are ₩403,277 million and ₩342,131 million, respectively. Planned provisions for regulatory reserve for credit loss as of December 31, 2018, and December 31, 2017, are ₩(-)16,096 million and ₩61,146 million, respectively.) | | |
| Non-controlling interests | - | - |
| Total equity | 1,681,964 | 1,620,520 |
| Total liabilities and equity | 9,987,400 | 8,611,238 |

(*) The consolidated statement of financial position as of December 31, 2018, was prepared in accordance with K-IFRS 1109; however, the comparative consolidated statement of financial position as of December 31, 2017, was not retrospectively restated in accordance with K-IFRS 1109.

See accompanying notes

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 (*) | 2017 (*) |
|--|---|-------------|
| | (Korean won in millions, except for per share data) | |
| Interest income | 668,906 | 599,550 |
| Interest expense | (161,116) | (135,947) |
| Net interest income | | |
| (Notes 22 and 34) | 507,790 | 463,603 |
| Fees and commissions income | 612,109 | 1,061,812 |
| Fees and commissions expense | (599,811) | (1,031,375) |
| Net fees and commissions income | | |
| (Notes 23, 34, 36 and 37) | 12,298 | 30,437 |
| Dividend income (Note 24) | 10,154 | 8,709 |
| Net gain on financial instruments at FVTPL (K-IFRS 1109) (Note 25) | 2,749 | - |
| Net gain on financial instruments at FVTPL (K-IFRS 1039) (Note 25) | - | 1,514 |
| Net gain on AFS financial assets (K-IFRS 1039) (Note 26) | - | 254 |
| Impairment losses due to credit loss (Notes 27 and 34) | 244,762 | 221,863 |
| General and administrative expenses (Note 28) | 170,765 | 163,536 |
| Other net operating income (expenses) (Notes 28 and 34) | 49,308 | 3,744 |
| Operating income | 166,772 | 122,862 |
| Non-operating income (expenses) (Note 29) | (259) | (780) |
| Net income before income tax expense | 166,513 | 122,082 |
| Income tax expense (Notes 30 and 37) | 39,979 | 29,348 |
| Net income | | |
| (After the provision of regulatory reserves for credit loss for the years ended December 31, 2018 and 2017, net income is ₩81,908 million and ₩31,588 million, respectively.) (Note 21) | 126,534 | 92,734 |

(Continued)

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)

| | 2018 (*) | 2017 (*) |
|---|---|---------------|
| | (Korean won in millions, except for per share data) | |
| Remeasurement of the net defined benefit liability | (1,125) | 310 |
| Items that will not be reclassified to profit or loss | (1,125) | 310 |
| Net gain on valuation of financial assets at FVTOCI | 1,531 | - |
| Net gain on valuation of AFS financial assets | - | 4,808 |
| Cash flow hedging gains or losses on valuation of derivatives | (5,370) | 1,822 |
| Gain (loss) on foreign currency translation of foreign operations | (224) | (212) |
| Items that may be reclassified to profit or loss | (7,125) | 6,418 |
| Other comprehensive income, net of tax | (8,250) | 6,108 |
| Total comprehensive income | 118,284 | 98,842 |
| Net income attributable to: | 126,534 | 92,734 |
| Owners | 126,534 | 92,734 |
| Non-controlling interests | - | - |
| Total comprehensive income attributable to: | 118,284 | 98,842 |
| Owners | 118,284 | 98,842 |
| Non-controlling interests | - | - |
| Net income per share | | |
| (in Korean won) (Note 31) | | |
| Basic earnings per common share and diluted earnings per common share | 706 | 530 |

(*) The consolidated statement of comprehensive income for the year ended December 31, 2018, was prepared in accordance with K-IFRS 1109; however, the comparative consolidated statement of comprehensive income for the year ended December 31, 2017, was not retrospectively restated in accordance with K-IFRS 1109.

See accompanying notes

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | Capital stock | Capital surplus | Other equity | Retained earnings | Controlling interests | Non-controlling interests | Total |
|---|--------------------------|--------------------|-----------------|----------------------|--------------------------|------------------------------|------------------|
| | (Korean won in millions) | | | | | | |
| January 1, 2017 | 846,331 | 77,345 | 26,435 | 475,104 | 1,425,215 | - | 1,425,215 |
| Revision of consolidated financial statements as of December 31, 2017 (Note 37) | - | - | - | (3,288) | (3,288) | - | (3,288) |
| Increase in capital | 50,000 | 49,752 | - | - | 99,752 | - | 99,752 |
| Net income | - | - | - | 92,734 | 92,734 | - | 92,734 |
| Net gain on valuation of AFS financial assets | - | - | 4,808 | - | 4,808 | - | 4,808 |
| Remeasurement of the net defined benefit liability | - | - | (310) | - | (310) | - | (310) |
| Cash flow hedging gains or losses on valuation of derivatives | - | - | 1,822 | - | 1,822 | - | 1,822 |
| Loss on foreign currency translation of foreign operations | - | - | (213) | - | (213) | - | (213) |
| December 31, 2017 (*) | 896,331 | 127,097 | 32,542 | 564,550 | 1,620,520 | - | 1,620,520 |
| January 1, 2018 | 896,331 | 127,097 | 32,542 | 564,550 | 1,620,520 | - | 1,620,520 |
| Cumulative effect of change in accounting policy (Note 2) | - | - | - | (56,840) | (56,840) | - | (56,840) |
| Adjusted balance, beginning of year | 896,331 | 127,097 | 32,542 | 507,710 | 1,563,680 | - | 1,563,680 |
| Net income | - | - | - | 126,534 | 126,534 | - | 126,534 |
| Net gain on valuation of financial assets at FVTOCI | - | - | (1,531) | - | (1,531) | - | (1,531) |
| Remeasurement of the net defined benefit liability | - | - | (1,125) | - | (1,125) | - | (1,125) |
| Cash flow hedging gains or losses on valuation of derivatives | - | - | (5,370) | - | (5,370) | - | (5,370) |
| Gain on foreign currency translation of foreign operations | - | - | (224) | - | (224) | - | (224) |
| December 31, 2018 (*) | 896,331 | 127,097 | 24,292 | 634,244 | 1,681,964 | - | 1,681,964 |

(*) The consolidated statement of changes in equity for the year ended December 31, 2018, was prepared in accordance with K-IFRS 1109; however, the comparative consolidated statement of changes in equity for the year ended December 31, 2017, was not retrospectively restated in accordance with K-IFRS 1109.

See accompanying notes

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 (*) | 2017 (*) |
|--|--------------------------|-------------|
| | (Korean won in millions) | |
| Cash flows from operating activities: | | |
| Adjustments to net income: | | |
| Net income | 126,534 | 92,734 |
| Income tax expense | 39,979 | 29,348 |
| Dividend income | (10,154) | (8,709) |
| Interest income | (668,906) | (599,550) |
| Interest expense | 161,116 | 135,947 |
| | (351,431) | (350,230) |
| Additions of expenses not involving cash outflows: | | |
| Impairment losses due to credit loss | 244,762 | 221,863 |
| Impairment loss on AFS financial assets | | 16 |
| Depreciation | 6,158 | 5,666 |
| Disposal loss on tangible assets | 24 | 115 |
| Amortization | 5,320 | 3,850 |
| Disposal loss on intangible assets | 27 | - |
| Impairment loss on intangible assets | - | 116 |
| Loss on valuation of derivatives | - | 56,585 |
| Retirement benefits | 4,744 | 4,382 |
| Transfer to provision for credit card point | - | 16,745 |
| Credit card point income | - | 1,454 |
| Transfer to other provisions | 390 | 378 |
| Loss on translation of foreign currency | 27,597 | - |
| | 289,022 | 311,170 |
| Deductions of revenues not involving cash inflows: | | |
| Gain on disposal of financial instruments at FVTPL | 2,749 | - |
| Gain on disposal of AFS financial assets | - | 270 |
| Gain on impairment loss on intangible assets | 270 | - |
| Gain on valuation of derivatives | 26,698 | 128 |
| Gain on transfer to other provisions | 59 | 13 |
| Gain on translation of foreign currency | - | 56,621 |
| | 29,776 | 57,032 |
| Changes in operating assets and liabilities: | | |
| Financial assets at amortized cost | (1,932,487) | - |
| Loans and receivables | - | (947,103) |
| Other assets | (1,209) | (16,264) |
| Provision | (467) | (12,497) |
| Net defined benefit liability | (5,336) | (6,748) |
| Other financial liabilities | 386,943 | (64,441) |
| Other liabilities | (3,341) | 9,471 |
| | (1,555,897) | (1,037,582) |

(Continued)

WOORI CARD CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)

| | 2018 (*) | 2017 (*) |
|---|--------------------|------------------|
| | (Korean won | in millions) |
| Cash received from (paid for) operating activities: | | |
| Income tax paid | (16,431) | (29,701) |
| Dividend received | 10,154 | 8,709 |
| Interest income received | 670,382 | 586,049 |
| Interest expense paid | (156,205) | (133,029) |
| | <u>507,900</u> | <u>432,028</u> |
| Net cash used in operating activities | <u>(1,140,182)</u> | <u>(701,646)</u> |
| Cash flows from investing activities: | | |
| Cash inflows from investing activities: | | |
| Disposal of financial instruments at FVTPL | 941 | - |
| Disposal of AFS financial assets | - | 601 |
| Disposal of intangible assets | 1,470 | - |
| Decrease of guarantee deposits | 495 | - |
| | <u>2,906</u> | <u>601</u> |
| Cash outflows for investing activities: | | |
| Acquisition of financial assets at FVTOCI | 178 | - |
| Acquisition of AFS financial assets | - | 24 |
| Acquisition of premises and equipment | 8,586 | 8,176 |
| Acquisition of intangible assets | 8,458 | 13,173 |
| Increase of guarantee deposits | 1,002 | - |
| | <u>18,224</u> | <u>21,373</u> |
| Net cash used in investing activities | <u>(15,318)</u> | <u>(20,772)</u> |
| Cash flows from financing activities: | | |
| Cash inflows from financing activities: | | |
| Increase in capital | - | 99,752 |
| Increase in borrowings | 3,839 | 15,000 |
| Issuance of debentures | 16,207,802 | 9,638,745 |
| | <u>16,211,641</u> | <u>9,753,497</u> |
| Cash outflows for financing activities: | | |
| Repayment of borrowings | - | 15,000 |
| Repayment of debentures | 15,320,000 | 8,780,000 |
| | <u>15,320,000</u> | <u>8,795,000</u> |
| Net cash provided by financing activities | <u>891,641</u> | <u>958,497</u> |
| Effects of exchange rate changes on cash and cash equivalents | - | (160) |
| Net increase (decrease) in cash and cash equivalents | (263,859) | 235,919 |
| Cash and cash equivalents at the beginning of year | 626,061 | 390,142 |
| Cash and cash equivalents at the end of year (Note 5) | <u>362,202</u> | <u>626,061</u> |

(*) The consolidated statement of cash flows for the year ended December 31, 2018, was prepared in accordance with K-IFRS 1109; however, the comparative consolidated statement of cash flows for the year ended December 31, 2017, was not retrospectively restated to apply K-IFRS 1109.

See accompanying notes

WOORI CARD CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. GENERAL:

(1) Summary of the parent company

Woori Card Co., Ltd. (the “Company” or “Parent company”), which is a controlling entity in accordance with Korean International Financial Reporting Standards (“K-IFRSs”) 1110 – *Consolidated Financial Statements*, was incorporated on April 1, 2013, as a result of spin-off from Woori Bank. The Company was established for the purpose of engaging in credit card business, and the Company started its business after the completion of the registration process on April 1, 2013. The Company is engaged in credit sales business under the Specialized Credit Financial Business Act of Korea, cash advance services, card loan services and others. The Company is subject to the laws, regulations and ordinance of the Specialized Credit Financial Business Act. The Company’s headquarters is located at Junghak-dong, Jung-gu, Seoul, Korea.

As of December 31, 2018, the Company maintains approximately ₩12.80 million of credit card and debit card members. Woori Bank holds 100% ownership of the Company as of December 31, 2018.

(2) The consolidated financial statements of Woori Card and subsidiaries (the “Group”) include the following subsidiaries:

| Subsidiaries | Location | Main business | Percentage of ownership (%) | | Financial statements as of |
|--|----------|----------------------|-----------------------------|-------------------|----------------------------|
| | | | December 31, 2018 | December 31, 2017 | |
| TUTU Finance-WCI Myanmar Co., Ltd. | Myanmar | Finance | 100.0 | 100.0 | December 31, 2018 |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | 0.5 | 0.5 | December 31, 2018 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | 0.5 | 0.5 | December 31, 2018 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. (*) | Korea | Asset securitization | 0.5 | - | December 31, 2018 |

(*) Ownership ratio is less than half, but it has control because it is significantly exposed to the variable return of the investee and its power to determine the performance affects the variable return of the investee.

(3) The summarized financial information before the elimination of intercompany transactions of the subsidiaries whose financial information was prepared under K-IFRSs for the Group’s consolidated financial statements is as follows (Unit: Korean won):

| Subsidiaries | December 31, 2018 (Korean won in millions) | | | |
|--|---|-------------|-----------------|---|
| | Assets | Liabilities | Operating gains | Net gains and losses attributable to owners |
| TUTU Finance-WCI Myanmar Co., Ltd. | 12,583 | 5,502 | 1,652 | (346) |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 361,312 | 361,239 | 6,702 | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 337,764 | 341,334 | 7,503 | - |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 300,079 | 300,079 | 1,030 | - |

| Subsidiaries | December 31, 2017 | | | |
|--|--------------------------|-------------|-----------------|---|
| | (Korean won in millions) | | | |
| | Assets | Liabilities | Operating gains | Net gains and losses attributable to owners |
| TUTU Finance-WCI Myanmar Co., Ltd. | 2,297 | 135 | 220 | (349) |
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 361,273 | 359,864 | 6,371 | - |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd | 337,739 | 338,371 | 1,100 | - |

2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES:

(1) Basis of preparation

The Group's consolidated financial statements are prepared in accordance with K-IFRSs.

The significant accounting policies applied in the preparation of the consolidated financial statements as of and for the year ended December 31, 2018, are stated below, and the accounting policies applied are identical to the ones used in the preparation of previous-period's consolidated financial statements, except for the effects of adopting new standards or interpretations as explained below.

The consolidated financial statements are prepared at the end of each reporting period on the historical cost basis, except for certain non-current assets and financial assets that are either revalued or measured in fair value. Historical cost is generally measured at the fair value of the consideration given to acquire assets.

Fair value is the price that will be paid when the asset is sold or the liability is transferred in a normal transaction between market participants at the measurement date, whether the price is directly observable or whether it is valued using valuation techniques. In estimating the fair value of an asset or liability, the Group considers the nature of the asset or liability that the market participant considers in determining the cost of the asset or liability at the measurement date. Based on the share-based payment transactions included in the scope of K-IFRS 1102 'Share-Based Payment', the lease transactions included in the scope of the 'Lease' of K-IFRS 1017, the net realized value included in the scope of the 'Inventory Assets' of K-IFRS 1002 and the value in use included in the scope of the 'Impairment of Assets' of K-IFRS 1036, except for those measures that are partially similar to fair value, but are not fair value, such as the net realizable value of an asset or the use value of an asset impairment, and the use value of an asset impairment, in accordance with the principles described above will be determined.

1) The Group has newly adopted the following adoption of K-IFRSs that affected its accounting policies:

- Adoption to K-IFRS 1109 – *Financial Instruments* (enacted)

The Group initially applied K-IFRS 1109 and related amendments made to other standards during the current period, with January 1, 2018, as the date of initial application. K-IFRS 1109 introduces new rules on 1) classification and measurement of financial assets and financial liabilities, 2) impairment of financial assets and 3) hedge accounting. Additionally, the Group adopted consequential amendments to K-IFRS 1107 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

The Group decided not to restate the prior-period figures when applying the standard for the first time and as such, the comparative consolidated financial statements are not restated.

The main contents of the new accounting standard and the effect on the consolidated financial statements of the Group are as follows.

- a) Classification and measurement of financial assets and financial liabilities

All financial assets included in the scope of K-IFRS 1109 are subsequently measured at amortized cost or fair value based on the Group's business model for the management of financial assets and the nature of the contractual cash flows of the financial assets.

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods (financial assets at amortized cost).

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI") (financial assets at FVTOCI).

All other debt instruments and equity instruments are measured at their fair value at the end of subsequent accounting periods, and any change in the fair value is recognized as profit or loss (financial assets at fair value through profit or loss ("FVTPL")).

Notwithstanding the foregoing, the Group may make the following irrevocable choice or designation at the time of initial recognition of a financial asset.

The Group may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this standard that is neither held for trading nor a contingent consideration recognized by an acquirer in a business combination to which K-IFRS 1103 applies.

At initial recognition, financial assets at amortized cost or FVTOCI may be irrevocably designated as financial assets at FVTPL, mandatorily measured at fair value if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

As of the date of first adoption of K-IFRS 1109, there are no debt instruments classified either as financial assets at amortized cost or FVTOCI that are designated as financial assets at FVTPL.

When debt instruments measured at FVTOCI are derecognized, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. On the other hand, for equity instruments designated as financial assets at FVTOCI, cumulative gains or losses previously recognized in other comprehensive income are subsequently reclassified to retained earnings. Debt instruments measured subsequently at amortized cost or at FVTOCI are subject to impairment.

Subsequent amortization and other comprehensive income - debt instruments measured as fair value items are eligible for impairment.

Management has reviewed and assessed the financial assets held by the Group based on the facts and circumstances that existed at the date of initial application and, as a result of the initial application of K-IFRS 1109, management has determined that the following effects will occur:

Debt securities classified as available-for-sale ("AFS") financial assets in accordance with K-IFRS 1039 are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the debt securities with contractual cash flows consisting solely payments of principal and interest on the principal amount outstanding are classified as financial assets at FVTOCI. Changes in the fair value of these debt securities are recognized as accumulated gain or loss until they are eliminated or reclassified.

Investments in equity securities classified as AFS financial assets in accordance with K-IFRS 1039 and measured at fair value at the end of each reporting period (neither held for trading nor a contingent consideration arising from business combinations) are designated as FVTPL. Changes in the fair value of these equity securities are

recognized as accumulated gain or loss.

There is no change in the measurement of equity instruments corresponding to short-term trading items. Such financial instruments are measured at FVTPL - fair value measurement financial instruments.

In accordance with K-IFRS 1039, held-to-maturity financial assets and financial assets classified as loans and receivables are held under a business model whose objective is collecting contractual cash flows, and the financial assets consisting solely payments of principal and interest on the principal amount outstanding are measured at amortized cost under K-IFRS 1109.

Changes in the classification of financial assets under K-IFRS 1109 are described in Note 5.

Other reclassifications of financial assets do not affect the Group's financial position, profit or loss, other comprehensive income or comprehensive income.

b) Impairment of financial assets

The impairment model under K-IFRS 1109 reflects expected credit losses, as opposed to incurred credit losses under International Accounting Standard 39. Under the impairment approach in K-IFRS 1109, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, the Group accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group recognizes a loss allowance at an amount equal to expected credit losses of the following items: i) financial instruments that are subsequently measured at either amortized cost or FVTOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts, which are subject to the impairment requirements of K-IFRS 1109. Specifically, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime-expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition or the financial asset is credit impaired on initial recognition. Meanwhile, if the credit risk of a financial instrument does not increase significantly after initial recognition (excluding financial asset whose credit is impaired when it is acquired), the Group measures the loss allowance on financial instruments as an amount equivalent to the expected 12-month credit loss. In addition, K-IFRS 1109 proposes a simplified approach for trade receivables, contract assets and lease receivables, proposing that the loss allowance should be measured at an amount equal to lifetime-expected credit losses in some situations. The Group did not apply the simplified approach to measure the loss allowance.

Management determines the credit risk at the date of initial recognition of the financial instrument in accordance with K-IFRS 1109 and provides a reasonable and supportive measure that can be used without undue cost or effort in comparison with the credit risk of the initial application date (January 1, 2018). The Group uses information that could be used to assess the impairment of its financial assets, lending arrangements and financial guarantees at the date of initial application. As of January 1, 2018, the application results are as follows (Unit: Korean won in millions):

| | Additional loss allowance under K-IFRS 1109 |
|--|---|
| Due from banks (Note 1) | - |
| Loans (Note 2) | 4,683 |
| Credit card assets (Note 2) | 49,387 |
| Capital finance receivables (Note 2) | 883 |
| Finance lease receivables (Note 2) | 268 |
| Other loans and receivables (Note 2) | 312 |
| Provisions for unused commitments (Note 2) | 19,455 |
| Total | <u>74,988</u> |

(Note 1) Due to deposits in financial institutions with high credit ratings, the credit risk is low.

(Note 2) It corresponds to the main business-related bonds or unused contracts, and the expected credit loss of 12 months or expected credit loss of the whole period was recognized depending on the debtor's credit rating and delinquency.

As of January 1, 2018, the provision for additional loss amounting to ₩74,988 million has been reflected as a reduction of retained earnings amounting to ₩56,840 million after deducting deferred income tax effect of ₩18,148 million. The allowance for additional losses is presented as a deduction from the related asset or a liability for an unused commitment. Other comprehensive income (loss) provision for debt instruments measured at fair value is added to or subtracted from accumulated gain or loss. Note 2 (1).5) describes the details of the adjustment.

The difference between provisions for doubtful accounts under K-IFRS 1039 and guarantees under K-IFRS 1037 as of January 1, 2018, and loss allowance under K-IFRS 1109 is as follows: They are disclosed in each note.

In accordance with the amendments to K-IFRS 1107, the disclosure requirements for the total exposure of credit risk on the Group's consolidated financial statements have increased.

c) Classification and measurement of financial liabilities

One of the major changes related to the classification and measurement of financial liabilities as a result of the adoption of K-IFRS 1109 is the accounting for change in the fair value of financial liabilities designated at FVTPL due to the changes in issuer's own credit risk. The Group recognizes the effect of changes in the credit risk of financial liabilities designated as at FVTOCI in other comprehensive income, except for cases where it creates or enlarges accounting mismatch of the profit or loss. Changes in fair value due to credit risk of financial liabilities are not subsequently reclassified to profit or loss, but are reclassified as retained earnings when financial liabilities are derecognized.

In accordance with K-IFRS 1039, the entire changes in fair value of financial liabilities designated as at FVTPL are recognized in profit or loss.

Except for the above, the adoption of K-IFRS 1109 has no significant impact on the classification and measurement of financial liabilities.

d) General hedge accounting

The new hedge accounting model maintains three types of hedge accounting. However, it has introduced more flexibility in the types of transactions that are eligible for hedge accounting and has expanded the types of hedging instruments and non-financial hedge items that qualify for hedge accounting. As a whole, it has been amended and replaced by the principle of "economic relationship" between the hedged item and the hedging instrument. Retrospective assessment of the hedging effectiveness is no longer required. Additional disclosure requirements have been introduced in relation to the Group's risk management activities.

In accordance with the transitional provisions of K-IFRS 1109 on hedge accounting, the Group adopted the hedge accounting provisions of K-IFRS 1109 prospectively from January 1, 2018. As of the date of initial application, the Group has considered that the hedging relationship in accordance with K-IFRS 1039 is appropriate for hedge accounting under K-IFRS 1109; thus, the hedging relationship is considered to exist continually. Since the major conditions for hedging instruments and the hedged items are consistent, all hedging relationships are consistent with the effectiveness assessment requirements of K-IFRS 1109. The Group has not designated a hedging relationship as such in accordance with K-IFRS 1109 in which the hedge relationship would not have met the requirements for hedge accounting under K-IFRS 1039.

Except for the above, there is no impact from the requirements of K-IFRS 1109 on the financial position and performance of the Group. The Group's risk management activities are described in Note 4.

e) Disclosures related to the first application date of K-IFRS 1109

There are no financial assets or financial liabilities that the Group has previously designated as a gain or loss in accordance with K-IFRS 1039. There are also no financial assets or financial liabilities designated as at FVTPL at the date of the first application of K-IFRS 1109.

The classification and measurement of financial assets and financial liabilities in accordance with K-IFRS 1109 and K-IFRS 1039 as of January 1, 2018, are as follows (Unit: Korean won in millions):

| | Categories | | Carrying amount | | |
|-------------------------------------|--|---|-----------------|--|-------------|
| | Classification according to K-IFRS 1039 | Classification according to K-IFRS 1109 | K-IFRS 1039 | Under K-IFRS 1109 cumulative additional loss reserve | K-IFRS 1109 |
| Unlisted equity securities (Note 1) | AFS financial assets | FVTOCI | 87,602 | - | 87,602 |
| Other equity investments (Note 1) | AFS financial assets | FVTOCI | 31 | - | 31 |
| Due from banks | Loans and receivables | Financial assets at amortized cost | 20,003 | - | 20,003 |
| Loans | Loans and receivables | Financial assets at amortized cost | 260,650 | 4,683 | 255,967 |
| Credit card assets | Loans and receivables | Financial assets at amortized cost | 6,648,450 | 49,387 | 6,599,063 |
| Capital finance receivables | Loans and receivables | Financial assets at amortized cost | 555,001 | 883 | 554,118 |
| Finance lease receivables | Loans and receivables | Financial assets at amortized cost | 60,083 | 268 | 59,815 |
| Other loans and receivables | Loans and receivables | Financial assets at amortized cost | 249,320 | 312 | 249,008 |
| Debentures | Amortized cost measurement financial liabilities | Financial liabilities at amortized cost | 6,121,803 | - | 6,121,803 |
| Provisions for unused commitments | Provisions | Provisions | 29,805 | 19,455 | 49,260 |
| Provisions for guarantees | Provisions | Provisions | 3 | - | 3 |
| Other financial liabilities | Amortized cost measurement financial liabilities | Financial liabilities at amortized cost | 626,044 | - | 626,044 |

(Note 1) Unlisted equity securities and other equity investments in AFS financial assets are classified as FVTOCI by applying irrevocable option at the first adoption date.

The provision for additional loss on the initial application of K-IFRS 1109 is due to a change in the measurement of loss provision related to each financial asset. No financial assets or financial liabilities designated as financial assets at FVTPL in accordance with K-IFRS 1039 are subject to reclassification, and there are no financial assets or financial liabilities that the Group elected to reclassify as a result of applying K-IFRS 1109. There are no financial assets or financial liabilities designated at FVTPL - fair value at the date of initial application of K-IFRS 1109.

- Adoption of K-IFRS 1115 – Revenue from Contracts with Customers (enacted)

The Group adopted K-IFRS 1115 for the first time and decided to retrospectively apply the cumulative effect of the first application of K-IFRS 1115 as of January 1, 2018. In addition, the standard has been retrospectively applied only to contracts that are not completed on the date of initial application, and all contractual changes made prior to the first application date are not rewritten.

| Unit: Korean won in millions | | | |
|------------------------------|----------|-------------|-------------|
| (Note 1) | Existing | Adjustments | K-IFRS 1115 |

| | revenue recognition standard | | |
|----------------------|---------------------------------|---------|-------|
| Card point provision | 6,122 | (6,122) | - |
| Other liabilities | - | 6,122 | 6,122 |

(Note 1) K-IFRS 1115 has been applied to the points paid to the card members and the existing point liabilities are classified as other liabilities.

In addition, the Group decided not to restate the prior periods when applying K-IFRS 1115 for the first time. Accordingly, the Group has not retrospectively restated the comparative consolidated financial statements presented herein.

- Amendments to K-IFRS 1102 – Classification and Measurement of Share-Based Payment Transactions
The amendments clarify that 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment; 2) when an entity has an obligation to pay the employee's withholding tax to the tax authority for the employee's equity-settled share-based payment, the transaction shall be classified in its entirety as an equity-settled share-based payment transaction if it would have been classified in the absence of the net settlement feature; and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification-date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments have no impact on the Group's consolidated financial statements.

- Amendments to K-IFRS 1040 – Investment Property
The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in K-IFRS 1040 are not exhaustive and that a change in use is possible for properties under construction (i.e., a change in use is not limited to completed properties). The amendments have no impact on the Group's consolidated financial statements.

- Amendments to K-IFRS 2122 – Foreign Currency Transactions and Advance Consideration

K-IFRS 2122 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income (or part of them) when consideration for that item has been paid or received in advance in a foreign currency, which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments, the amendments have no impact on the Group's consolidated financial statements.

- Annual Improvements to K-IFRS 2014-2016 Cycle

The amendments include partial amendments to K-IFRS 1101 'First-Time Adoption of K-IFRS' and K-IFRS 1028 'Investments in Associates and Joint Ventures.' Amendments to K-IFRS 1028 provide that an investment company, such as a venture capital investment vehicle, may selectively designate each of its investment in associates and/or joint ventures to be measured at FVTPL, and that such designation must be made at the time of each investment's initial recognition. In addition, when non-investment companies apply equity method to

investment in associates and/or joint ventures that are investment companies, these companies may apply the same fair value measurement used by the said associates to value their own subsidiaries. This accounting treatment may be selectively applied to each associate.

The amendments have no impact on the Group's consolidated financial statements as it is neither a first-time adopter of K-IFRS nor a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an investment company.

The effect of changes in accounting policies on the consolidated financial statements is as follows (Unit: Korean won in millions):

| | January 1, 2018 | | |
|--|------------------|-----------------|------------------|
| | Before change | Adjustments | After change |
| I. Assets | | | |
| 1. Cash and cash equivalents | 626,061 | - | 626,061 |
| 2. Financial assets at FVTOCI (Note 2) | - | 87,633 | 87,633 |
| 3. AFS financial assets (Note 2) | 87,633 | (87,633) | - |
| 4. Financial assets at amortized cost (Note 3) | - | 7,737,974 | 7,737,974 |
| 5. Loans and receivables (Note 3) | 7,793,507 | (7,793,507) | - |
| 6. Premises and equipment | 20,193 | - | 20,193 |
| 7. Intangible assets | 33,856 | - | 33,856 |
| 8. Deferred tax assets (Note 5) | 28,049 | 18,148 | 46,197 |
| 9. Derivative assets | 1,193 | - | 1,193 |
| 10. Net defined benefit assets | 1,487 | - | 1,487 |
| 11. Other assets | 19,259 | - | 19,259 |
| Total assets | <u>8,611,238</u> | <u>(37,385)</u> | <u>8,573,853</u> |
| II. Liabilities | | | |
| 1. Debentures | 6,121,803 | - | 6,121,803 |
| 2. Provisions (Notes 3 and 4) | 41,964 | 13,333 | 55,297 |
| 3. Current tax liabilities | 13,485 | - | 13,485 |
| 4. Derivative liabilities | 55,651 | - | 55,651 |
| 5. Other financial liabilities | 626,044 | - | 626,044 |
| 6. Other liabilities (Note 4) | 131,771 | 6,122 | 137,893 |
| Total liabilities | <u>6,990,718</u> | <u>19,455</u> | <u>7,010,173</u> |
| III. Equity | | | - |
| 1. Owners' equity | 1,620,520 | (56,840) | 1,563,680 |
| (1) Capital stock | 896,331 | - | 896,331 |
| (2) Capital surplus | 127,097 | - | 127,097 |
| (3) Other equity | 32,542 | - | 32,542 |
| (4) Retained earnings | 564,550 | (56,840) | 507,710 |
| 2. Non-controlling interests | - | - | - |
| Total equity | <u>1,620,520</u> | <u>(56,840)</u> | <u>1,563,680</u> |
| Total liabilities and equity | <u>8,611,238</u> | <u>(37,385)</u> | <u>8,573,853</u> |

(Note 1) The consolidated financial statements are the financial statements after adjusting the reconciliations described in the accompanying Note 37.

(Note 2) In accordance with K-IFRS 1109, unlisted equity securities and other equity investments in AFS financial assets are designated as other comprehensive income-fair value measurement using the irrevocable option at the date of initial application.

(Note 3) In accordance with K-IFRS 1109, the Group recognizes provision for additional losses on financial assets and unused reserve deposits held by the Group at the date of initial application and classifies loans and receivables as financial assets at amortized cost.

(Note 4) K-IFRS 1115 has been applied to the points paid to the card members and the existing point liabilities are classified as other liabilities.

(Note 5) Income tax effects from changes in accounting policies are reflected.

2) The Group has not applied the following K-IFRSs that have been issued, but are not yet effective:

- K-IFRS 1116 – Leases (enacted)

K-IFRS 1116 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. K-IFRS 1116 will supersede the current lease guidance, including K-IFRS 1017, Leases and the related interpretations, and will be applied to periods beginning on or after January 1, 2019.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and are replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid on that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows; whereas, under the K-IFRS 1116 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Also, K-IFRS 1116 requires expanded disclosures.

According to the preliminary assessment of the Group, the lease agreements entered into by the Group as of December 31, 2018, are expected to meet the definition of lease under the standard, and accordingly, if the Group adopts the standard, it applies to all leases, except for short-term leases and leases of low-value assets, and the Group will recognize the right-of-use assets and related liabilities accordingly. As a result of an analysis of the impact on the consolidated financial statements, the Group expects right-of-use asset and lease liability to increase by ₩32,787 million and ₩32,444 million, respectively, as of December 31, 2018.

On the other hand, the Group believes that the application of the standard would have a significant effect on the amount recognized in the consolidated financial statements. The Group is currently analyzing the potential impact of this standard as of December 31, 2018.

- Amendments to K-IFRS 1109 – Financial Instrument

This amendment clarifies that when the moderate repayment characteristics meet the requirements of contractual cash flows consisting solely of interest on principal and balance of principal, regardless of whether or not it is possible to pay or receive reasonable compensation. In other words, it does not automatically meet the contractual cash flow requirements, which consist solely of interest on principal and principal balance, due to the nature of the redemption that accompanies negative rewards. These amendments are effective for annual periods

beginning on or after January 1, 2019, but are subject to early adoption.

- Amendments to K-IFRS 1028 – Investments in Associates and Joint Ventures

The amendments clarify that K-IFRS 1109 (including the impairment provisions) should be applied to the long-term investment. When applying K-IFRS 1109 to the long-term investment, the adjustment to the carrying amount pursuant to K-IFRS 1028 (i.e., adjustments to the carrying amount of long-term investment as a result of allocating or assessing the loss of the investee in accordance with K-IFRS 1028). These amendments are effective retrospectively from the annual period beginning on or after January 1, 2019, and are subject to early adoption.

- Annual Improvements to K-IFRS 2015-2017 Cycle

This amendment is part of the amendments to K-IFRS 1012 Income Tax, K-IFRS 1023, Borrowing Costs, K-IFRS 1103 Business Combinations and K-IFRS 1111 Joint Arrangements.

(A) K-IFRS 1012- Corporate Income Tax

The amendments clarify that the effect of dividends is recognized in profit or loss, other comprehensive income or equity, depending on how the transaction that generated distributable profit was initially recognized.

(B) K-IFRS 1023- Borrowing Costs

The amendments to K-IFRS 1023 require that if there is a balance of a specific borrowing even after the related asset has become AFS or is AFS, the borrowing will be part of the ordinary borrowing.

(C) K-IFRS 1103- Business Combination

The amendments to K-IFRS 1103 require that when an entity obtains control of a joint venture business, the entity shall apply the requirements for a staged business combination, including remeasurement of the prior service maintenance of joint operations to fair value and that it should be applied. Previous retirement interests should include unrecognized assets, liabilities and goodwill in connection with joint operations.

(D) K-IFRS 1111 - Joint Venture Agreement

Amendments to K-IFRS 1111 require that a party that has participated in a joint operation of the business, but does not have joint control, has joint control over the joint operation.

These amendments are applied prospectively from the beginning of the fiscal year beginning on or after January 1, 2019, and are permitted for early adoption.

- K-IFRS 1019 - Employee Benefits

These amendments apply to the revised assumptions used in determining past service costs (or settlement gains and losses) to reflect the benefits provided by the plan and plan assets before and after the amendment (or reduction or settlement). These amendments do not take into account the effects of the asset (which may occur when the defined benefit plan is in excess). After the amendment, the standard requires that any change in the nature of the asset that may arise from the revision (or reduction or settlement) of the plan is determined after recognizing the past service cost (or settlement gain or loss) and recognized in other comprehensive income.

In addition, the paragraphs relating to net periodic measurement of net service costs and net defined benefit liabilities (assets) have been amended. The Group shall use the updated assumptions used in the remeasurement to determine the corresponding current service cost and net interest during the remaining annual reporting period after the change in the plan. In the case of net interest, the amendments clarify that net interest for the period after the amendment is calculated using the discount rate used when remeasuring the net defined benefit obligation (asset) measured in accordance with paragraph 99 of that standard.

These amendments are only applied prospectively to the amendment, reduction and settlement of the system arising in the financial year in which this amendment is applied for the first time and thereafter. These amendments are effective for annual periods beginning on or after January 1, 2019, and are subject to early adoption.

- Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

This amendment is to revise the meaning of 'contract' referred to in paragraph 129.1 to 'individual contract' in relation to 'additional disclosure of contracts based on cost-based input method', so that even if K-IFRS 1115 is applied, the range of disclosure does not change. In addition, K-IFRS 1115 does not distinguish the types of contracts. Therefore, service contracts that did not qualify for the application of K-IFRS 1011, paragraph 45.1, can be clarified in K-IFRS 1115, and it is clarified that the range of the contract subject to make disclosure in accordance with paragraph 129.1 of the previous clause can be expanded compared to the previous profit standard. These amendments will be effective for the first financial year beginning on or after January 1, 2019, and are subject to early adoption.

- K-IFRS 2123 – Uncertainty over Income Tax Treatments (enacted)

The interpretation prescribes how to account for uncertainty in the treatment of income taxes and requires the following:

(a) The entity may individually consider each of its uncertain tax treatments or decide whether to consider it together with any uncertain tax treatment.

(b) The entity will decide to accept the account for uncertainty in the treatment of income taxes and calculate the amount of tax income (loss), tax standard income, unused tax loss, unused tax credit and tax rate.

- If the possibility of acceptance is high, the entity will calculate according to used or using for corporate tax report.

- If the possibility of acceptance is not high, we will reflect the effect of uncertainty.

The interpretation is effective for annual periods beginning on or after January 1, 2019. This interpretation can be applied to a retrospective method that does not require retrospective application or retrospective comparative information.

The Group believes that the effects of these amendments will not be material to the consolidated financial statements.

(2) Basis of consolidated financial statement presentation

The consolidated financial statements incorporate the financial statements of the parent and its subsidiaries (including structured companies) controlled by the parent (and its subsidiaries, which is the “Group”). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the relative size of the Group's holding of voting rights and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owner of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owner of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions and, related assets and liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owner of the Parent Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1109 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured as the sum of the acquisition-date fair values of the assets transferred by the Group in exchange for control of the acquiree, liabilities assumed by the Group for the former owners of the acquiree and the equity interests issued by the Group. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the condition for recognition under K-IFRS 1103 are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-Based Payment at the acquisition date; and
- non-current assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 Non-Current Assets Held for Sale and Discontinued Operations are measured at the lower of their previous carrying amounts or fair value, less costs to sell.

Any excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest (if any) in the acquiree over the net of identifiable assets and liabilities assumed of the acquiree at the acquisition date is recognized as goodwill, which is included in intangible assets.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognized immediately in net income as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration other than the above is remeasured at subsequent reporting dates, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date (i.e., the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in net income (or other comprehensive income, if applicable). Amounts arising from changes in value of interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized, identical to the treatment assuming interests are sold directly.

In case where i) a common entity ultimately controls over all participating entities, or businesses, in a business combination transaction, prior to and after the transaction continuously, and ii) the control is not temporary, the transaction meets the definition of "business combination under common control" and it is deemed that the transaction only results in the changes in legal substance, and not economic substance, from the perspective of the ultimate controlling party. Thus, in such transactions, the acquirer recognizes the assets and liabilities of the acquiree in its financial statements at the book values as recognized in the ultimate controlling party's consolidated financial statements, and the difference between the book value of consideration transferred to and the book value of net assets transferred in is recognized as equity.

(4) Investments in joint ventures and associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary or a joint venture. Significant influence is the power to participate in making decision on the financial and operating policy of the investee, but is not control or joint control over those policies.

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

The net income of current period and the assets and liabilities of the joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 Non-Current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in the joint ventures and associates is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the net assets of the joint ventures and associates and any impairment. When the Group's share of losses of the joint ventures and associates exceeds the Group's interest in the associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures and associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint ventures and associates recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in net income.

The requirements of K-IFRS 1028 - Investments in Associates and Joint Ventures to determine whether there has been a loss event are applied to identify whether it is necessary to recognize any impairment loss with respect to the Group's investment in the joint ventures and associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 - *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount. Any impairment loss recognized is not allocated to any asset (including goodwill), which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

Upon a loss of significant influence over the joint ventures and associates, the Group discontinues the use of the equity method and measures at fair value of any investment that the Group retains in the former joint ventures and associates from the date when the Group loses significant influence. The fair value of the investment is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement. The Group recognized differences between the carrying amount and fair value in net income and it is included in determination of the gain or loss on disposal of joint ventures and associates. The Group accounts for all amounts recognized in other comprehensive income in relation to that joint ventures and associates on the same basis as would be required if the joint ventures and associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate would be reclassified to net income on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to net income as a reclassification adjustment.

When the Group's ownership of interest in an associate or a joint venture decreases, but the Group continues to maintain significant influence over an associate or a joint venture, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that decrease in ownership interest if the gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. Meanwhile, if interest on associate or joint venture meets the definition of non-current asset held for sale, it is accounted for in accordance with K-IFRS 1105.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a subsidiary transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Investment in joint operation

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

When the Group operates as a joint operator, it recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;

- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Group enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the Group recognizes gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When the Group enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it does not recognize proportional share of profit or loss until the asset is sold to a third party.

(6) Revenue recognition

1) Revenues from contracts with customers

The Group recognizes revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. When a performance obligation is satisfied, the Group shall recognize as a revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the Group expects it to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The Group is recognizing revenue by major sources as shown below:

The fees and commission received on credit card consist mainly of merchant account fees and annual fees. The Group recognizes merchant account fees by multiplying agreed commission rate to the amount paid by using the credit card. The annual fees are for performance obligation satisfied over time and are recognized over agreed periods after the annual fees are paid in advance. The business activities relevant to these fees and commission received on credit card are substantially attributable to credit cards segment.

The service-related fees are recognized in accordance with the arrangements for providing services to the customers. Agreements are generally made by contract and service-related costs arise when services are provided. Prices are usually fixed and measurable.

2) Revenues from sources other than contracts with customers

① Interest income

Interest income on financial assets measured at FVTOCI and financial assets at amortized costs are measured using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating the interest income over the expected life of the asset. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial unamortized cost over the expected period, or shorter if appropriate. Future cash flows include commissions and cost of reward points (limited to the primary component of effective interest rate) and other premiums or discounts that are paid or received between the contractual parties when calculating the effective interest rate, but does not include expected credit losses. All contractual terms of a financial instrument are considered when estimating future cash flows.

For purchased or originated credit-impaired financial assets, interest revenue is recognized by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. Even if the financial asset is no longer impaired in the subsequent periods due to credit improvement, the basis of interest revenue calculation is not changed from amortized cost to unamortized cost of the financial assets.

② Loan origination fees and costs

The commission fees earned on loans, which is part of the effective interest of loans, are accounted for as deferred origination fees. Incremental costs related to the origination of loans are accounted for as deferred origination fees and are being added to or deducted to/from interest income on loans using effective interest rate method.

③ Dividend income

Dividend income is recognized in profit or loss when the Group's right to receive payment is established.

(7) Leases

1) Revenues from contracts with customers

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as a lessor

The Group recognizes lease receivables at the present value of minimum lease payments of a finance lease and any unguaranteed residual value. After the commencement date of the lease, accounting is done to recognize interest income over each reporting period by computing periodic interest income on the Group's net investment.

Rental income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and expensed on a straight-line basis over the lease term. Operating lease assets are included within other asset category in other assets, and depreciated over their economic life.

2) The Group as a lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Contingent rentals arising under finance leases are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

(8) Accounting for foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is the functional currency of the Group. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at its prevailing exchange rates at that date. The effective portion of the changes in fair value of a derivative that qualifies as a cash flow hedge and the foreign exchange differences on monetary items that form part of net investment in foreign operations are recognized in equity.

Assets and liabilities of the foreign operations subject to consolidation are translated into Korean won at foreign exchange rates at the end of the reporting period. Except for situations in which it is required to use exchange rates at the date of transaction due to significant changes in exchange rates during the period, items that belong to profit or loss shall be measured by average exchange rate, with foreign exchange differences recognized as other comprehensive income and added to equity (allocated to non-controlling interests, if appropriate). When foreign operations are disposed, the controlling interest's share of accumulated foreign exchange differences related to such

foreign operations will be reclassified to profit or loss, while non-controlling interest's corresponding share will not be reclassified.

Adjustments to fair value of identifiable assets and liabilities, and goodwill arising from the acquisition of foreign operations will be treated as assets and liabilities of the corresponding foreign operation and are translated using foreign exchange rates at the end of the period. The foreign exchange differences are recognized in equity.

(9) Cash and cash equivalents

The Group is classifying cash on hand, demand deposits and interest-earning deposits with original maturities of up to three months on the acquisition date, and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value as cash and cash equivalents.

(10) Financial instrument

Financial assets and financial liabilities are recognized in the consolidated statement of financial position of the Group when it becomes a party to the contract. Financial assets and financial liabilities are measured initially at fair value. Transaction costs directly attributable to the acquisition of a financial asset or the issuance of a financial liability are initially recognized or deducted from the fair value of the financial asset or financial liability. Gains or losses on disposal of AFS securities are recognized in profit or loss as incurred.

(11) Financial assets

A regular-way purchase or sale of financial assets is recognized or derecognized on the trade or settlement date. A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose term requires delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

On initial recognition, financial assets are classified into financial assets at FVTPL, financial assets at FVTOCI and financial assets at amortized cost.

1) Classification of financial assets

Debt instruments that satisfy the following conditions are subsequently measured at amortized cost:

- Financial assets are held under a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- Contractual cash flows from such financial assets are solely payments of principal and interest.

Debt instruments that satisfy the following conditions are subsequently measured at FVTOCI:

- Financial assets are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Contractual cash flows from such financial assets are solely payments of principal and interest.

All other financial assets are subsequently measured at FVTPL.

Notwithstanding the foregoing, the Group may make the following irrevocable choice or designation at the time of initial recognition of a financial asset:

- If you meet certain requirements (see 1-3) below), you may choose to present subsequent changes in fair value of equity instruments in other comprehensive income.
- If designated as fair value accounting metrics, remove inconsistencies or significant write-down process for (see 1-4) below) financial assets measured at amortized cost and other comprehensive income to reduce debt to meet the requirements of the valuation of financial assets.
- It is possible to remove or significantly reduce recognition or measurement mismatch that may otherwise have occurred if not for its designation as financial asset at FVTPL (see 1-3) below).
- The financial asset forms part of the Group's financial instrument group (a group composed of a

combination of financial asset or liability), is measured at fair value and is being evaluated for its performance, and such information is provided internally (see 1-4) below).

1-1) The amortized cost and the effective interest method

The amortized cost of a financial asset is calculated by deducting the principal amount repaid from the amount measured at initial recognition and adjusting the allowance for losses based on the difference between the initial recognition amount and the maturity amount using the effective interest method amount. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for loss reserve.

Interest income is recognized using the effective interest method for debt instruments subsequently measured at amortized cost, plus other comprehensive income - at fair value. For financial assets other than those whose credit quality is impaired, the interest income is calculated by applying the effective interest rate to the total carrying amount of the financial asset (except for financial assets that are subsequently impaired). For subsequent impaired financial assets, interest income is recognized using the effective interest rate on the amortized cost basis of the financial asset. If the credit risk of an impaired financial instrument improves in subsequent reporting periods and the financial asset is no longer impaired, interest income is recognized by applying the effective interest rate to the total carrying amount of the financial asset.

In the case of a financial asset whose credit quality is impaired at the time of acquisition, interest income is recognized from the date of initial recognition by applying the credit adjustment effective interest rate to the amortized cost of the financial asset. If the financial asset is no longer impaired as a result of a subsequent improvement in the credit risk of the financial asset, the calculation of interest income is not changed based on the gross carrying amount.

1-2) Other comprehensive income - debt instruments classified as fair value measurement

At initial recognition, debt instruments are measured at fair value, plus transaction costs. Subsequent changes in the carrying amount of the debt instrument as a result of foreign exchange translation gains and losses, impairment losses (reversals) and interest income resulting from the effective interest rate method are recognized in profit or loss. The amount recognized in profit or loss is the same as the amount that would have been recognized in profit or loss if the debt instrument had been measured at amortized cost. Changes in the carrying amount of all debt instruments are recognized in other comprehensive income and accumulated as accumulated gain or loss. The cumulative gain or loss that was recognized in other comprehensive income when the liability is disposed of is reclassified to profit or loss.

1-3) Other comprehensive income – equity instruments classified as fair value measurement

The Group can make irrevocable choices (by product) to designate investments in equity instruments as other comprehensive income - fair value items at initial recognition. If the equity instrument is a short-term trading instrument or the contingent consideration recognized by the acquirer in a business combination, other comprehensive income - designated as a fair value measurement is not permitted.

Financial assets that are short-term trading items are as follows:

- Acquire financial assets to excise short-term trades.
- There is evidence that the objective of the management type is to acquire short-term profits as part of a portfolio of specific financial instruments that are jointly managed at the time of initial recognition.
- Derivatives (except financial guarantee contract derivatives and derivatives that are effective and designed to avoid risk).

Other comprehensive income - investments in equity instruments that correspond to the fair value items are recognized, plus transaction costs, on initial recognition at fair value; subsequently measured at fair value; and any gains or losses arising from changes in fair value are recognized in other comprehensive income and accumulated as accumulated gain or loss. When an equity instrument is disposed of, the cumulative gain or loss is not reclassified to profit or loss and is replaced with retained earnings.

Such dividends are recognized in profit or loss in accordance with K-IFRS 1109, unless dividends on investments in equity instruments clearly represent a recovery of investment costs.

1-4) Profit or loss – assets at fair value measurement

Financial assets, which are not qualified for measurement requirements as amortized cost or other comprehensive income, are measured at FVTPL.

- Initial recognition for equity instruments other than short-term trading items and contingent consideration in business combinations - Unless otherwise designated as fair value items, the equity instruments are classified as at FVTPL (see 1-3) above).

- Requirement of amortization cost measurement items or other comprehensive income - Debt items that do not satisfy the requirements of fair value measurement items (see 1-1) and 1-2) above) are classified as profit or loss - fair value measurement items. In addition, if the designation as a fair value measurement meets the criteria for measuring or recognizing an asset or liability in accordance with different criteria, it is necessary to eliminate the inconsistency in measurement or recognition ('accounting mismatch'). The requirements of the statutory sponsor metric or other comprehensive income - a debt instrument that meets the requirements for a fair value measurement item can be designated as a profit or loss - fair value measurement at initial recognition.

Financial assets at FVTPL are measured at fair value at the end of each reporting period and recognized in profit or loss as a result of changes in fair value, except for those designated as hedging relationships.

2) Gain or loss on foreign currency translation

The carrying amount of a financial asset designated as a foreign currency is determined in foreign currencies and is translated at the spot exchange rate at the end of the reporting period.

- For financial assets measured at amortized cost, except for the portion designated as hedging relationship, exchange differences are recognized in profit or loss in the 'foreign exchange gains and losses' line item.

- Other comprehensive income - for debt instruments measured at fair value (except for those designated as hedging instruments), the exchange rate difference between the amortized cost of the debt instrument and the foreign currency gain or loss is recognized in profit or loss. Exchange rate differences, except for these, are recognized in other comprehensive income in the accumulated gain / loss items.

- Gains and losses arising from changes in the fair value of financial assets measured at fair value (except for those designated as hedging instruments) are recognized in profit or loss in the "foreign exchange gains and losses" line.

- Other comprehensive income - for equity instruments measured at fair value, the gain or loss is recognized in other comprehensive income.

3) Impairment of financial assets

The Group recognizes impairment losses, other comprehensive income and expected credit losses on investments in debt instruments measured at fair value, lease receivables, trade receivables and contractual assets and financial guarantee contracts. The amount of expected credit losses is updated to reflect changes in credit risk since the initial recognition of the financial instrument at each reporting period.

If the credit risk is significantly increased after initial recognition of the financial asset, the expected credit loss is recognized for the entire period. However, if the credit risk of a financial asset does not increase significantly after initial recognition, the Group measures the expected credit loss of the instrument as an amount equivalent to the expected 12-month credit loss.

Total expected credit losses represent expected credit losses due to any default event that may occur during the expected life of the instrument. Conversely, a 12-month expected credit loss is a fraction of the expected total credit loss due to a default event of a financial instrument that may occur within 12 months after the end of the reporting period.

3-1) Significant increase in credit risk

When assessing whether the credit risk of a financial instrument has significantly increased after initial recognition, the risk of default on a financial instrument at the end of the reporting period is compared to the risk of default. We consider both quantitative and qualitative information that can be reasonably supported and supported without undue cost or effort in order to make this assessment.

The Company uses the information below to determine whether a significant increase in credit risk is significant and generally assumes a significant increase in credit risk if one or more of the following are true:

- Delinquency more than 30 days.
- As of settlement date, the credit rating has fallen more than a certain amount of time compared to the initial recognition.
- Asset quality precaution.
- High-risk assets.

Notwithstanding the foregoing, the Group believes that the credit risk of the instrument has not increased significantly when it determines that the instrument has a lower credit risk at the end of the reporting period: (1) the risk of default on financial instruments is low; (2) the borrower has a strong ability to fulfill the contractual cash flow obligation in the short term; and (3) in the long run, due to adverse economic and business environment changes, we determine that a financial instrument has a lower credit risk if the borrower's ability to meet contractual cash flow payment obligations may be weakened, but not necessarily weakened.

3-2) Financial assets with impaired credit

The Group generally considers the credit to be impaired if one or more of the following are true:

- Overdue 90 days or more
- Credit rating is below a certain level as of settlement date
- Asset quality – doubtful accounts of collection and expected loss
- Default and others

Damage related to all financial assets, such as doubtful or estimated loss on collection of asset quality or default, is recognized in profit or loss and the carrying amount of the asset. However, in the case of an investment in a debt instrument measured at fair value, it is recognized in other comprehensive income and accumulated in the cumulative gain or loss and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

4) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual right to the cash flows from the asset is expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

When a financial asset measured at amortized cost is eliminated, the difference between the carrying amount of the asset and the consideration received or receivable is recognized in profit or loss. Other comprehensive income - when an investment in a debt instrument measured at fair value is eliminated, the cumulative gain or loss previously recognized is reclassified to profit or loss. On the other hand, investments in equity instruments designated as other comprehensive income-fair value at initial recognition are not reclassified to profit or loss, but are replaced with retained earnings.

(12) Financial liabilities and equity instruments

1) Financial liabilities and equity classification

Debt instruments and equity instruments are classified as financial liabilities or equity depending on the reality of

the contract and the definition of financial liabilities and equity instruments.

2) Equity instruments

Equity instruments are all contracts that represent the residual interest after deducting all liabilities from the entity's assets. Equity securities issued by the Group are recognized at their fair value, less costs to sell directly.

When an entity repurchases its own equity instruments, these equity instruments are deducted directly from equity. Gains or losses on the purchase or sale of, or the issue or cancellation of, an equity instrument are not recognized in profit or loss.

3) Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest rate method or at FVTPL - at fair value. However, financial liabilities and financial guarantee contracts that arise when the transfer of a financial asset does not meet the elimination requirements or when a continuing involvement approach is applied is measured in accordance with the specific accounting policies described below.

4) Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL if they are either conditional cost, trading securities or initially designated at FVTPL.

Financial liabilities at FVTPL are measured at fair value and gains or losses arising from changes in fair value other than those designated as hedging instruments are recognized in profit or loss.

If the financial liability is designated as a fair value measurement, the change in the fair value of the financial liability due to changes in the credit risk of the liability is recognized as other comprehensive income if recognizing the effect of changes in credit risk in other comprehensive income does not raise or expand discordance of accounting. Remained changes in the fair value of the liability are recognized in profit or loss. Changes in fair value due to credit risk of financial liabilities recognized in other comprehensive income are not subsequently reclassified to profit or loss and are replaced with retained earnings when the financial liability is removed. Gains or losses on financial guarantee contracts designated as FVTPL are recognized in profit or loss.

5) Measurement of amortization cost

Financial liabilities are measured at amortized cost using the effective interest rate method, unless they are the conditional cost of the acquirer in a business combination, are classified as held for trading or are designated as at FVTPL when initially recognized.

6) Financial guarantee liability

Financial guarantee contract is a contract that requires the issuer to pay a certain amount in order to compensate the loss incurred by the holder due to the failure of the specific debtor to pay on the due date according to the initial contract conditions or the changed contract conditions.

Financial guarantee liabilities are measured initially at fair value and subsequently measured at the greater of the following, unless they are designated as at FVTPL or arising from the transfer of assets:

- Loss reserve calculated in accordance with K-IFRS 1109 (refer to 'Financial assets' above)
- The amount recognized for the first time, less the accumulated profits recognized in accordance with K-IFRS 1115

7) Foreign exchange gains and losses

Financial liabilities denominated in foreign currencies are measured at amortized cost at the end of the reporting period. Foreign currency translation gains and losses are calculated based on the amortized cost of the financial instruments. Foreign exchange gains and losses on financial liabilities, except for those designated as hedging relationships, are recognized in profit or loss in the consolidated statement of financial position. Foreign currency translation gains and losses are recognized in other comprehensive income and are accumulated as separate items in equity when designated as a hedging instrument to hedge foreign currency risk.

Fair values of financial liabilities denominated in foreign currencies are determined in foreign currency and translated at the spot exchange rate at the end of the reporting period. For financial liabilities measured at fair value, the foreign currency translation component is a part of fair value gains and losses and is recognized in profit or loss (except for those designated as hedging relationships).

8) Removal of financial liabilities

The Group eliminates financial liabilities only when the Group's obligations are fulfilled, canceled or expired. The difference between the carrying amount of the financial liability and the consideration paid or receivable is recognized in profit or loss.

(13) Property, plant and equipment

Property, plant and equipment are stated at cost and are subsequently carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of a property, plant and equipment is the expenditure incurred directly in connection with the purchase or construction of the asset, including the costs and expenses directly related to bringing it to the place and condition necessary for the operation of the asset in an intended manner by management, and includes the initial estimated costs to be recovered.

Subsequent costs are included in the carrying amount of the tangible asset or, where appropriate, a separate asset, provided it is probable that the future economic benefits of the asset will flow to the Group and the cost can be reliably measured. Costs incurred in connection with ordinary repair and maintenance are recognized in profit or loss as incurred.

Depreciation of property, plant and equipment is not carried out and depreciation of property other than land is calculated by the straight-line method over the following estimated useful lives for the asset, less the cost or revalued amount:

| | <u>Useful life</u> |
|-------------------------------------|--------------------|
| Buildings used for business purpose | 40 years |
| Structures in leased office | 5 years |
| Properties for business purpose | 5 years |

The depreciation method, residual value and useful lives of the tangible assets are reviewed at the end of each reporting period, and changes in value are accounted for as changes in accounting estimates. In addition, if there is an indication that the asset is impaired and the carrying amount of the asset exceeds the estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount.

(14) Intangible assets

The Group records the cost of an intangible asset at its acquisition cost or acquisition cost plus any incidental costs. After initial recognition, the cost of the intangible asset is recorded as the carrying amount, less accumulated depreciation and accumulated impairment losses, if any. Intangible assets of the Group are amortized using the straight-line method over the following estimated useful lives. The useful life and amortization method of intangible assets are reviewed at the end of each reporting period, and changes in value are accounted for as changes in accounting estimates.

| | <u>Useful life</u> |
|----------------------------|--------------------|
| Industrial property rights | 10 years |
| Development costs | 5 years |
| Other intangible assets | 5 years |

In addition, if there is an indication that the asset is impaired and the carrying amount of the intangible asset exceeds the estimated recoverable amount, the carrying amount of the asset is reduced to its recoverable amount.

(15) Impairment of non-financial assets

Intangible assets with indefinite useful lives, such as goodwill and membership rights, are tested for impairment annually, irrespective of the indication of impairment, and the impairment test is performed on the remaining assets. At the end of each reporting period, the Company reviews whether there is an indication of impairment and, if there is any indication of impairment, the impairment test is performed to estimate the recoverable amount. The recoverable amount is measured at the higher of its fair value, less costs to sell or its value in use. When the recoverable amount is less than the carrying amount, the carrying amount is reduced to recoverable amount and the amount is recognized in profit or loss.

(16) Derivatives

The Group enters into derivative contracts, such as interest rate swaps and currency swaps, to manage interest rate risk and foreign currency risk.

Derivatives are measured at fair value at the date of initial recognition and are subsequently remeasured to fair value at the end of each reporting period. Unrealized gains and losses arising from changes in the fair value of derivatives are recognized immediately in profit or loss, unless the derivative is designated as a hedging instrument or effective for hedging. If the derivative is designated as a hedging instrument and effective for hedging, the timing of recognition of the hedging instrument is dependent on the nature of the hedging relationship. Derivative instruments whose fair value is positive (+) are recognized as financial assets and derivatives with negative values are recognized as financial liabilities.

1) Intrinsic derivatives

Derivatives are a component of a composite product that includes a main contract, not a derivative, and has the effect of changing some of the cash flow of a composite product to be similar to that of an independent derivative.

Derivative instruments embedded in a composite contract that includes financial assets included in the scope of K-IFRS 1109 as a main contract are not separated. They are classified by total contractual value and subsequently measured at amortized cost or fair value.

Derivative instruments embedded in a composite contract that includes a host contract (e.g., financial liability), but not financial assets that are included in the scope of K-IFRS 1109, are those in which the underlying derivative meets the definition of the derivative and the characteristics of the underlying derivative. If the risks are not closely related to the nature and risks of the host contract and the host contract is not measured at FVTPL - fair value, it is accounted for as a separate derivative.

2) Hedge accounting

The Group designates certain derivative instruments as hedges of fair value hedge or cash flow hedge related to interest rate risk, foreign currency translation and interest rate risk and foreign currency translation risk.

The Group documents the relationship between the hedging instrument and the hedged item in accordance with the purpose and strategy of hedging the risk at the hedging start. In addition, the Group documents whether or not the hedging instrument is effective in offsetting the fair value or changes in cash flows of the hedged item due to the

hedged risk in the beginning and subsequent periods of the hedge. It is effective if the hedging relationship meets all of the following requirements for the hedging effect:

- If there is an economic relationship between the hedged item and the hedging instrument
 - If the effect of credit risk is not more dominant than the value change due to the economic relationship between the hedged item and the hedging instrument

The ratio of the number of hedging instruments actually used by the Group to avoid the risk of hedging the hedging relationship between the hedged item and the hedged item, Such as

If the hedging relationship no longer meets the requirements for hedge effectiveness related to the hedge ratio, but the objectives of risk management for the designated hedge relationship remain the same, the Company adjusts the hedging ratio of the hedging relationship (hedge ratio adjustment).

The Group has designated only the portion of the derivative financial instruments, excluding the foreign currency basis spread as a hedging instrument. Changes in value due to the corresponding foreign currency basis spread are recognized in other comprehensive income and accumulated in equity. If the hedged item is related to a transaction, accumulated other comprehensive income is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item subsequently results in the recognition of a non-financial item, the amount accumulated in equity is directly included in equity and included in the initial carrying amount of the recognized non-financial item. Such transfers do not affect other comprehensive income. However, if all or a portion of the cumulative capital items are not expected to recover in a future period, the amount that is not expected to recover is immediately reclassified to profit or loss. If the hedged item is related to the period, the portion of the foreign currency basis spread on the date that the hedged item is designated as a hedging instrument is reclassified to profit or loss over the hedging period.

3) Fair value hedge

The gain or loss of an eligible hedging instrument is recognized in profit or loss. However, if the hedging instrument hedges other comprehensive income - the equity instrument designated as fair value measurement, the gain or loss on the hedging instrument is recognized in other comprehensive income.

The carrying amount of the hedged item that is not measured at fair value is adjusted according to changes in fair value attributable to the hedged risk and is recognized in profit or loss. Other comprehensive income - fair value measurement. - in case of a debt instrument, the gain or loss on the hedged risk is recognized in profit or loss, not in other comprehensive income, without adjusting the carrying amount because the carrying amount is already at fair value. If the hedged item is an equity instrument designated as a fair value measurement, the gain or loss on the hedged risk is included in other comprehensive income to correspond with the hedging instrument.

The hedge accounting only ceases when the hedge relationship (or part of the hedging relationship) does not meet the conditions of the hedge (even after considering the rebalancing of the hedging relationship, if applicable). This also includes cases where the hedging instrument is extinguished, sold, terminated or exercised, and the discontinuance is accounted for on a forward basis. Fair value adjustments to the carrying amount of the hedged item attributable to the hedged risk are amortized to profit or loss from the date on which it is discontinued.

4) Cash flow hedges

If the Group's effective portion of changes in the fair value of derivatives and other qualifying hedge instruments that are designated as hedging instruments meet the requirements for cash flow hedge accounting, the cumulative change in fair value of the hedged item is recognized as other comprehensive income. The ineffective portion of the hedge is recognized in profit or loss.

The gain or loss on the hedging instrument that is previously recognized in other comprehensive income and accumulated in equity is reclassified to profit or loss when the hedged item affects profit or loss. However, if future non-financial assets or non-financial liabilities are recognized in the expected future cash flows of the hedged transaction, the gain or loss on valuation of the hedging instrument is recognized and included as other comprehensive income in the previous period. Such transfers do not affect other comprehensive income. If the

cumulative gain or loss previously recognized in other comprehensive income is expected to be impaired and all or a portion of the impairment is expected to not recover in a future period, the amount is immediately reclassified to profit or loss.

The hedge accounting only ceases when the hedge relationship (or part of the hedging relationship) does not meet the conditions of the hedge (even after considering the rebalancing of the hedging relationship, if applicable). This also includes cases where the hedging instrument is extinguished, sold, terminated or exercised, and the discontinuance is accounted for on a forward basis. Gains or losses on valuation of equity instruments that are recognized in other comprehensive income at the time of termination of cash flow hedge accounting are recognized in equity and reclassified to profit or loss if the transaction is ultimately recognized in profit or loss. However, if the anticipated transaction is no longer expected to occur, the cumulative gain or loss previously recognized in equity is reclassified to profit or loss.

(17) Assets held for sale (disposal group)

The Group classifies non-current assets (or disposal groups) as held for sale if the carrying amount of the non-current assets is likely to be recovered and sold mainly through sale transactions. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of fair value or carrying amount after deducting the sale cost.

(18) Provisions

Provisions are recognized when it is probable that the associated obligation will be satisfied and the amount of the obligation can be estimated reliably, as a result of a past obligation (legal or constructive obligation).

The amount recognized as a provision is the best estimate at the end of each reporting period for the expenditure required to settle the present obligation, taking into account the unavoidable risks and uncertainties of the related events and circumstances. If the effect of time value of money is material, the provision is measured at the present value of the expenditure expected to be required to settle the obligation. The discount rate is the pretax rate reflecting the current market's assessment of the inherent risk of debt and the time value of money. Provision for impairment of long-term liabilities is recognized in profit or loss as financial cost.

If it is expected that a third party will repay part or all of the expenditure required to settle the obligation, and if the obligation is substantially guaranteed and the amount can be reliably measured, it is recognized as assets.

The balance of provisions is reviewed at the end of each reporting period and adjusted to reflect the best estimate at the end of the reporting period. If the likelihood of an outflow of resources embodying economic benefits to fulfill an obligation is no longer high, the related provision is reversed.

The Group recognizes provisions for payment guarantees, unused limits and litigations. In addition, if the depreciable assets that are used as sales branches are to be restored after expiration of the contract period based on the lease contract, the present value of expenses estimated to be necessary to recover the depreciable assets is recognized as a provision for restoration.

(19) Retirement benefit costs and termination benefits

The contribution to the defined contribution retirement benefit plan is recognized as an expense when employees provide services that are eligible for payment.

In the case of defined benefit pension plans, defined benefit obligation is calculated by an independent actuarial corporation using actuarial valuation at the end of each reporting period using the projected unit credit method. The remeasurement component of net defined benefit liability, which consists of changes in actuarial gains and losses on plan assets (excluding amounts included in net interest on net defined benefit liabilities (assets)) and changes in the nature of the asset, are recognized in other comprehensive income and are immediately reflected in the consolidated statement of financial position. Reclassification factors recognized in the consolidated statement of comprehensive income are recognized in other comprehensive income and are not reclassified to profit or loss in the succeeding period. Past service costs are recognized as an expense at the earlier of an amendment or reduction in the system or when the Group recognizes an associated restructuring or dismissal benefit. The Group recognizes the settlement of the defined benefit plans at the time settlement occurs.

Net interest is calculated by applying discount rate to net defined benefit obligation (asset). The components of defined benefit costs consist of service costs (current and past service costs, and gains and losses on downsizing and settlement), net interest expenses (revenues) and rereasuring factors.

Operating cost and net interest expense (or net interest income) are recognized as operating expense and rereasurement factors are recognized in other comprehensive income. The profit or loss from the reduction of the system is treated as past service cost.

Defined benefit obligations in the consolidated statement of financial position represent the actual undue amount and excess amount of the defined benefit plan. The excess accruals calculated from these calculations are recognized as an asset up to the present value of the economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan.

The liability for termination benefits is recognized on the date that the Group ceases to be able to withdraw the proposal for termination benefits or the Group recognizes the cost of restructuring that accompanies the payment of termination benefits.

(20) Income tax

Income tax expense consists of current and deferred taxes.

1) Current corporate tax

Current tax liability is calculated based on taxable income for the year. The difference between taxable income and net income arises from items of profit or loss that are added to or deducted from other taxable periods and non-taxable or non-taxable items. Liabilities associated with the Group's current tax are calculated based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

If it is uncertain that the tax will be determined, but there is a strong likelihood of a cash outflow to the taxing authority in the future, a provision is recognized. Provisions are measured at the best estimate of the amount expected to be paid. These assessments are based on the judgment of the tax experts of the Parent Company in the past experience and, in certain cases, are based on the judgment of an independent tax professional.

2) Deferred income tax

Deferred income tax is the tax amount payable or settled in respect of temporary differences, which are the differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases used in the calculation of taxable income, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences when it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. However, if the temporary difference arises from the first recognition of goodwill or the transaction in which the asset or liability is recognized for the first time is not a business combination transaction and does not affect accounting profit and taxable income (tax loss) at the time of the transaction, deferred tax liabilities are not recognized. Deferred tax assets are not recognized if the temporary difference arises from transactions in which the asset or the liability is initially recognized in a transaction that is not a business combination transaction and that does not affect accounting profit and taxable income (tax loss carryforwards) at the transaction date.

Except where the Group can control the timing of the extinguishment of the temporary difference and it is probable that the temporary difference will not cease to exist in the foreseeable future, the additions to the subsidiary, the investment in the associate, the interest in the joint venture and deferred tax liabilities are recognized for temporary differences. Deferred tax assets arising from temporary differences arising from these investments are highly probable to be taxable at the rate of income that would have the appropriate effect on the temporary difference and recognized only if high.

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

Deferred income tax is measured using tax rates that are expected to be applied to the period in which the liability is settled or the asset is realized based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of the related assets and liabilities at the end of the reporting period.

Deferred income tax assets and liabilities are recognized when the Group has the legally enforceable right to offset current tax assets and current tax liabilities and the taxable entity is the same or is subject to taxation with respect to the taxable entity. It is intended to settle the liability at the same time as it realizes the asset each fiscal period, if it intends to settle the current tax liability and assets on a net basis, deferred tax liability is settled or a deferred tax asset is recovered. Only offset.

3) Recognition of current and deferred taxes

Current and deferred taxes are recognized in profit or loss as revenues or expenses, except when arising from transactions, events or business combinations that are recognized directly in equity or other comprehensive income in the same periods or periods. At the time of business combination, the income tax effect is included in the accounting for the business combination.

(21) Earnings per share

Basic diluted earnings per share ("EPS") are calculated by dividing net income attributable to ordinary equity holders of the parent by the number of common shares outstanding. Diluted EPS is the difference between the diluted potential ordinary shares based on the number of common shares outstanding and the number of common shares outstanding.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS:

In applying the Group's accounting policies described in Note 2, management must make judgments that have a significant effect on the amounts recognized in the consolidated financial statements (except for those related to the estimates), assets that are not readily identifiable from other sources, and assumptions about the carrying amounts of liabilities. Estimates and related assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The amendments to the accounting estimates are recognized in the period in which the amendment is made if such amendment affects only that period and in the period in which amendments are made and in the future periods if they affect both the current and future periods.

(1) Significant judgments made in the process of applying accounting policies

The following items are important judgments separate from those related to the estimation (see Note 3 (2)) and are those that have the most significant effect on the amounts recognized in the consolidated financial statements:

1) Significant increase in credit risk

As explained in Note 2, if the credit risk of a financial instrument does not increase significantly after initial recognition, the allowance for loss is measured as an amount equivalent to the expected 12-month credit loss. If the credit risk of the instrument has increased significantly after recognition, or for the impaired asset, the allowance is measured as the amount corresponding to the expected credit loss for the whole period. K-IFRS 1109 does not define what constitutes a significant increase in credit risk.

2) Valuation of business models

The classification and measurement of financial assets are based on contractual cash flow characteristics and business models. Business models are determined at a level that reflects how we manage a set of financial assets together to achieve a specific business purpose. These assessments include judgments that reflect all relevant evidence, including the manner in which the performance of the asset is assessed and measured, the risks that affect the performance of the asset and how it is managed. The Group recognizes amortization costs or other comprehensive income - if the financial asset measured at fair value is derecognized before maturity and if the reason for such sale is consistent with the objective of the business model for managing the financial asset we are observing. An audit is an integral part of the Group's continued assessment of whether the business model for the remaining financial asset is appropriate and, if not appropriate, a change in the business model and a corresponding change in the classification of the financial asset.

3) Fair value of financial instruments

Financial assets at FVTPL - financial instruments are classified as financial assets or are recognized at fair value in the consolidated statement of financial position. All derivatives are measured at fair value. Valuation techniques are required to determine the fair value of a financial instrument that does not have an observable market price. For financial instruments that are not traded frequently and have low-price transparency, the fair value objectivity is low and requires extensive judgment of liquidity, concentration, uncertainty of market factors, assumptions of pricing and other risks.

4) Income taxes

Income tax expense is recognized in current and deferred income taxes based on the best estimate of future taxable income as a result of operating activities until the end of the reporting period. However, actual future tax expense may not be consistent with recognized asset and liability. Such difference may affect current and deferred income tax assets and liabilities at the time when final tax effect is determined. Deferred income tax assets and liabilities are recognized only if there is a high probability that future taxable income will arise. In this case, the Group evaluates future taxable income based on the related factors, such as operating profit forecasted based on past financial performance. The Group reviews the carrying amount of deferred tax assets at the end of each reporting period and adjusts deferred income tax assets within the scope of taxable income sufficient to use the temporary difference to be deducted if the probability of occurrence of future taxable income changes.

(2) Main sources of estimated uncertainty

Major sources of major assumptions and other estimated uncertainties at the end of the reporting period that have significant risk factors and that could cause material changes to the carrying amounts of assets and liabilities in the next financial year are as follows.

1) Fair value of financial instruments

As described in Note 9, the Group uses valuation techniques that include input variables that are not based on observable market data to estimate the fair value of a particular type of financial instrument. Note 9 provides details of key assumptions used in determining the fair value of financial instruments and sensitivity analysis of these assumptions. Management believes that the valuation techniques and assumptions used to determine the fair value of financial instruments are appropriate.

2) Calculation of allowance for losses

When measuring expected credit losses, the Group uses reasonable and supportive forward-looking information, which is based on future changes in different economic variables and how they affect each other.

Default loss is an estimate of the amount of loss in the event of default. This is based on the difference between the contractual cash flows and the cash flows that the creditor expects to receive and takes into account the cash flows from the collateral and credit enhancement.

The probability of default is an important input variable to measure expected credit losses. The probability of default is an estimate of the likelihood of a default event, including past information and assumptions and expectations for the future.

3) Defined benefit retirement plans

The Group operates a defined benefit retirement plan. Defined benefit obligations are calculated by performing an actuarial valuation at the end of each reporting period. In order to apply such actuarial valuation methods, it is necessary to estimate assumptions about discount rates, expected wage growth rates and mortality rates. The retirement benefit plan includes significant uncertainties in these estimates due to its long-term nature.

4. **RISK MANAGEMENT:**

Operating activities of the Group are required to determine the level of risk or the risk management to analyze, evaluate and accept the extent of the risks it is exposed to a variety of complex financial risk. Risk management procedures aim to improve the soundness of investment assets and assets by making decisions for avoiding or mitigating risk by identifying the source and size of the risk.

The Group adopts strategies to eliminate excessive risk of financial instruments and to manage risk at an appropriate level to maximize profit against risk. To this end, the Group recognizes risks, measures and evaluates risks, controls risks and monitors and reports the risks we operate.

Risks are managed by the Risk Management Department based on the decisions made. The Risk Management Committee is the chief decision-making body for risk management, and makes decisions on risk strategies such as allocating risk capital and setting limits.

(1) Credit risk

Credit risk refers to the financial loss to be incurred by the Group as a counterparty to a credit transaction in the period set out in the contract, or the loss of ability to perform. The purpose of credit risk management is to identify the source of credit risk to maintain the level that the Group is able to tolerate and to optimize risk-adjusted returns.

1) Management of credit risk

The Group will consider the customer or the contractual obligations of the counterparty obligations possibility exposures and default exposures, it defaulted upon loss of a causal relationship to the counterparty, such as to measure credit risk. We use a credit rating model to assess the probability of a counterparty defaulting.

2) Management of dangerous roads

The Group manages total exposures and large exposures to manage credit risk limits. The maximum amount of exposure to credit risk is as follows:

| | | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-------------|------------------------------------|--------------------------|--------------------------|
| Balance | Financial assets at amortized cost | | |
| | (loans and receivables) | | |
| | Due from banks | 20,003 | 20,003 |
| | Loans | 268,371 | 260,650 |
| | Credit card assets | 7,788,006 | 6,648,450 |
| | Credit sales | 5,057,762 | 4,104,045 |
| | Cash advances | 577,202 | 556,534 |
| | Card loan | 2,149,285 | 1,985,628 |
| | Other credit card assets | 3,757 | 2,243 |
| | Capital financing receivables | 889,807 | 555,001 |
| | Finance lease receivables | 161,317 | 60,083 |
| | Other financial assets at | 298,153 | - |
| | amortized cost | | |
| | Other loan and receivables | - | 249,320 |
| | Subtotal | <u>9,425,657</u> | <u>7,793,507</u> |
| | Derivative assets | 263 | 1,193 |
| | Subtotal | <u>9,425,920</u> | <u>7,794,700</u> |
| Off balance | Guarantees | - | 1,326 |

| | December 31, 2018 | December 31, 2017 |
|----------------------|-------------------|-------------------|
| Unused credit limits | 32,174,569 | 30,609,338 |
| Subtotal | 32,174,569 | 30,610,664 |
| Total | 41,600,489 | 38,405,364 |

3) The credit risk of financial assets at amortized cost and loans and receivables

December 31, 2010 Current measured at amortized cost of financial assets and loans and receivables December 31, Credit risk by credit status is as follows.

| | December 31, 2018 | | | | | | | |
|--|--------------------------------------|--|--------------------------------------|--|----------------|------------------|----------------|------------------|
| | Stage 1 | | Stage 2 | | Stage 3 | Total | Loss allowance | Total, net |
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | | | |
| Due from banks | 20,003 | - | - | - | - | 20,003 | - | 20,003 |
| Loans | 167,038 | 84,432 | 1,304 | 26,514 | 8,778 | 288,066 | 19,695 | 268,371 |
| Credit card assets | 6,501,251 | 354,676 | 601,892 | 380,841 | 208,959 | 8,047,619 | 259,613 | 7,788,006 |
| Credit sales | 4,481,943 | 267,880 | 171,317 | 182,565 | 28,527 | 5,132,232 | 74,470 | 5,057,762 |
| Cash advances | 452,362 | 54,046 | 31,903 | 57,115 | 11,599 | 607,025 | 29,823 | 577,202 |
| Card loan | 1,563,188 | 32,750 | 398,672 | 141,161 | 168,833 | 2,304,604 | 155,319 | 2,149,285 |
| Other credit card assets | 3,758 | - | - | - | - | 3,758 | 1 | 3,757 |
| Capital financing receivables | 774,120 | 87,045 | 11,572 | 22,555 | 1,871 | 897,163 | 7,356 | 889,807 |
| Finance lease receivables | 151,840 | 7,746 | 306 | 3,204 | 493 | 163,589 | 2,272 | 161,317 |
| Other financial assets at amortized cost | 289,907 | 2,061 | 4,173 | 3,613 | 505 | 300,259 | 2,106 | 298,153 |
| Total | <u>7,904,159</u> | <u>535,960</u> | <u>619,247</u> | <u>436,727</u> | <u>220,606</u> | <u>9,716,699</u> | <u>291,042</u> | <u>9,425,657</u> |

(*1) Credit grades of corporates are AAA–BBB and consumers' grades are 1–6.

(*2) Credit grades of corporates are BBB–C and consumers' grades are 7–10.

| | December 31, 2017 | | | | | | | | |
|-------------------------------|------------------------------------|------------------|---------------------------------|----------------|----------------|----------------|------------------|----------------|------------------|
| | Loans neither overdue nor impaired | | Loans overdue, but not impaired | | Impaired loans | | Total | Loss allowance | Total net |
| | Corporate | Consumer | Corporate | Consumer | Corporate | Consumer | | | |
| Due from banks | 20,003 | - | - | - | - | - | 20,003 | - | 20,003 |
| Loans | 1,813 | 255,493 | - | 13,416 | - | 5,122 | 275,844 | 15,194 | 260,650 |
| Credit card assets | 583,310 | 5,885,310 | 55,583 | 128,323 | 5,247 | 172,737 | 6,830,510 | 182,060 | 6,648,450 |
| Credit sales | 581,043 | 3,427,552 | 55,583 | 61,985 | 5,247 | 16,646 | 4,148,056 | 44,011 | 4,104,045 |
| Cash advances | 24 | 537,027 | - | 27,715 | - | 8,810 | 573,576 | 17,042 | 556,534 |
| Card loan | - | 1,920,731 | - | 38,623 | - | 147,281 | 2,106,635 | 121,007 | 1,985,628 |
| Other credit card assets | 2,243 | - | - | - | - | - | 2,243 | - | 2,243 |
| Capital financing receivables | 50,171 | 504,440 | 80 | 2,259 | 176 | 551 | 557,677 | 2,676 | 555,001 |
| Finance lease receivables | 14,675 | 45,525 | 176 | 419 | 113 | 2 | 60,910 | 827 | 60,083 |
| Other loan and receivables | 222,875 | 25,188 | 6 | 2,366 | 314 | 374 | 251,123 | 1,803 | 249,320 |
| Total | <u>892,847</u> | <u>6,715,956</u> | <u>55,845</u> | <u>146,783</u> | <u>5,850</u> | <u>178,786</u> | <u>7,996,067</u> | <u>202,560</u> | <u>7,793,507</u> |

7) Credit risk of unused credit limits

The credit risk of unused credit limits as of December 31, 2018, is as follows (Unit: Korean won in millions):

| | Stage 1 | | Stage 2 | | Stage 3 | Total |
|---------------------------|--------------------------------------|--|--------------------------------------|--|---------|------------|
| | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | Above appropriate credit rating (*1) | Less than a limited credit rating (*2) | | |
| Unused credit limits (*3) | 31,009,372 | 702,150 | 125,273 | 335,989 | 1,785 | 32,174,569 |

(*1) Credit grades of corporates are AAA–BBB and consumers' grades are 1–6.

(*2) Credit grades of corporates are BBB–C and consumers' grades are 7–10.

(*3) Provision for unused credit limit as of December 31, 2018, is ₩49,362 million.

8) Industrial distribution of credit risk

Details of the industrial distribution of credit risk of financial assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | | December 31, 2018 | | | | | | Total |
|------------------------------------|--|-------------------|---------------|--------------------|--------------|------------|---------|------------|
| | | Service | Manufacturing | Bank and insurance | Construction | Consumers | Others | |
| Financial assets at amortized cost | Due from banks | - | - | 20,003 | - | - | - | 20,003 |
| | Loans | 1,289 | - | - | - | 266,878 | 204 | 268,371 |
| | Credit card assets | 505,316 | 239,461 | 51,151 | 75,502 | 6,844,126 | 72,450 | 7,788,006 |
| | Credit sales | 505,279 | 239,442 | 51,105 | 75,502 | 4,117,746 | 68,688 | 5,057,762 |
| | Cash advances | 37 | 19 | 46 | - | 577,095 | 5 | 577,202 |
| | Card loan | - | - | - | - | 2,149,285 | - | 2,149,285 |
| | Other credit card assets | - | - | - | - | - | 3,757 | 3,757 |
| | Capital financing receivables | 86,409 | 43,645 | 88 | 16,921 | 734,923 | 7,821 | 889,807 |
| | Finance lease receivables | 19,076 | 14,130 | 935 | 6,451 | 116,243 | 4,482 | 161,317 |
| | Other financial assets at amortized cost | 292 | 120 | 8,528 | 44 | 29,071 | 260,098 | 298,153 |
| | Subtotal | 612,382 | 297,356 | 80,705 | 98,918 | 7,991,241 | 345,055 | 9,425,657 |
| | Derivative assets | - | - | 263 | - | - | - | 263 |
| | Subtotal | 612,382 | 297,356 | 80,968 | 98,918 | 7,991,241 | 345,055 | 9,425,920 |
| Off balance | Unused credit limits | 2,249,265 | 800,361 | 327,677 | 213,105 | 28,280,214 | 303,947 | 32,174,569 |
| | Total | 2,861,647 | 1,097,717 | 408,645 | 312,023 | 36,271,455 | 649,002 | 41,600,489 |

| | | December 31, 2017 | | | | | | |
|-----------------------|-------------------------------|-------------------|---------------|--------------------|--------------|------------|------------|------------|
| | | Service | Manufacturing | Bank and insurance | Construction | Consumers | Others | Total |
| Loans and receivables | Due from banks | - | - | 20,003 | - | - | - | 20,003 |
| | Loans | 1,375 | - | - | - | 258,934 | 341 | 260,650 |
| | Credit card assets | 448,682 | 178,033 | 82,764 | 61,985 | 5,811,349 | 65,637 | 6,648,450 |
| | Credit sales | 448,639 | 178,013 | 82,764 | 61,984 | 3,269,251 | 63,394 | 4,104,045 |
| | Cash advances | 43 | 20 | - | 1 | 556,470 | - | 556,534 |
| | Card loan | - | - | - | - | 1,985,628 | - | 1,985,628 |
| | Other credit card assets | - | - | - | - | - | 2,243 | 2,243 |
| | Capital financing receivables | 31,639 | 15,015 | 12 | 4,812 | 500,524 | 2,999 | 555,001 |
| | Finance lease receivables | 6,262 | 5,010 | 732 | 2,031 | 41,544 | 4,504 | 60,083 |
| | Other loan and receivables | 223 | 76 | 10,363 | 20 | 26,554 | 212,084 | 249,320 |
| | Subtotal | 488,181 | 198,134 | 113,874 | 68,848 | 6,638,905 | 285,565 | 7,793,507 |
| Derivative assets | | | 1,193 | | | | 1,193 | |
| Subtotal | 488,181 | 198,134 | 115,067 | 68,848 | 6,638,905 | 285,565 | 7,794,700 | |
| Off balance | Guarantees | 1,200 | 126 | - | - | - | - | 1,326 |
| | Unused credit limits | 2,166,174 | 785,776 | 275,947 | 201,936 | 26,862,605 | 316,900 | 30,609,338 |
| | Subtotal | 2,167,374 | 785,902 | 275,947 | 201,936 | 26,862,605 | 316,900 | 30,610,664 |
| Total | 2,655,555 | 984,036 | 391,014 | 270,784 | 33,501,510 | 602,465 | 38,405,364 | |

9) Regional distribution of credit risk

Details of the regional distribution of credit risk of financial assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | | December 31, 2018 | | |
|-------------------|--|-------------------|-----------|------------|
| | | Korea | Myanmar | Total |
| Balance | Financial assets at amortized cost: | | | |
| | Due from banks | 20,003 | - | 20,003 |
| | Loans | 258,484 | 9,887 | 268,371 |
| | Credit card assets | 7,788,006 | - | 7,788,006 |
| | Credit sales | 5,057,762 | - | 5,057,762 |
| | Cash advances | 577,202 | - | 577,202 |
| | Card loan | 2,149,285 | - | 2,149,285 |
| | Other credit card assets | 3,757 | - | 3,757 |
| | Capital financing receivables | 889,807 | - | 889,807 |
| | Finance lease receivables | 161,317 | - | 161,317 |
| | Other financial assets at amortized cost | 298,149 | 4 | 298,153 |
| Subtotal | 9,415,766 | 9,891 | 9,425,657 | |
| Derivative assets | 263 | - | 263 | |
| Subtotal | 9,416,029 | 9,891 | 9,425,920 | |
| Off balance | Unused credit limits | 32,174,569 | - | 32,174,569 |
| | Subtotal | 32,174,569 | - | 32,174,569 |
| | Total | 41,590,598 | 9,891 | 41,600,489 |

| | | December 31, 2017 | | |
|-------------|-------------------------------|-------------------|------------------|-------------------|
| | | Korea | Myanmar | Total |
| Balance | Loans and receivables: | | | |
| | Due from banks | 20,003 | - | 20,003 |
| | Loans | 259,102 | 1,548 | 260,650 |
| | Credit card assets | 6,648,450 | - | 6,648,450 |
| | Credit sales | 4,104,045 | - | 4,104,045 |
| | Cash advances | 556,534 | - | 556,534 |
| | Card loan | 1,985,628 | - | 1,985,628 |
| | Other credit card assets | 2,243 | - | 2,243 |
| | Capital financing receivables | 555,001 | - | 555,001 |
| | Finance lease receivables | 60,083 | - | 60,083 |
| | Other loans and receivables | 249,320 | - | 249,320 |
| | Subtotal | <u>7,791,959</u> | <u>1,548</u> | <u>7,793,507</u> |
| | Derivative assets | 1,193 | - | 1,193 |
| Subtotal | <u>7,793,152</u> | <u>1,548</u> | <u>7,794,700</u> | |
| Off balance | Guarantees | 1,326 | - | 1,326 |
| | Unused credit limits | 30,609,338 | - | 30,609,338 |
| | Subtotal | <u>30,610,664</u> | <u>-</u> | <u>30,610,664</u> |
| | Total | <u>38,403,816</u> | <u>1,548</u> | <u>38,405,364</u> |

(2) Market risk

Market risk refers to the risk that the Group may lose its trading position due to changes in market factors, such as interest rates, stock prices and exchange rates. Market risk arises from changes in interest rates and exchange rates of unsettled financial instruments and all contracts are subject to certain levels of volatility, depending on interest rates, credit spreads, exchange rates and the prices of equity securities.

1) Management of market risk

Management of market risk is a risk by element. This refers to the process of measuring and determining the sources of risk, and making and applying decisions to avoid, burden or mitigate risks by evaluating the appropriateness of the market risk that is borne by the Group. The Risk Management Committee allocates risk capital to market risk. Risk management is measured by a department, granted by risk factors VaR (Value at Risk, the maximum loss projections) limits, loss limits, etc., on a daily basis, and report regularly to the Risk Management Committee.

2) Interest rate VaR

Interest rate VaR is the maximum loss estimate that indicates the maximum decrease in the net asset value of the Group based on the present point of view due to unfavorable fluctuation of interest rate. It is a measure of market risk VaR. It is used for interest rate risk measurement.

Under the proposed interest rate VaR confidence level using a standard framework of the BIS was measured interest rate VaR of 2% interest rate shock corresponding to 99%. This is a method of calculating the interest rate VaR by using the modified duration Proxy of the maturity interval proposed by BIS. We also assumed that the expected rate of change in the maturity period due to the interest rate shock will be a parallel shift of the benchmark interest rate curve of 200bp. VaR is a commonly used market risk measurement technique; however, this method has some limitations.

VaR estimates the possible loss values under a certain confidence based on historical market change data. However, past market changes cannot reflect all the conditions and circumstances that may arise in the future. As a result, the timing and magnitude of actual losses may vary depending on assumptions in the calculation process.

The risk is measured using the interest rate VaR, which means the maximum amount of loss that can occur

under a normal distribution of interest rate risk. The results are as follows:

| | | |
|-------------------|--------------------------|--------------------------|
| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
| Interest rate VaR | (57,475) | (74,226) |

3) Other risks of market risk

A) Interest rate risk

The Group measures and manages the risk of fluctuations in interest rates arising from maturity of assets and liabilities and discrepancies in interest rate conditions. The principal and interest cash flows of assets and liabilities as of the date of interest modification are as follows:

| | | December 31, 2018 | | | | | | |
|---------------------------------------|--|------------------------|------------------------|-----------------------|-----------------------------|---------------------------|-------------------------|------------------|
| | | Within three months | Three to six months | Six to nine months | Nine to twelve months | One year to five years | More than five years | Total |
| Financial assets: | | | | | | | | |
| Financial assets at amortized cost | | 5,827,337 | 909,674 | 467,406 | 465,999 | 1,743,131 | 390,716 | 9,804,263 |
| | | <u>5,827,337</u> | <u>909,674</u> | <u>467,406</u> | <u>465,999</u> | <u>1,743,131</u> | <u>390,716</u> | <u>9,804,263</u> |
| Financial liabilities: | | | | | | | | |
| Borrowings | | 4,485 | - | - | - | - | - | 4,485 |
| Debentures | | 410,034 | 444,135 | 507,273 | 740,524 | 5,280,304 | - | 7,382,270 |
| Others | | 94 | 185 | 224 | 364 | - | - | 867 |
| | | <u>414,613</u> | <u>444,320</u> | <u>507,497</u> | <u>740,888</u> | <u>5,280,304</u> | <u>-</u> | <u>7,387,622</u> |

| | | December 31, 2017 | | | | | | |
|--------------------------|--|------------------------|------------------------|-----------------------|-----------------------------|---------------------------|-------------------------|------------------|
| | | Within three months | Three to six months | Six to nine months | Nine to twelve months | One year to five years | More than five years | Total |
| Financial assets: | | | | | | | | |
| Loans and receivables | | 5,276,448 | 719,075 | 394,455 | 394,220 | 1,275,495 | 342,037 | 8,401,730 |
| | | <u>5,276,448</u> | <u>719,075</u> | <u>394,455</u> | <u>394,220</u> | <u>1,275,495</u> | <u>342,037</u> | <u>8,401,730</u> |
| Financial liabilities: | | | | | | | | |
| Debentures | | 364,742 | 382,863 | 340,660 | 228,542 | 5,156,363 | 10,287 | 6,483,457 |
| | | <u>364,742</u> | <u>382,863</u> | <u>340,660</u> | <u>228,542</u> | <u>5,156,363</u> | <u>10,287</u> | <u>6,483,457</u> |

Repricing date is defined as the date on which interest rates of operational funds and procuring funds can be readjusted before the expiration date. Analysis based on interest expirations is used to analyze assets and liabilities that cause interest margins and interest costs.

b) Currency risk

Currency risk occurs from the financial instrument denominated in foreign currencies other than the functional currency. Therefore, no currency risk arises from non-monetary items or financial instruments denominated in the functional currency.

Foreign currency financial instruments exposed to currency risk by major currencies as of December 31, 2018 and 2017, are as follows. (USD in thousands, SGD in thousands, MMK in thousands and Korean won in millions):

December 31, 2018

| | USD | | SGD | | MMK | | Total (Won) |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|----------------|
| | Base currency | Won conversion | Base currency | Won conversion | Base currency | Won conversion | |
| | Exposure | (504,000) | (563,535) | (204,000) | (166,929) | 15,163,220 | |
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 2,764,227 | 1,999 | 1,999 |
| Financial assets at amortized cost | - | - | - | - | 13,804,940 | 9,987 | 9,987 |
| Borrowings | (500,000) | (559,050) | (204,000) | (166,929) | - | - | (725,979) |
| Liabilities | | | | | | | |
| Debentures | (4,000) | (4,485) | - | - | - | - | (4,485) |
| Other financial liabilities | - | - | - | - | (1,405,947) | (1,017) | (1,017) |
| Off-balance derivative exposure amount | 500,000 | 559,050 | 204,000 | 166,929 | - | - | 725,979 |
| Net foreign currency exposure amount | (4,000) | (4,485) | - | - | 15,163,220 | 10,969 | 6,484 |

| | December 31, 2017 | | | | | | |
|--|-------------------|-------------------|------------------|-------------------|------------------|-------------------|----------------|
| | USD | | SGD | | MMK | | Total (Won) |
| | Base currency | Won conversion | Base currency | Won conversion | Base currency | Won conversion | |
| Exposure | (499,874) | (535,565) | (204,000) | (163,329) | 1,930,925 | 1,519 | |
| Assets | | | | | | | |
| Cash and cash equivalents | 126 | 135 | - | - | 107,378 | 84 | 219 |
| Loans and receivables | - | - | - | - | 1,967,503 | 1,548 | 1,548 |
| Liabilities | | | | | | | |
| Debentures | (500,000) | (535,700) | (204,000) | (163,329) | - | - | (699,029) |
| Other financial liabilities | - | - | - | - | (143,956) | (113) | (113) |
| Off-balance derivative exposure amount | 500,000 | 535,700 | 204,000 | 163,329 | - | - | 699,029 |
| Net foreign currency exposure amount | 126 | 135 | - | - | 1,930,925 | 1,519 | 1,654 |

(3) Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to pay its financial obligations at maturity.

1) Management of liquidity risk

Management of liquidity risk refers to risk management to prevent loss due to shortage of funds by effectively managing liquidity shortage that may occur due to inconsistent maturity of assets or liabilities or unexpected outflow of funds.

The Group classifies assets and liabilities into account units by Asset Liability Management account according to the characteristics of each account, and analyzes the cash flow by various time intervals (e.g., remaining maturity and contract period) with the maturity gap after identifying the gap ratio and manages liquidity risk by maintaining less than the target rate (limit) predetermined gap ratios art.

2) Contract maturity analysis of non-derivative financial liabilities

As of December 31, 2018 and 2017, cash flows of remaining contractual maturity of the main non-derivative financial liabilities are as follows:

| | December 31, 2018 | | | | | | Total |
|------------------------|------------------------|------------------------|-----------------------|-----------------------------|---------------------------|-------------------------|-----------|
| | Within three months | Three to six months | Six to nine months | Nine to twelve months | One year to five years | More than five years | |
| Financial liabilities: | | | | | | | |
| Borrowings | 4,485 | - | - | - | - | - | 4,485 |
| Debentures | 410,034 | 444,135 | 507,273 | 740,524 | 5,280,304 | - | 7,382,270 |
| Total | 414,519 | 444,135 | 507,273 | 740,524 | 5,280,304 | - | 7,386,755 |

| | December 31, 2017 | | | | | | Total |
|------------------------|---------------------|---------------------|--------------------|-----------------------|------------------------|----------------------|-----------|
| | Within three months | Three to six months | Six to nine months | Nine to twelve months | One year to five years | More than five years | |
| Financial liabilities: | | | | | | | |
| Debentures | 364,742 | 382,863 | 340,660 | 228,542 | 5,156,363 | 10,287 | 6,483,457 |

Maturity analysis above includes both principal and interest cash flows by contractual maturities.

3) Maturity analysis of derivative financial liabilities

Derivative financial instruments for hedging purposes are cash inflows that were estimated by offsetting cash outflows.

As of December 31, 2018 and 2017, cash flow maturities of derivative financial liabilities are as follows:

| | Remaining maturity | | | | | | Total |
|-------------------|---------------------|---------------------|--------------------|-----------------------|------------------------|----------------------|--------|
| | Within three months | Three to six months | Six to nine months | Nine to twelve months | One year to five years | More than five years | |
| December 31, 2018 | (1,880) | (683) | 8,080 | 14,133 | 14,104 | - | 33,754 |
| December 31, 2017 | (397) | (588) | (772) | (923) | 58,320 | - | 55,640 |

5) Maturity analysis of off-consolidated statements of financial position accounts

Guarantees and loan commitments like guarantees for debenture issuance and guarantees for loans, which are financial guarantees provided by the Group have expiration dates. However, upon request of transaction counterparty, the Group will carry out a payment immediately. Details of off-consolidated statements of financial position accounts are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Guarantees (credit card restricted for purchase) | - | 1,326 |
| Loan commitments (unused credit limits) | 32,174,569 | 30,609,338 |

(4) Capital management

The Korean Financial Services Commission provides sound management of credit-specialized financial companies and establishes the adequacy of capital in order to prevent financial accidents. As a result, the credit finance company must maintain at least 8/100 of the adjusted capital ratio for the adjusted total assets according to the management guidance ratio set by the supervisory regulations, and calculate the adjusted capital adequacy ratio quarterly.

Adjusted total assets and adjusted shareholders' equity are calculated based on the financial statements of the financial specialist company, taking into consideration the criteria set by the Bank of International Settlement and reflecting the characteristics of the business of the specialized credit company.

Adjusted total assets are the sum of cash and cash equivalents, short-term deposits with no collateral agreements, government bonds and deductible items with maturities of three months or less, and each deduction of cumulative unrealized gains or losses on such loans.

Adjusted equity capital is the amount obtained by deducting the deductible from the basic capital, plus the supplementary capital (limited to the basic capital range). The supplementary capital is the allowance for doubtful accounts for the normal and preemptive bonds (in case of loan receivables, allowance for doubtful accounts (including unused commitments provisions and loan loss reserves) on loans receivable are not customers) and unsecured subordinated debt (prepayment prohibited the subordinated Muro remaining period of more than 10 years, 100% of the basic capital; for more than five years, it is recognized within the 50% range and if the maturity is less

than five years, 20% is deducted each year). In this case, the allowance for loan losses is deducted from the allowance for loan losses by 1.5% of the total assets, and is included in the supplementary capital.

As of December 31, 2018 and 2017, the Group is in compliance with the current capital maintenance requirements imposed externally.

6. CASH AND CASH EQUIVALENTS:

- (1) Details of cash and cash equivalents as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--------------------|--------------------------|--------------------------|
| Foreign currencies | - | 2 |
| Demand deposits | 362,202 | 626,059 |
| Total | <u>362,202</u> | <u>626,061</u> |

7. FINANCIAL ASSETS AT FVTOCI AND AFS FINANCIAL ASSETS:

Details of financial assets at FVTOCI and AFS financial assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|----------------------------|--------------------------|--------------------------|
| Equity securities: | | |
| Unlisted equity securities | 87,544 | 87,602 |
| Other equity investments | 209 | 31 |
| Total | <u>87,753</u> | <u>87,633</u> |

- (1) Details of unrealized profit and loss in financial assets at FVTOCI and AFS financial assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | | | <u>Fair value</u> |
|----------------------------|--------------------------|----------------------------|----------------------------|-------------------|
| | <u>Acquisition cost</u> | <u>Unrealized gain (*)</u> | <u>Unrealized loss (*)</u> | |
| Equity securities: | | | | |
| Unlisted equity securities | 42,483 | 45,061 | - | 87,544 |
| Other equity investments | 209 | - | - | 209 |
| Total | <u>42,692</u> | <u>45,061</u> | <u>-</u> | <u>87,753</u> |
| | | | | |
| | <u>December 31, 2017</u> | | | <u>Fair value</u> |
| | <u>Acquisition cost</u> | <u>Unrealized gain (*)</u> | <u>Unrealized loss (*)</u> | |
| Equity securities: | | | | |
| Unlisted equity securities | 42,483 | 45,119 | - | 87,602 |
| Other equity investments | 31 | - | - | 31 |
| Total | <u>42,514</u> | <u>45,119</u> | <u>-</u> | <u>87,633</u> |

(*) These amounts do not include the deferred income tax, which is directly deducted from equity.

8. FINANCIAL ASSETS AT AMORTIZED COST AND LOANS AND RECEIVABLES:

(2) Details of financial assets at amortized cost and loans and receivables as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Due from banks | 20,003 | 20,003 |
| Loans | 268,371 | 260,650 |
| Credit card assets | 7,788,006 | 6,648,450 |
| Capital financing receivables | 889,807 | 555,001 |
| Finance lease receivables | 161,317 | 60,083 |
| Other financial assets at amortized cost | 298,153 | - |
| Other loan receivables | - | 249,320 |
| Total | <u>9,425,657</u> | <u>7,793,507</u> |

(3) Details of due from banks as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-----------------------------------|--------------------------|--------------------------|
| Due from banks in local currency: | | |
| Due from deposit banks | 20,003 | 20,003 |

(12) Details of restricted due from banks as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>Counterparty</u> | <u>December 31, 2018</u> | <u>Reason for restriction</u> |
|-----------------------------------|---------------------|--------------------------|---|
| Due from banks in local currency: | | | |
| Due from deposit banks | Woori Bank | 3 | Guarantee deposit for checking accounts |

| | <u>Counterparty</u> | <u>December 31, 2017</u> | <u>Reason for restriction</u> |
|-----------------------------------|---------------------|--------------------------|---|
| Due from banks in local currency: | | | |
| Due from deposit banks | Woori Bank | 3 | Guarantee deposit for checking accounts |

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

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Loans | 287,602 | 275,016 |
| Deferred loan origination costs and fees | 464 | 828 |
| Provision for credit losses | (19,695) | (15,194) |
| Total | <u>268,371</u> | <u>260,650</u> |

(14) Details of credit card assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Credit card assets: | | |
| Credit sales proceeds: | | |
| Proceeds from general credit sales | 2,925,244 | 2,476,357 |
| Proceeds from installment sales | 2,088,840 | 1,558,690 |
| Proceeds from international credit sales | 128,052 | 116,438 |
| Cash advances | 607,025 | 573,576 |
| Card loan | 2,157,120 | 1,975,445 |
| Refinancing | 147,485 | 131,190 |
| Other credit card assets | 3,757 | 2,243 |
| Provisions for credit losses | (259,613) | (182,060) |
| Present value of discount | (9,904) | (3,429) |
| Total | <u>7,788,006</u> | <u>6,648,450</u> |

(15) Details of capital financing receivables as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Capital financing receivables | 881,014 | 548,327 |
| Deferred loan origination costs and fees | 16,149 | 9,350 |
| Provision for credit losses | (7,356) | (2,676) |
| Total | <u>889,807</u> | <u>555,001</u> |

(16) Details of finance lease receivables as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Finance lease receivables | 155,681 | 58,371 |
| Deferred loan origination costs and fees | 7,908 | 2,539 |
| Provision for credit losses | (2,272) | (827) |
| Total | <u>161,317</u> | <u>60,083</u> |

(17) Details of other financial assets at amortized cost (other loans and receivables) as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|--------------------------|
| Other financial assets at amortized cost (other loans and receivables): | | |
| Receivables | 238,549 | 190,980 |
| Accrued income | 38,722 | 37,891 |
| Guarantee deposits | 22,726 | 22,219 |
| Others | 605 | 612 |
| Provisions for credit losses | (2,106) | (1,803) |
| Present value discount | (343) | (579) |
| Total | <u>298,153</u> | <u>249,320</u> |

(18) Changes in the provisions for credit losses for the years ended December 31, 2018 and 2017, are as follows
(Unit: Korean won in millions):

| | December 31, 2018 | | | | | | | Ending balance |
|--|-----------------------|---|--|--|-----------------------------|--|------------------|----------------|
| | Beginning balance (*) | Transfer between stage classification | | | Provision for credit losses | Recoveries of loans previously charged off | Charge-off | |
| | | Replaced by 12-month expected credit loss | Replaced with expected credit loss for the entire period | Replaced with credit-impaired financial assets | | | | |
| Loans: | | | | | | | | |
| Twelve-month expected credit loss | 7,467 | 973 | (770) | (164) | 10,405 | 548 | (11,158) | 7,301 |
| Expected credit loss for the entire period | 8,445 | (971) | 815 | (272) | 7,434 | 496 | (10,108) | 5,839 |
| Credit-impaired financial assets | 3,965 | (2) | (45) | 436 | 7,810 | 290 | (5,899) | 6,555 |
| Credit card assets: | | | | | | | | |
| Twelve-month expected credit loss | 57,126 | 13,846 | (5,871) | (530) | 62,628 | 19,402 | (81,875) | 64,726 |
| Expected credit loss for the entire period | 71,463 | (13,737) | 6,194 | (1,427) | 78,678 | 19,579 | (82,622) | 78,128 |
| Credit-impaired financial assets | 102,858 | (109) | (323) | 1,957 | 72,184 | 18,575 | (78,383) | 116,759 |
| Capital financing receivables: | | | | | | | | |
| Twelve-month expected credit loss | 2,312 | 286 | (147) | (20) | 1,901 | 66 | (325) | 4,073 |
| Expected credit loss for the entire period | 663 | (226) | 217 | (10) | 1,173 | 30 | (151) | 1,696 |
| Credit-impaired financial assets | 584 | (60) | (70) | 30 | 1,310 | 53 | (260) | 1,587 |
| Finance lease receivables: | | | | | | | | |
| Twelve-month expected credit loss | 827 | 68 | (23) | (63) | 692 | - | - | 1,501 |
| Expected credit loss for the entire period | 158 | (68) | 23 | (37) | 241 | - | - | 317 |
| Credit-impaired financial assets | 111 | - | - | 100 | 245 | - | (2) | 454 |
| Other financial assets: | | | | | | | | |
| Twelve-month expected credit loss | 624 | 55 | (42) | (5) | 105 | - | (60) | 677 |
| Expected credit loss for the entire period | 855 | (55) | 43 | (8) | 250 | - | (89) | 996 |
| Credit-impaired financial assets | 635 | - | (1) | 13 | (175) | - | (39) | 433 |
| Total | 258,093 | - | - | - | 244,881 | 59,039 | (270,971) | 291,042 |

(*) The beginning balance was restated in accordance with K-IFRS 1109.

| | December 31, 2017 | | | | |
|-------------------------------|-------------------|------------------------------|--|------------|----------------|
| | Beginning balance | Provisions for credit losses | Recoveries of loans previously charged off | Charge-off | Ending balance |
| Loans | 2,121 | 21,203 | 68 | (8,198) | 15,194 |
| Credit card assets | 155,368 | 203,901 | 51,356 | (228,565) | 182,060 |
| Capital financing receivables | 2,456 | 337 | - | (117) | 2,676 |
| Finance lease receivables | 432 | 395 | - | - | 827 |
| Other financial assets | 1,675 | 187 | - | (59) | 1,803 |
| Total | 162,052 | 226,023 | 51,424 | (236,939) | 202,560 |

- (19) Changes in deferred loan origination costs for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | |
|---------------------------------|-------------------|----------|----------|----------------|
| | Beginning balance | Increase | Decrease | Ending balance |
| Deferred loan origination costs | 12,717 | 23,060 | (11,256) | 24,521 |

| | December 31, 2017 | | | |
|---------------------------------|-------------------|----------|----------|----------------|
| | Beginning balance | Increase | Decrease | Ending balance |
| Deferred loan origination costs | 4,837 | 12,790 | (4,910) | 12,717 |

9. LEASES:

- (1) Present values of finance lease receivables and minimum lease payment as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | December 31, 2017 | |
|--|-------------------|--|-------------------|--|
| | Gross investment | Present value of minimum lease payment | Gross investment | Present value of minimum lease payment |
| Less than one year | 3,086 | 2,968 | 27 | 27 |
| More than one year, less than five years | 174,645 | 152,713 | 64,700 | 58,344 |
| Total | 177,731 | 155,681 | 64,727 | 58,371 |

- (2) Details of finance lease receivables as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|------------------------------|-------------------|-------------------|
| Net investment in a lease | 155,681 | 58,371 |
| Financial lease expenses | 7,908 | 2,539 |
| Provisions for credit losses | (2,272) | (827) |
| Total | 161,317 | 60,083 |

- (3) Unearned interest income on gross investment in the finance lease as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

| | | |
|--------------------------|--------------------------|--------------------------|
| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
| Unearned interest income | 22,050 | 6,356 |

10. THE 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: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of financial assets or liabilities generally included in Level 1 are publicly traded equity securities, derivatives and debt securities issued by governmental bodies.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). The types of financial assets or liabilities generally included in Level 2 are debt securities not traded in active markets and derivatives traded in over the counter, but do not require significant judgment.
- Level 3: Fair value measurements are those derived from valuation technique that include inputs for the asset or liability, which are not based on observable market data (unobservable inputs). The types of financial assets or liabilities generally included in Level 3 are non-public securities and derivatives and debt securities of which valuation techniques require significant judgments and subjectivity.

(1) Fair value hierarchy of financial assets and liabilities measured at fair value as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | | | |
|----------------------------|--------------------------|----------------|----------------|----------------|
| | <u>Fair value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Financial assets: | | | | |
| Financial assets at FVTOCI | 87,753 | - | - | 87,753 |
| Derivative assets | 263 | - | 263 | - |
| Financial liabilities: | | | | |
| Derivative liabilities | 33,754 | - | 33,754 | - |
| | | | | |
| | <u>December 31, 2017</u> | | | |
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Financial assets: | | | | |
| AFS financial assets | 87,633 | - | - | 87,633 |
| Derivative assets | 1,193 | - | 1,193 | - |
| Financial liabilities: | | | | |
| Derivative liabilities | 55,651 | - | - | 55,651 |

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group establishes the fair value using valuation techniques. Fair value measurement methods for each type of financial instruments are as follows:

| | <u>Fair value measurement technique</u> | <u>Input variables</u> |
|-----------------------------|---|---|
| Financial assets at FVTOCI: | Discounted cash flow model, free cash flow to equity model, comparable companies valuation method, dividend discount model, risk adjustment discount model, estimate the fair value using one or more of the valuation methods judged to be appropriate considering the nature of the valuation object in the net asset valuation method. | Risk-free market rate of return, market risk premium, corporate beta and others |
| Derivative: | Determining the fair value of derivatives, such as interest rate swaps, currency swaps and others, based on input variables | Risk-free market rate of return, forward |

observable in the market, is based on the valuation techniques generally used by market participants. rate, exchange rate and others

Measurement techniques of the financial assets and financial liabilities of Level 3 that are recorded at fair value and significant unobservable inputs are as follows:

| | Fair value measurement technique | Input variable | Range |
|----------------------------|-------------------------------------|---------------------------------|-------|
| Financial assets at FVTOCI | External appraisal value and others | Expected growth rate and others | 0%–1% |

Fair value of financial assets and liabilities classified into Level 3 uses external evaluation or value that is independently appraised by the Group. Adequacy of non-observable inputs used in measuring fair value is reviewed at all times.

- (4) Changes in financial assets and liabilities classified into Level 3 for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | | | |
|----------------------------|-------------------|----------|----------------------------|-----------|-----------|--------|
| | Beginning | Net loss | Other comprehensive income | Purchases | Disposals | Ending |
| Financial assets: | | | | | | |
| Financial assets at FVTOCI | 87,633 | - | (58) | 178 | - | 87,753 |

| | December 31, 2017 | | | | | |
|----------------------|-------------------|----------|----------------------------|-----------|-----------|--------|
| | Beginning | Net loss | Other comprehensive income | Purchases | Disposals | Ending |
| Financial assets: | | | | | | |
| AFS financial assets | 81,585 | (7) | 6,355 | 24 | (324) | 87,633 |

- (5) The results of the sensitivity analysis of changes in unobservable inputs are as follows:

The sensitivity analysis of the financial instruments has been performed by classifying the favorable and unfavorable changes based on how changes in unobservable assumptions have effects on the fluctuations of financial instruments' value. When the fair value of a financial instrument is affected by more than one unobservable assumption, the table below reflects the most favorable or the most unfavorable changes that result from varying the assumptions individually. There are some instruments, such as stocks and contribution that fair value changes are recognized as other comprehensive income of Level 3 financial instruments, which should be done through sensitivity analysis.

The following table shows the sensitivity analysis to disclose the effect of reasonably possible alternative assumptions on the fair value of a Level 3 financial instrument as of December 31, 2018 and 2017 (Unit: Korean won in millions):

| Carrying amount of the assets subject to sensitivity analysis (*) | December 31, 2018 | | | |
|---|-------------------|-------------|-----------------------------------|-------------|
| | Net income | | Other comprehensive income (loss) | |
| | Favorable | Unfavorable | Favorable | Unfavorable |
| Financial assets: | | | | |

| | Carrying amount of the assets subject to sensitivity analysis (*) | December 31, 2018 | | | |
|----------------------------|---|-------------------|-------------|-----------------------------------|-------------|
| | | Net income | | Other comprehensive income (loss) | |
| | | Favorable | Unfavorable | Favorable | Unfavorable |
| Financial assets at FVTOCI | 87,753 | - | - | 9,281 | (2,949) |

| | Carrying amount of the assets subject to sensitivity analysis (*) | December 31, 2017 | | | |
|---|---|-------------------|-------------|-----------------------------------|-------------|
| | | Net income | | Other comprehensive income (loss) | |
| | | Favorable | Unfavorable | Favorable | Unfavorable |
| Financial assets: AFS financial assets | 87,633 | - | - | 7,788 | (2,724) |

(*) Fair value changes of equity securities are calculated by increasing or decreasing growth rate (0%–1%) and discount rate (-1%–1%) or liquidation value (-1%–1%) and discount rate (-1%–1%). The growth rate, discount rate and liquidation value are major unobservable variables.

- (6) Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | |
|------------------------------------|-------------------|----------------|
| | Fair value | Carrying value |
| Financial assets: | | |
| Financial assets at amortized cost | 9,647,423 | 9,425,657 |
| Financial liabilities: | | |
| Borrowings | 4,485 | 4,485 |
| Debentures | 7,036,408 | 7,039,929 |
| Other financial liabilities | 1,012,194 | 1,014,051 |

| | December 31, 2017 | |
|-----------------------------|-------------------|----------------|
| | Fair value | Carrying value |
| Financial assets: | | |
| Loans and receivables | 7,958,618 | 7,793,5017 |
| Financial liabilities: | | |
| Debentures | 6,116,354 | 6,121,803 |
| Other financial liabilities | 625,230 | 626,044 |

The financial assets and liabilities discussed above are classified as Level 3.

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group measures fair value of the financial instruments using valuation techniques. If there is no active market for a financial instrument, fair value measurement techniques and input variable for each type of financial instruments that are recorded at amortized cost are as follows:

| | Fair value measurement technique | Input variables |
|--|---|---|
| Financial assets at amortized cost (loans and receivables) | The fair value is measured by discounting the cash flows with use of market interest rates applied to the loans, which are similar to the expected cash flow. | Risk-free market rate of return, credit spread and prepayment ratio |
| Borrowings | The fair value is measured by discounting the cash flows by applying the market discount rate that reflects credit rating of the Group. | Three-month London InterBank Offered Rate (“LIBOR”) |

| | | |
|------------|---|---|
| Debentures | The fair value is measured by external professional organizations using market information. | Fair value measured by private credit-rating agency |
|------------|---|---|

11. PREMISES AND EQUIPMENT:

- (6) Details of premises and equipment as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | | |
|--------------------------|-------------------|----------|-----------------------------|-----------------------------|----------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Acquisition cost | 2,487 | 953 | 31,817 | 10,614 | 45,871 |
| Accumulated depreciation | - | (358) | (14,600) | (8,348) | (23,306) |
| Net carrying value | 2,487 | 595 | 17,217 | 2,266 | 22,565 |

| | December 31, 2017 | | | | |
|--------------------------|-------------------|----------|-----------------------------|-----------------------------|----------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Acquisition cost | 2,487 | 953 | 24,066 | 10,250 | 37,756 |
| Accumulated depreciation | - | (307) | (10,028) | (7,228) | (17,563) |
| Net carrying value | 2,487 | 646 | 14,038 | 3,022 | 20,193 |

- (7) Details of changes in premises and equipment for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | | |
|-------------------|-------------------|----------|-----------------------------|-----------------------------|---------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,487 | 646 | 14,038 | 3,022 | 20,193 |
| Acquisitions | - | - | 7,857 | 729 | 8,586 |
| Disposal | - | - | (1) | (23) | (24) |
| Depreciation | - | (51) | (4,765) | (1,342) | (6,158) |
| Others | - | - | 88 | (120) | (32) |
| Ending balance | 2,487 | 595 | 17,217 | 2,266 | 22,565 |

| | December 31, 2017 | | | | |
|-------------------|-------------------|----------|-----------------------------|-----------------------------|---------|
| | Land | Building | Properties for business use | Structures in leased office | Total |
| Beginning balance | 2,487 | 698 | 10,406 | 3,835 | 17,426 |
| Acquisitions | - | - | 7,538 | 638 | 8,176 |
| Disposal | - | - | (6) | (109) | (115) |
| Depreciation | - | (52) | (3,901) | (1,713) | (5,666) |
| Others | - | - | 1 | 371 | 372 |
| Ending balance | 2,487 | 646 | 14,038 | 3,022 | 20,193 |

12. INTANGIBLE ASSETS:

(3) Details of intangible assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | | |
|--------------------------------------|-------------------|----------------------------|---------------|-------------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposits (*) | Total |
| Cost of purchases or appraised value | 17,080 | 106 | 32,166 | 5,959 | 55,311 |
| Accumulated depreciation | (3,064) | (65) | (15,832) | - | (18,961) |
| Accumulated impairment losses | - | - | - | (582) | (582) |
| Net carrying value | <u>14,016</u> | <u>41</u> | <u>16,334</u> | <u>5,377</u> | <u>35,768</u> |

| | December 31, 2017 | | | | |
|--------------------------------------|-------------------|----------------------------|---------------|-------------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposits (*) | Total |
| Cost of purchases or appraised value | 14,844 | 104 | 27,171 | 7,544 | 49,663 |
| Accumulated depreciation | (1,680) | (46) | (11,915) | - | (13,641) |
| Accumulated impairment losses | - | - | - | (2,166) | (2,166) |
| Net carrying value | <u>13,164</u> | <u>58</u> | <u>15,256</u> | <u>5,378</u> | <u>33,856</u> |

(*) Membership deposits include golf clubs and condominium membership deposits and for these intangible assets, the exact period of useful life cannot be measured. Therefore, the Group has recognized impairment loss for the membership deposits since the recoverable amount is lower than the carrying amount.

(4) Details of changes in intangible assets for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | | |
|-----------------------------|-------------------|----------------------------|---------------|--------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposit | Total |
| Beginning balance | 13,164 | 58 | 15,256 | 5,378 | 33,856 |
| Acquisitions | 2,236 | 2 | 4,995 | 1,226 | 8,459 |
| Disposal | - | - | - | (1,497) | (1,497) |
| Amortization | (1,384) | (19) | (3,917) | - | (5,320) |
| Reversal of impairment loss | - | - | - | 270 | 270 |
| Ending balance | <u>14,016</u> | <u>41</u> | <u>16,334</u> | <u>5,377</u> | <u>35,768</u> |

| | December 31, 2017 | | | | |
|-------------------|-------------------|----------------------------|---------------|--------------------|---------------|
| | Development cost | Industrial property rights | Others | Membership deposit | Total |
| Beginning balance | 8,808 | 53 | 10,496 | 5,292 | 24,649 |
| Acquisitions | 5,488 | 23 | 7,460 | 202 | 13,173 |
| Amortization | (1,132) | (18) | (2,700) | - | (3,850) |
| Impairment loss | - | - | - | (116) | (116) |
| Ending balance | <u>13,164</u> | <u>58</u> | <u>15,256</u> | <u>5,378</u> | <u>33,856</u> |

12. OTHER ASSETS:

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

| | December 31, 2018 | December 31, 2017 |
|----------------------|-------------------|-------------------|
| Other assets: | | |
| Advance payments | 12,552 | 14,840 |
| Prepaid lease assets | 1,890 | 2,123 |
| Prepaid expenses | 2,978 | 1,532 |
| Others | 3,047 | 764 |
| Total | 20,467 | 19,259 |

13. BORROWINGS AND DEBENTURES:

(3) Details of borrowings as of December 31, 2018, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | |
|-----------------------|------------------------|----------------------------|--------|
| | Provider | Interest rate (%) | Amount |
| Borrowings: | | | |
| Short-term borrowings | Woori Bank (Singapore) | Three-month LIBOR + 1.4 | 4,485 |

(4) Details of other financial institution borrowings as of December 31, 2018, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | |
|-----------------------|-------------------|----------|-------|
| | Bank | Non-bank | Total |
| Short-term borrowings | 4,485 | - | 4,485 |

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

| | December 31, 2018 | | |
|--------------------------------|-------------------|-----------------------|-----------|
| | Interest rate (%) | Maturity | Amount |
| Carrying value of bond: | | | 7,045,979 |
| Debentures in local currency | 1.56–3.61 | 2019.01.16–2023.11.24 | 6,320,000 |
| Debentures in foreign currency | 1.57–1.98 | 2019.06.28–2021.02.25 | 725,979 |
| Less: | | | (6,050) |
| Discount on bonds | | | (6,050) |
| Total | | | 7,039,929 |
| | | | |
| | December 31, 2017 | | |
| | Interest rate (%) | Maturity | Amount |
| Carrying value of bonds: | | | 6,129,029 |
| Debentures in local currency | 1.49–3.64 | 2018.10.02–2023.11.24 | 5,430,000 |
| Debentures in foreign currency | 1.57–1.74 | 2019.06.28–2021.02.25 | 699,029 |
| Less: | | | (7,226) |
| Discount on bonds | | | (7,226) |
| Total | | | 6,121,803 |

14. PROVISIONS:

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

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Provisions for guarantees | - | 3 |
| Provisions for unused commitments | 49,144 | 29,805 |
| Provision for credit card points | - | 6,122 |
| Asset retirement obligation | 5,234 | 5,215 |
| Provision for illegal use of credit cards | 466 | 611 |
| Other provisions | 198 | 208 |
| Total | <u>55,042</u> | <u>41,964</u> |

(5) Changes in provisions for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | | | | Total |
|--------------------------------------|---------------------------|-----------------------------------|---------------------------------|-----------------------------|--|------------------|---------------|
| | Provisions for guarantees | Provisions for unused commitments | Provision for credit card point | Asset retirement obligation | Provision for illegal use of credit card | Other provisions | |
| Beginning balance: | | | | | | | |
| Provisions according to K-IFRS 1039 | 3 | 29,805 | 6,122 | 5,215 | 611 | 208 | 41,964 |
| Adjustments according to K-IFRS 1109 | - | 19,455 | - | - | - | - | 19,455 |
| Adjustments according to K-IFRS 1115 | - | - | (6,122) | - | - | - | (6,122) |
| Provisions provided | - | - | - | 96 | 294 | - | 390 |
| Reversal of unused amount | (3) | (116) | - | (49) | - | (10) | (178) |
| Provisions used | - | - | - | (91) | (864) | - | (955) |
| Others | - | - | - | 63 | 425 | - | 488 |
| Ending balance | <u>-</u> | <u>49,144</u> | <u>-</u> | <u>5,234</u> | <u>466</u> | <u>198</u> | <u>55,042</u> |

| | December 31, 2017 | | | | | | Total |
|---------------------------|---------------------------|-----------------------------------|---------------------------------|-----------------------------|--|------------------|---------------|
| | Provisions for guarantees | Provisions for unused commitments | Provision for credit card point | Asset retirement obligation | Provision for illegal use of credit card | Other provisions | |
| Beginning balance | 124 | 33,844 | 5,564 | 4,917 | 895 | 198 | 45,542 |
| Provisions provided | - | - | 16,745 | 96 | 272 | 10 | 17,123 |
| Reversal of unused amount | (121) | (4,039) | - | (13) | - | - | (4,173) |
| Provisions used | - | - | (18,994) | (153) | (556) | - | (19,703) |
| Others | - | - | 2,807 | 368 | - | - | 3,175 |
| Ending balance | <u>3</u> | <u>29,805</u> | <u>6,122</u> | <u>5,215</u> | <u>611</u> | <u>208</u> | <u>41,964</u> |

(6) Changes in provisions for guarantees and unused commitments are as follows (Unit: Korean won in millions):

1) Provisions for guarantees

| | December 31, 2018 | | | Total |
|--|-----------------------------------|--|----------------------------------|-------|
| | Twelve-month expected credit loss | Expected credit loss for the entire period | Credit-impaired financial assets | |
| Beginning balance | 3 | - | - | 3 |
| Replaced by 12-month expected credit loss | - | - | - | - |
| Replaced with expected credit loss for the entire period | - | - | - | - |
| Replaced with credit-impaired financial assets | - | - | - | - |
| Provisions provided | (3) | - | - | (3) |

| | | | | |
|-----------------------------|---|---|---|---|
| (reversal of unused amount) | | | | |
| Ending balance | - | - | - | - |

2) Provisions for unused commitments

| | December 31, 2017 | | | |
|--|---|--|-------------------------------------|--------|
| | Twelve-month expected credit loss | Expected credit loss for the entire period | Credit-impaired financial assets | Total |
| Beginning balance (*) | 32,778 | 14,770 | 1,712 | 49,260 |
| Replaced by 12-month expected credit loss | 6,062 | (5,845) | (217) | - |
| Replaced with expected credit loss for the entire period | (1,556) | 1,700 | (144) | - |
| Replaced with credit-impaired financial assets | (136) | (251) | 387 | - |
| Provisions provided (reversal of unused amount) | (4,354) | 4,349 | (111) | (116) |
| Ending balance | 32,794 | 14,723 | 1,627 | 49,144 |

(*) Beginning balance includes ₩19,455 million of provisions increment according to initial application of K-IFRS 1109.

15. NET DEFINED BENEFIT LIABILITIES (ASSETS):

(9) The Group operates benefit plans for all qualifying employees. Employees and directors with one or more years of service are entitled to receive a payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. The assets of the plans are measured at their fair value at the end of the reporting period. The plan liabilities are measured using the projected unit credit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the plan liabilities.

(10) The Group is exposed to various risks through defined benefit retirement pension plan, and the most significant risks are as follows:

| | |
|---|---|
| Volatility of asset | The defined benefit obligation was estimated with an interest rate calculated based on the yield of high-quality corporate bonds. A deficit may occur if the rate of return of plan assets falls short of the interest rate. |
| Decrease in profitability of high-quality corporate bonds | A decrease in profitability of high-quality corporate bonds will be offset by some increase in the value of debt securities that the employee benefit plan owns, but will bring an increase in the defined benefit liabilities. |
| Risk of inflation | Defined benefit obligations are related to inflation rate; the higher the inflation rate, the higher the level of liabilities. Therefore, deficit occurs in the system if an inflation rate increases. |

(11) Details of net defined benefit liabilities (assets) as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Present value of defined benefit obligations | 28,281 | 22,117 |
| Fair value of plan assets | (28,624) | (23,604) |
| Net defined benefit liabilities (assets) | (343) | (1,487) |

- (12) The amounts recognized in the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017, relating to defined benefit plans are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Current service cost | 4,866 | 4,425 |
| Net interest cost | (122) | (43) |
| Cost recognized in net income | 4,744 | 4,382 |
| Remeasurements | 1,737 | 409 |
| Income tax effect | (612) | (99) |
| Cost recognized in total comprehensive income | <u>5,869</u> | <u>4,692</u> |

- (13) Changes in the present value of defined benefits for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | |
|--|---|-----------------|----------------------------------|
| | Present value of defined benefit obligation | Plan assets | Net defined benefit liability |
| Beginning balance | 22,117 | (23,604) | (1,487) |
| Amount recognized as profit or loss: | | | |
| Current service cost | 4,866 | - | 4,866 |
| Interest expense (income) | 676 | (798) | (122) |
| Subtotal | <u>5,542</u> | <u>(798)</u> | <u>4,744</u> |
| Remeasurement elements that are recognized in other comprehensive income: | | | |
| Return on plan assets | - | 316 | 316 |
| Actuarial gain due to changes in financial assumptions | 1,763 | - | 1,763 |
| Actuarial loss due to empirical adjustments | (342) | - | (342) |
| Subtotal | <u>1,421</u> | <u>316</u> | <u>1,737</u> |
| Payment of contribution | - | (5,160) | (5,160) |
| Benefit from plan asset: | | | |
| Benefit paid (received) | (799) | 622 | (177) |
| Ending balance | <u>28,281</u> | <u>(28,624)</u> | <u>(343)</u> |
| | December 31, 2017 | | |
| | Present value of defined benefit obligation | Plan assets | Net defined benefit liability |
| Beginning balance | 18,252 | (17,782) | 470 |
| Amount recognized as profit or loss: | | | |
| Current service cost | 4,425 | - | 4,425 |
| Interest expense (income) | 456 | (499) | (43) |
| Subtotal | <u>4,881</u> | <u>(499)</u> | <u>4,382</u> |
| Remeasurement elements that are recognized in other comprehensive income: | | | |
| Return on plan assets | - | 290 | 290 |
| Actuarial gain due to changes in financial assumptions | (2,077) | - | (2,077) |
| Actuarial gain due to changes in demographic assumptions | 1,371 | - | 1,371 |
| Actuarial loss due to empirical adjustments | 825 | - | 825 |
| Subtotal | <u>119</u> | <u>290</u> | <u>409</u> |
| Payment of contribution | - | (6,713) | (6,713) |
| Benefit from plan asset: | | | |
| Benefit paid | (1,135) | 1,100 | (35) |

| | December 31, 2017 | | |
|----------------|--|-------------|----------------------------------|
| | Present value of defined benefit obligation | Plan assets | Net defined benefit liability |
| Ending balance | 22,117 | (23,604) | (1,487) |

- (14) The significant actuarial assumptions used in the defined benefit obligation assessment as of December 31, 2018 and 2017, are as follows (Unit: %):

| | December 31, 2018 | December 31, 2017 |
|-------------------------|-------------------|-------------------|
| Discount rate | 2.65 | 3.12 |
| Inflation rate | 2.21 | 2.10 |
| Future wage growth rate | 4.82 | 4.56 |

- (15) The sensitivity of actuarial assumptions used in the assessment of defined benefit obligation as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

| | December 31, 2018 | |
|---|--|----------|
| | Impact on the defined benefit obligation | |
| | Increase | Decrease |
| The change of 1% in discount rate | (2,938) | 3,460 |
| The change of 1% in future salary growth rate | 3,443 | (2,979) |

| | December 31, 2017 | |
|---|--|----------|
| | Impact on the defined benefit obligation | |
| | Increase | Decrease |
| The change of 1% in discount rate | (2,313) | 2,720 |
| The change of 1% in future salary growth rate | 2,723 | (2,357) |

- (16) Details of plan assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|-----------------|-------------------|-------------------|
| Saving deposits | 28,623 | 23,604 |
| Ratio (%) | 100 | 100 |

- (9) The contribution expected to be paid in the next accounting year amounts to ₩5,601 million.

- (10) Retirement benefit cost measured with respect to the defined contribution for the years ended December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Severance benefits-defined contribution | 151 | 321 |

16. DERIVATIVES:

The Group has Korean won floating-rate debentures and foreign currency-denominated bonds entered into an interest rate swap and currency swap contracts to hedge the cash flow variation risk of bonds.

- (9) Details of derivative assets and derivative liabilities as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | |
|-----------------|---------------------------------|-------------|
| | Liabilities for cash flow hedge | |
| | Assets | Liabilities |
| Notional amount | | |

| | | | |
|--------------------|---------|-----|--------|
| Interest rate swap | 200,000 | 263 | 665 |
| Currency swap | 725,979 | - | 33,089 |
| Total | 925,979 | 263 | 33,754 |

December 31, 2017

| | Notional amount | Liabilities for cash flow hedge | |
|--------------------|-----------------|---------------------------------|-------------|
| | | Assets | Liabilities |
| Interest rate swap | 100,000 | 1,193 | - |
| Currency swap | 699,029 | - | 55,651 |
| Total | 799,029 | 1,193 | 55,651 |

(10) Overview of hedge accounting

As of December 31, 2018, the Group has applied cash flow hedge on won-denominated bonds amounting to ₩199,863 million and foreign currency-denominated bonds amounting to ₩723,308 million. The purpose of the hedging is to avoid the cash flow risk of principal and interest arising from fluctuation of interest rate and exchange rate. The Group has designated interest swap contracts and currency swap contracts as hedging instruments in order to achieve such objectives.

Pursuant to the interest rate swap agreement, by swapping the calculated difference between the fixed interest rate and floating interest rate applied to the nominal value, the cash flow fluctuation risk is hedged as the Korean won-denominated debentures' floating interest rate terms are converted to fixed interest rate. In addition, in accordance with the currency swap agreement, the principal amount is exchanged on the commencement date, a fixed interest rate is applied to the nominal value determined in advance, the calculated amount is paid and the amount calculated by applying the floating rate to the US dollar is exchanged. On the end date, the principal exchanged on the start date is returned. As a result, it is to eliminate the cash flow fluctuation risk. Pursuant to the interest rate swap agreement and the currency swap agreement, hedge ratio is determined by matching the nominal value to the face value of the hedging instrument.

In this hedging relationship, only the interest rate fluctuation and the exchange rate fluctuation, which are the most significant part of the cash flow fluctuation factors of the items subject to risk, are designated as the hedged risk and other risk factors, including credit risk, are not included in the hedged risk. Therefore, the ineffective portion of the hedge may arise from the price margin of the trading counterparty and the credit risk fluctuation of either party of the hedged item.

The interest rate swap, the currency swap agreements and the hedged items are subject to market interest rates and exchange rate fluctuations. The Group expects the value of the interest rate swap and currency swap agreements and the value of the hedged item to generally change in the opposite direction.

(11) The nominal amounts of the hedging instrument as of December 31, 2018, are as follows (Unit: Korean won in millions, USD and SGD):

| | 1 year or less | 1 year to 5 years | More than 5 years | Total |
|---------------------------------------|-------------------|----------------------|----------------------|-------------|
| Cash flow hedge: | | | | |
| Interest rate risk: | | | | |
| Interest rate swap | - | 200,000 | - | 200,000 |
| Exchange risk and interest rate risk: | | | | |
| Currency swap (USD) | 50,000,000 | 450,000,000 | - | 500,000,000 |
| Exchange risk: | | | | |
| Currency swap (SGD) | - | 204,000,000 | - | 204,000,000 |

- (12) The average exchange rate and average interest rate of the hedging instrument as of December 31, 2018, are as follows:

| | <u>Average interest rate and average exchange rate</u> |
|---------------------------------------|--|
| Cash flow hedge: | |
| Interest rate risk: | |
| Interest rate swap (KRW) | Average CD+0.63% received, 2.31% paid CMS 3Y+0.4% received, 2.38% paid |
| Exchange risk and interest rate risk: | |
| Currency swap (USD) | USD LIBOR 3M 0.7% received and KRW 1.74% paid, USD/KRW=₩1,136 Average USD LIBOR 1M 0.52% received, KRW 1.71% paid, USD/KRW=₩1,178 |
| Exchange risk: | |
| Currency swap (SGD) | SGD 1.91% received and KRW 1.98% paid, SGD/KRW=₩828 |

The amounts related to items designated as hedging instruments as of December 31, 2018, are as follows (Unit: Korean won in millions, USD and SGD):

| | Nominal amounts of the hedging instrument | Carrying amounts of the hedging instrument | | Line item in the consolidated statement of financial position where the hedging instrument is located | Changes in fair value used for calculating hedge ineffectiveness |
|---------------------------------------|---|---|-------------|---|--|
| | | Assets | Liabilities | | |
| Cash flow hedge: | | | | | |
| Interest rate risk: | | | | | |
| Interest rate swap | 200,000 | 263 | 665 | Derivative assets | (1,447) |
| Exchange risk and interest rate risk: | | | | | |
| Currency swap (USD) | 50,000,000 | - | 28,907 | Derivative liabilities | 21,582 |
| Exchange risk: | | | | | |
| Currency swap (SGD) | 204,000,000 | - | 4,182 | Derivative liabilities | 2,353 |

- (13) Details of the carrying amount to hedged item and amount adjusted due to hedge accounting as of December 31, 2018, are as follows (Unit: Korean won in millions):

| | Carrying amounts of the hedging item | | Line item in the consolidated statement of financial position in which the hedged item is included | Changing in fair value used for calculating hedge ineffectiveness | Cash flow hedge reserve (*) |
|---------------------------------------|---|-------------|---|--|--------------------------------|
| | Assets | Liabilities | | | |
| Cash flow hedge: | | | | | |
| Interest rate risk: | | | | | |
| Interest rate swap | - | 199,863 | Debentures | 1,461 | (169) |
| Exchange risk and interest rate risk: | | | | | |
| Currency swap | - | 557,185 | Debentures | (16,790) | (1,211) |
| Exchange risk: | | | | | |
| Currency swap | - | 166,123 | Debentures | (1,762) | (2,287) |

(*) Amount after tax deduction

- (14) Reclassification of profit or loss from other comprehensive income and equity related to cash flow hedges is as follows (Unit: Korean won in millions):

| | | Effectiveness of hedging instrument recognized in cash flow hedge reserve | Hedge ineffectiveness recognized in profit or loss | Changes in the value of foreign basis spread recognized in other comprehensive income | Line item in the profit or loss that includes hedge ineffectiveness | Amounts reclassified from cash flow hedge reserve to profit or loss | Line item affected in profit or loss because of the reclassification |
|-----------------|--------------------------------------|---|--|---|---|---|--|
| Cash flow hedge | Interest rate risk | (1,455) | 8 | - | Other net operating income | - | Other net operating income |
| | Exchange risk and interest rate risk | 21,429 | 153 | (882) | Other net operating expense | (23,084) | Other net operating income |
| | Exchange risk | 2,353 | - | (491) | Other net operating income | (3,601) | Other net operating income |

- (15) Changes in cash flow hedge reserve related to hedge are as follows (Unit: Korean won in millions):

| | Cash flow hedge reserve |
|---|-------------------------|
| Beginning balance | 1,704 |
| Profit or loss on hedging recognized in cash flow hedge reserve | 21,314 |
| Effective part of the fair value changing of the hedging instrument | 22,327 |
| Changing of foreign basis spread | (1,373) |
| Income tax effect | 360 |
| Reclassified amount in profit or loss | (26,685) |
| Ending balance | (3,667) |

17. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES:

Other financial liabilities and other liabilities as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Other financial liabilities: | | |
| Accounts payable | 719,659 | 362,120 |
| Accrued expenses | 100,043 | 95,966 |
| Prepaid card liabilities | 14,382 | 15,248 |
| Debit card liabilities | 143,322 | 135,401 |
| Guarantee deposit received for import license | 26,547 | 11,475 |
| Domestic exchange obligation payable | 7,260 | 5,230 |
| Others | 2,838 | 604 |
| Subtotal | 1,014,051 | 626,044 |

Other liabilities:

| | | | |
|------------------|----------|------------------|----------------|
| Advance received | | 3,936 | 8,060 |
| Unearned income | | 121,748 | 120,222 |
| Others | | 8,868 | 3,489 |
| | Subtotal | <u>134,552</u> | <u>131,771</u> |
| | Total | <u>1,148,603</u> | <u>757,815</u> |

18. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES:

- (5) Capital stock and capital surplus as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--------------------------------|--------------------------|--------------------------|
| Capital stock: | | |
| Common stock | 896,331 | 896,331 |
| Capital surplus: | | |
| Capital in excess of par value | <u>127,097</u> | <u>127,097</u> |
| Total | <u>1,023,428</u> | <u>1,023,428</u> |

- (6) The numbers of authorized shares as of December 31, 2018 and 2017, are as follows (Unit: Korean won):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|------------------------------------|--------------------------|--------------------------|
| Authorized shares of capital stock | 670,000,000 shares | 670,000,000 shares |
| Par value | 5,000 | 5,000 |
| Issued shares of common stock | 179,266,200 shares | 179,266,200 shares |

- (7) Details of capital surplus as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--------------------------------|--------------------------------------|------------------------------|------------------------------|
| Capital in excess of par value | Increase by issuance of common stock | 127,097 | 127,097 |

19. OTHER EQUITY:

Changes in other equity for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | |
|---|-------------------|----------------------------------|-------------------|----------------|
| | Beginning balance | Increase (decrease) on valuation | Income tax effect | Ending balance |
| Accumulated other comprehensive income: | | | | |
| Gain (loss) on valuation of financial assets at FVTOCI | 34,201 | (58) | (1,473) | 32,670 |
| Remeasurement elements of net defined benefit liability | (3,077) | (1,738) | 612 | (4,203) |
| Cash flow hedging gains or losses | 1,704 | (5,731) | 360 | (3,667) |
| Changes in other comprehensive income of foreign operations translation | (286) | (324) | 102 | (508) |
| Total | <u>32,542</u> | <u>(7,851)</u> | <u>(399)</u> | <u>24,292</u> |
| | | | | |
| | December 31, 2017 | | | |
| | Beginning balance | Increase (decrease) on valuation | Income tax effect | Ending balance |
| Accumulated other comprehensive income: | | | | |
| Gain (loss) on valuation of AFS securities | 29,393 | 6,343 | (1,535) | 34,201 |
| Remeasurement elements of net defined benefit liability | (2,767) | (409) | 99 | (3,077) |
| Cash flow hedging gains or losses | (118) | 2,155 | (333) | 1,704 |
| Changes in other comprehensive income of foreign operations translation | (73) | (280) | 67 | (286) |
| Total | <u>26,435</u> | <u>7,809</u> | <u>(1,702)</u> | <u>32,542</u> |

20. RETAINED EARNINGS:

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

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Legal reserve: | | |
| Earned surplus reserve | 111,745 | 111,745 |
| Voluntary reserve: | | |
| Regulatory reserve for credit loss | 403,277 | 342,131 |
| Retained earnings before appropriation | <u>119,222</u> | <u>110,674</u> |
| Total | <u>634,244</u> | <u>564,550</u> |

21. REGULATORY RESERVE FOR CREDIT LOSS:

In accordance with Article 11 of the Regulation on the Supervision of Banking Business (“RSBB”), if provisions for credit loss under K-IFRS for the accounting purpose are lower than those for the regulatory purpose required by RSBB, the Group is required to reserve such difference as regulatory reserve for credit loss.

The regulatory reserve for credit loss is classified as appropriated retained earnings. The excess of provisions under RSBB over provisions for credit loss under K-IFRS can be reversed. If the Group has accumulated deficits, the Group should recommence setting aside reserve for credit loss at the time when the accumulated deficits are offset.

- (3) Details of balance of the planned regulatory reserve for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Beginning balance | 403,277 | 342,131 |
| Planned reversal of regulatory reserve for credit loss | (16,096) | 61,146 |
| Ending balance | 387,181 | 403,277 |

- (4) Planned reserves provided, adjusted net income after the planned reserves provided and adjusted EPS after the planned reserves provided for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions, except for EPS amount):

| Classification | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Net income | 126,534 | 92,734 |
| Provision (reversal) of regulatory reserve for credit loss (Note 1) | 44,626 | 61,146 |
| Adjusted net income after the provision (reversal) of regulatory reserve | 81,908 | 31,588 |
| Adjusted EPS after the provision (reversal) of regulatory reserve (Unit: KRW) | 458 | 181 |

- (Note 1) The amount of reserve for credit losses has been calculated based only on the change in the reserve for credit loss after the accounting policy change due to adoption of K-IFRS 1109. As a result, the effect of reducing the reserve for credit losses due to changes in accounting policies was excluded.

22. NET INTEREST INCOME:

Net interest income is the amount of interest expenses deducted from the amount of interest income, of which details of credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Interest income: | | |
| Interest on due from banks | 1,719 | 3,112 |
| Interest on financial assets at amortized cost | 667,187 | - |
| Interest on loans and receivables | - | 596,438 |
| Subtotal | 668,906 | 599,550 |
| Interest expenses: | | |
| Interest on borrowings | 998 | 868 |
| Interest on debentures | 159,588 | 134,915 |
| Others | 530 | 164 |

| | | |
|---------------------|----------------|----------------|
| Subtotal | 161,116 | 135,947 |
| Net interest income | <u>507,790</u> | <u>463,603</u> |

23. NET FEES AND COMMISSIONS INCOME:

Net fees and commission income are the amount of fees and commission expenses deducted from the amount of fees and commission income, of which details of credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Commission received: | | |
| Commission received on credit card | 607,351 | 1,059,857 |
| Commission received on loans and discounts | 997 | 230 |
| Commission received on installment financing | 825 | 419 |
| Commission received on financial lease | 1,971 | 469 |
| Other commission received | 965 | 837 |
| Subtotal | <u>612,109</u> | <u>1,061,812</u> |
| Commission expenses: | | |
| Commission expenses on credit card | 580,971 | 1,010,363 |
| Commission expenses on loans and discounts | 4,345 | 6,401 |
| Commission expenses on installment financing | 1,409 | 4,032 |
| Commission expenses on financial lease | 1,597 | 1,282 |
| Other commission expenses | 11,489 | 9,297 |
| Subtotal | <u>599,811</u> | <u>1,031,375</u> |
| Net fees and commission income | <u>12,298</u> | <u>30,437</u> |

24. DIVIDEND INCOME:

Details of dividend income recognized for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Financial assets at FVTOCI (AFS financial assets): | | |
| Dividend in local currency | 9,026 | 7,410 |
| Distribution of capital contribution | 1,128 | 1,299 |
| Total | 10,154 | 8,709 |

25. GAINS OR LOSSES RELATED TO FINANCIAL INSTRUMENTS AT FVTPL:

Details of gains or losses related to financial assets at FVTPL (K-IFRS 1109 and K-IFRS 1039) for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Net gain (loss) on disposal of financial instruments at FVTPL | 2,749 | 1,514 |

26. GAINS OR LOSSES ON AFS FINANCIAL ASSETS:

Details of gains or losses on AFS financial assets for credit loss as of December 31, 2017, are as follows (Unit: Korean won in millions):

| Classification | 2017 |
|--|------|
| Gain on disposal of AFS financial assets | 346 |
| Impairment loss on AFS financial assets | (92) |
| Total | 254 |

27. IMPAIRMENT LOSSES DUE TO CREDIT LOSS:

Impairment losses for loans, other receivables, guarantees and unused commitments for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Financial assets at amortized cost: | | |
| Bad debt expense | 244,881 | 226,023 |
| Guarantees and commitments: | | |
| Provision for guarantees: | | |
| Reversal of provision for guarantees | (3) | (121) |
| Provision for unused commitments: | | |
| Reserve (reversal) of provision for unused commitments | (116) | (4,039) |
| Subtotal | (119) | (4,160) |
| Total | 244,762 | 221,863 |

28. GENERAL AND ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME (EXPENSE):

(3) Details of general and administrative expenses for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | 2018 | 2017 |
|--|---------|---------|
| Salaries: | | |
| Short-term employee benefits: | | |
| Salaries and wages | 56,073 | 50,354 |
| Employee benefits | 12,733 | 11,825 |
| Retirement benefit service costs | 4,895 | 5,769 |
| Subtotal | 73,701 | 67,948 |
| Depreciation | 6,158 | 5,666 |
| Amortization | 5,320 | 3,850 |
| Other general and administrative expenses: | | |
| Reimbursement | 787 | 718 |
| Business taskforce cost | 1,351 | 1,014 |
| Rent expense | 17,726 | 18,077 |
| Advertising | 4,022 | 3,487 |
| Taxes and public dues | 13,693 | 13,258 |
| Computer and IT-related expense | 31,716 | 32,948 |
| Service charges | 3,787 | 5,108 |
| Telephone and communication | 5,793 | 5,330 |
| Supplies | 527 | 503 |
| Others | 6,184 | 5,629 |
| Subtotal | 85,586 | 86,072 |
| Total | 170,765 | 163,536 |

- (4) Details of net other operating income (expenses) for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|--|----------------------|---------------------|
| Other operating income: | | |
| Gain on sale of loans | 35,350 | 3,859 |
| Gain on valuation of derivatives | 26,698 | 128 |
| Reversal of provision for other provisions (*) | 59 | 13 |
| Gain on translation of foreign currency | - | 56,621 |
| Other income | 30,687 | 23,258 |
| Subtotal | <u>92,794</u> | <u>83,879</u> |
| Other operating expenses: | | |
| Loss on sale of loans | 5 | - |
| Loss on valuation of derivatives | - | 56,585 |
| Provision for credit card points | - | 16,745 |
| Provision for other provisions (*) | 390 | 378 |
| Loss on translation of foreign currency | 27,597 | - |
| Other expenses | 15,494 | 6,427 |
| Subtotal | <u>43,486</u> | <u>80,135</u> |
| Total | <u><u>49,308</u></u> | <u><u>3,744</u></u> |

(*) Provision for restoration, provision for illegal use of credit card and other provisions are included.

29. **NON-OPERATING INCOME (EXPENSES):**

Details of other non-operating income (expenses) for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| Classification | December 31, 2018 | December 31, 2017 |
|--|---------------------|---------------------|
| Non-operating income: | | |
| Reversal of intangible asset impairment loss | 270 | - |
| Other income | 3,478 | 2,263 |
| Subtotal | <u>3,748</u> | <u>2,263</u> |
| Non-operating expenses: | | |
| Tangible asset waste loss | 24 | 104 |
| Loss on disposal of intangible assets | 27 | - |
| Impairment of intangible assets | - | 116 |
| Donation | 3,846 | 2,723 |
| Other expenses | 110 | 101 |
| Subtotal | <u>4,007</u> | <u>3,043</u> |
| Total | <u><u>(259)</u></u> | <u><u>(780)</u></u> |

30. INCOME TAX EXPENSE:

- (6) Details of income tax expense for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Current income tax payable | 26,787 | 28,414 |
| Adjustment recognized in the period for current tax of prior periods | (224) | (532) |
| Changes in deferred income taxes due to temporary differences | (4,333) | 3,168 |
| Changes in deferred income taxes directly reflected in equity | (399) | (1,702) |
| Other changes | 18,148 | - |
| Income tax expense | <u>39,979</u> | <u>29,348</u> |

- (7) The relationship between income tax expense and income before income tax expense for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Net income before income tax expense | 166,513 | 122,082 |
| Tax calculated at statutory tax rate (*) | 39,834 | 29,082 |
| Adjustments: | | |
| Effect of non-taxable income | (8,169) | (549) |
| Effect of non-deductible expenses | 4,125 | 210 |
| Adjustment recognized in the period for current tax of prior periods | (224) | (532) |
| Others | 4,413 | 1,137 |
| Income tax expense | <u>39,979</u> | <u>29,348</u> |
| Effective tax rate | 24.01% | 24.04% |

- (*) The corporate tax rate is 11% for income below ₩200 million, 22% for income more than ₩200 million and below ₩20 billion, 24.2% for income more than ₩20 billion and below ₩300 billion and 27.5% for income more than ₩300 billion.

(8) Changes in cumulative temporary differences as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | | | |
|---|-------------------|-----------------------------|---|----------------|
| | Beginning balance | Recognized as income (loss) | Recognized as other comprehensive income (loss) | Ending balance |
| Unearned income in local currency (card point) | 28,898 | 4,079 | - | 32,977 |
| Other provisions | 8,893 | 6,005 | - | 14,898 |
| Gain on valuation of FVTOCI | (10,922) | 3 | (1,473) | (12,392) |
| Gain on valuation of securities | (9,348) | (1,365) | - | (10,713) |
| Unconfirmed expenses | 8,972 | (2,540) | - | 6,432 |
| Retirement benefit obligation | 5,212 | 1,841 | 612 | 7,665 |
| Provision for retirement insurance benefits | (4,111) | (1,706) | - | (5,817) |
| Asset retirement obligation | 1,262 | 177 | - | 1,439 |
| Impairment loss on membership | 661 | (345) | - | 316 |
| Discount on present value of installment receivable | 830 | 1,894 | - | 2,724 |
| Amortization of goodwill | 307 | (307) | - | - |
| Asset retirement obligation on leased office facilities | (677) | (665) | - | (1,342) |
| Gain (loss) on fair value of properties for business use | (298) | (41) | - | (339) |
| Deferred loan origination cost (fee) | (3,078) | (3,665) | - | (6,743) |
| Leased office facilities | 342 | 803 | - | 1,145 |
| Impairment loss on FVTOCI | 32 | 5 | - | 37 |
| Gain on fair value of buildings for business use | 92 | 21 | - | 113 |
| Loss on valuation of derivatives | 735 | (688) | 360 | 407 |
| Gain (loss) on foreign currency translation of foreign operations | 91 | - | 102 | 193 |
| Others | 156 | 1,226 | - | 1,382 |
| Net deferred tax assets (liabilities) | 28,049 | 4,732 | (399) | 32,382 |

| | December 31, 2017 | | | |
|--|-------------------|-----------------------------|---|----------------|
| | Beginning balance | Recognized as income (loss) | Recognized as other comprehensive income (loss) | Ending balance |
| Unearned income in local currency (card point) | 27,950 | 948 | - | 28,898 |
| Other provisions | 9,778 | (885) | - | 8,893 |
| Gain on valuation of AFS financial assets | (9,384) | (3) | (1,535) | (10,922) |
| Gain on valuation of securities | (9,286) | (62) | - | (9,348) |
| Unconfirmed expenses | 8,249 | 723 | - | 8,972 |
| Retirement benefit obligation | 4,268 | 845 | 99 | 5,212 |
| Provision for retirement insurance benefits | (3,236) | (875) | - | (4,111) |
| Asset retirement obligation | 1,190 | 72 | - | 1,262 |
| Impairment loss on membership | 633 | 28 | - | 661 |
| Discount on present value of installment receivable | 507 | 323 | - | 830 |
| Amortization of goodwill | 307 | - | - | 307 |
| Asset retirement obligation on leased office facilities | (301) | (376) | - | (677) |
| Gain (loss) on fair value of properties for business use | (298) | - | - | (298) |
| Deferred loan origination cost (fee) | - | (3,078) | - | (3,078) |
| Leased office facilities | 227 | 115 | - | 342 |
| Impairment loss on AFS financial assets | 188 | (156) | - | 32 |
| Gain on fair value of buildings for business use | 126 | (34) | - | 92 |
| Others | 299 | 949 | (266) | 982 |

| | December 31, 2017 | | | Ending balance |
|---------------------------------------|----------------------|-----------------------------------|--|-------------------|
| | Beginning balance | Recognized as income (loss) | Recognized as other comprehensive income (loss) | |
| Net deferred tax assets (liabilities) | 31,217 | (1,466) | (1,702) | 28,049 |

- (9) Details of deferred tax relating to items that are recognized directly in equity as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018, | December 31, 2017 |
|---|--------------------|-------------------|
| Loss on valuation of financial assets at FVTOCI | (12,392) | - |
| Loss on valuation of AFS financial assets | - | (10,919) |
| Remeasurements of net defined benefit plan | 1,594 | 982 |
| Cash flow hedging gains or losses | 64 | (296) |
| Exchange difference in foreign operation | 193 | 91 |
| Total | (10,541) | (10,142) |

- (10) Current tax assets and liabilities as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|-------------------------|-------------------|-------------------|
| Current tax assets | - | - |
| Current tax liabilities | 23,623 | 13,485 |

31. **EPS:**

- (1) Details of basic EPS for credit loss as of December 31, 2018 and 2017, are as follows:

| Classification | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Net income (Unit: KRW in millions) | 126,534 | 92,734 |
| Weighted-average number of shares outstanding (Unit: In millions) | 179 | 175 |
| Net income per share (Unit: KRW) | 706 | 530 |

The Group had not diluted potential ordinary shares for the reporting periods. Accordingly, diluted EPS equals basic EPS for credit loss as of December 31, 2018 and 2017.

32. **CONTINGENT LIABILITIES AND COMMITMENTS:**

- (6) Details of guarantees which the Group has provided to others as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions, except ratio):

| | |
|-------------------------------------|-------|
| Confirmed guarantees: | |
| Credit card restricted for purchase | 1,326 |
| Provisions for guarantees | 3 |
| Ratio (%) | 0.23 |

- (7) Details of loan commitments and other commitments, which the Group provided for others, as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions, except ratio):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-------------------------------------|--------------------------|--------------------------|
| Loan commitments in local currency: | | |
| Unused credit limits | 32,174,569 | 30,609,338 |
| Provisions for unused commitments | 49,144 | 29,805 |
| Ratio (%) | 0.15 | 0.10 |

- (8) Details of loan commitments and other commitments, which the Group was provided, at December 31, 2018, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | |
|-----------------|--------------------------|-----------------------|
| | <u>Financial company</u> | <u>Limited amount</u> |
| Loan commitment | Woori Bank | <u>500,000</u> |

- (9) Details of lawsuits that the Group has filed and faced as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | |
|----------------------|--------------------------|---------------------|
| | <u>As plaintiff</u> | <u>As defendant</u> |
| Number of cases | 17 cases | 12 cases |
| Amount of litigation | <u>29,032</u> | <u>184</u> |
| | <u>December 31, 2017</u> | |
| | <u>As plaintiff</u> | <u>As defendant</u> |
| Number of cases | 10 cases | 11 cases |
| Amount of litigation | <u>1,777</u> | <u>301</u> |

As of December 31, 2018 and 2017, the lawsuits discussed above do not include litigations in regard to electronic claims for late payment on credit cards. Accordingly, these lawsuits have no significant impact on the consolidated financial statements as of December 31, 2018 and 2017.

- (10) Early redemption in relation to asset securitization
As prescribed by the agreements, risk of investors based on the changes in asset quality is limited due to the trigger condition that is created for credit supplement.
The Group has an obligation to early redeem the asset-backed securities in case the trigger condition is breached.
- (11) Others
Among the receivables that have been written off, the Group recognizes the following items as written-off loans: a) loans that are legally effective since the statute of limitations has not expired or b) loans that the Group still has the right to claim against debtors due to the failure of collection of written-off loans.
Accordingly, the balances of the Group's written-off loans as of December 31, 2018 and 2017, are ₩1,026,370 million and ₩924,740 million, respectively.

33. ASSET-BACKED SECURITIZATION:

The Group has transferred some of its financial instruments, such as credit card receivables, to the trust company pursuant to the Asset-Backed Securitization Act.

- (3) The initial transfer price of the credit card receivable that the Group sold by the Asset-Backed Securitization Act is as follows (Unit: Korean won in millions):

| | <u>Initial transfer date</u> | <u>Transfer value (*)</u> |
|--|------------------------------|---------------------------|
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | 2017.01.23 | 692,495 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | 2017.11.09 | 672,383 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | 2018.10.31 | <u>567,997</u> |

(*) The effects of provision and present value discount are excluded.

- (4) The receivables sold, but uncollected by the Asset-Backed Securitization Act as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>Assets sold</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------|--------------------------|--------------------------|
| Woori Card 2017-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | 631,282 | 583,645 |
| Woori Card 2017-2 Asset Securitization Specialty Co., Ltd. | Credit card assets | 565,691 | 534,395 |
| Woori Card 2018-1 Asset Securitization Specialty Co., Ltd. | Credit card assets | <u>524,552</u> | <u>-</u> |

34. RELATED-PARTY TRANSACTIONS:

- (10) Related parties of the Group

- 1) The Parent Company of the Group as of December 31, 2018, is Woori Bank (100% share ratio).
- 2) As of December 31, 2018, related parties of the Group are summarized as follows:

| | <u>Related parties</u> |
|--------|---|
| Parent | Woori Bank |
| Others | Woori FIS Co., Ltd., Woori Private Equity Co., Ltd., Woori Finance Research Institute Co., Ltd., Woori Investment Bank Co., Ltd., Woori Credit Information Co., Ltd., Woori America Bank, PT Bank Woori Saudara Indonesia 1906 Tbk, Woori Global Markets Asia Limited, Woori Bank China Limited, Ao Woori Bank, Banco Woori Bank do Brasil S.A., Korea BTL Infrastructure Fund, Woori Fund Service Co., Ltd., Woori Finance Cambodia PLC, WB Finance Co., Ltd., Woori Finance Myanmar Co., Ltd., Wealth Development Bank, Woori Bank Vietnam Limited, Woori Bank Principal and Interest Guaranteed Trust, Woori Bank Principal Guaranteed Trust, Kumho Trust 1st Co., Ltd. and 34 SPCs, HeungkukWoori Tech Company Private Placement Investment Trust No. 1 and 6 beneficiary certificates, Woori Service Networks Co., Ltd., Korea Credit Bureau Co., Ltd., Korea Finance Security Co., Ltd., Chin Hung International Inc., 2016KIF-IMM Woori Bank Technology Venture Fund, K BANK Co., Ltd., Well to Sea No. 3 Private Equity Fund and others (Dongwoo C&C Co., Ltd. and 28 associates) |

- (11) The Group's key management includes the registered directors and executives with important authority and responsibilities for plans, operations and regulations of the Group's activities. Details of compensation for key management for credit loss as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|----------|--------------------------|--------------------------|
| Salaries | 3,215 | 3,470 |

| | | |
|-----------------------------------|--------------------------|--------------------------|
| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
| Severance and retirement benefits | <u>121</u> | <u>319</u> |

(12) Significant transactions with related parties for credit loss as of December 31, 2018 and 2017, are as follows
(Unit: Korean won in millions):

| | | <u>December 31, 2018</u> | | | | | |
|------------------------|--|-----------------------------|-----------------------------|------------------------------|-------------------------------|--|---------------------------------------|
| <u>Related parties</u> | | <u>Interest revenue</u> | <u>Interest expense</u> | <u>Commission income</u> | <u>Commission expense</u> | <u>Bad debt expense (reversal)</u> | <u>Other operating income</u> |
| Parent | Woori Bank | 62 | 997 | 211 | 142,430 | - | 968 |
| Others | Woori Credit Information Co. Ltd. | - | - | - | 7,434 | - | 3,099 |
| | Woori FIS Co., Ltd. | 4 | - | 27 | 12 | - | 29,677 |
| | Woori Finance Research Institute Co., Ltd. | - | - | 2 | 1 | - | - |
| | Woori Investment Bank Co., Ltd. | 361 | - | - | - | - | - |
| | Korea Credit Bureau Co., Ltd. | - | - | - | 2,310 | - | - |
| | Woori Service Networks Co., Ltd. | - | - | - | 490 | - | 277 |
| | Korea Finance Security Co., Ltd. | - | - | - | - | 4 | 146 |
| | Chin Hung International Inc. | - | - | - | - | 12 | - |
| | Total | <u>427</u> | <u>997</u> | <u>240</u> | <u>152,677</u> | <u>16</u> | <u>34,167</u> |

| | | <u>December 31, 2017</u> | | | | |
|------------------------|--|-----------------------------|------------------------------|-------------------------------|--|---------------------------------------|
| <u>Related parties</u> | | <u>Interest revenue</u> | <u>Commission income</u> | <u>Commission expense</u> | <u>Bad debt expense (reversal)</u> | <u>Other operating income</u> |
| Parent | Woori Bank | 74 | 131 | 143,072 | - | 809 |
| Others | Woori Credit Information Co. Ltd. | - | - | 5,529 | - | 2,753 |
| | Woori FIS Co., Ltd. | 4 | 27 | 11 | - | 29,327 |
| | Woori Finance Research Institute Co., Ltd. | - | 3 | 129 | - | - |
| | Woori Investment Bank Co., Ltd. | 902 | - | - | - | - |
| | Korea Credit Bureau Co., Ltd. | - | - | 2,079 | - | - |
| | Woori Service Networks Co., Ltd. | - | - | 422 | - | 274 |
| | Korea Finance Security Co., Ltd. | - | - | - | - | 134 |
| | Kumho Tires Co., Ltd. | - | - | - | 75 | - |
| | Chin Hung International Inc. | - | - | - | (254) | - |
| | STX Engine Co., Ltd. | - | - | - | 36 | - |
| | STX Corporation | - | - | - | 19 | - |
| | Total | <u>980</u> | <u>161</u> | <u>151,242</u> | <u>(124)</u> | <u>33,297</u> |

(13) Significant balances with related parties as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | | December 31, 2018 | | | | | |
|-----------------|--|-------------------|-----------------------------|----------|--------------|------------|-------------------|
| | | Receivables | | | Payable | | |
| Related parties | | Credit card asset | Provision for credit losses | Deposits | Other assets | Borrowings | Other liabilities |
| Parent | Woori Bank | 11,428 | (3) | 78,490 | 3,088 | 4,485 | 14,961 |
| Others | Woori Credit Information Co. Ltd. | 88 | - | - | - | - | 1,040 |
| | Woori Fund Service Co., Ltd. | 41 | - | - | - | - | - |
| | Woori FIS Co., Ltd. | 559 | - | - | - | - | 3,911 |
| | Woori Private Equity Co., Ltd. | 28 | - | - | - | - | - |
| | Woori Finance Research Institute Co., Ltd. | 34 | - | - | - | - | - |
| | Woori Investment Bank Co., Ltd. | 180 | - | 50,000 | 23 | - | - |
| | Korea Credit Bureau Co., Ltd. | 7 | - | - | - | - | - |
| | Woori Service Networks Co., Ltd. | 69 | - | - | - | - | - |
| | Korea Finance Security Co., Ltd. | 58 | (4) | - | - | - | 5 |
| | Chin Hung International Inc. | 241 | (34) | - | - | - | 14 |
| | K BANK Co., Ltd. | 185 | - | - | - | - | - |
| | Total | 12,918 | (41) | 128,490 | 3,111 | 4,485 | 19,931 |

| | | December 31, 2017 | | | | | |
|-----------------|--|-------------------|-----------------------------|----------|--------------|-------------------|----|
| | | Receivables | | | Payable | | |
| Related Parties | | Credit card asset | Provision for credit losses | Deposits | Other assets | Other liabilities | |
| Parent | Woori Bank | 11,088 | (2) | 65,326 | 3,905 | 9,492 | |
| Others | Woori Credit Information Co. Ltd. | 123 | - | - | - | 1,070 | |
| | Woori Fund Service Co., Ltd. | 40 | - | - | - | - | |
| | Woori FIS Co., Ltd. | 511 | - | - | - | - | |
| | Woori Private Equity Co., Ltd. | 18 | - | - | - | - | |
| | Woori Finance Research Institute Co., Ltd. | 36 | - | - | - | - | |
| | Woori Investment Bank Co., Ltd. | 168 | - | - | - | - | |
| | Korea Credit Bureau Co., Ltd. | 6 | - | - | - | - | |
| | Woori Service Networks Co., Ltd. | 45 | - | - | - | - | |
| | Korea Finance Security Co., Ltd. | 56 | - | - | - | - | |
| | Kumho Tires Co., Ltd. | 364 | (91) | - | - | - | 49 |
| | Chin Hung International Inc. | 408 | (22) | - | - | - | 2 |
| | STX Engine Co., Ltd. | 132 | (131) | - | - | - | - |
| | STX Corporation | 47 | (46) | - | - | - | 53 |
| | K BANK Co., Ltd. | 212 | - | - | - | - | - |
| | Total | 13,254 | (292) | 65,326 | 3,905 | 10,666 | |

In addition, the Group provided Woori Bank and Hong Kong Woori Investment Bank with a fee of ₩50 million and ₩30 million, respectively, for the issuance of the asset-backed securitization.

(14) Changes in credit card asset for credit loss as of December 31, 2018, are as follows (Unit: Korean won in millions):

| Related parties | | Beginning balance | Increase | Decrease | Ending balance |
|-----------------|-----------------------------------|-------------------|----------|----------|----------------|
| Parent | Woori Bank | 11,088 | 216,989 | 216,649 | 11,428 |
| Others | Woori Credit Information Co. Ltd. | 123 | 1,602 | 1,637 | 88 |
| | Woori Fund Service Co., Ltd. | 40 | 571 | 570 | 41 |
| | Woori FIS Co., Ltd. | 511 | 6,258 | 6,210 | 559 |
| | Woori Private Equity Co., Ltd. | 18 | 379 | 369 | 28 |

| | | | | |
|--|-----|-------|-------|-----|
| Woori Finance Research Institute Co., Ltd. | 36 | 252 | 254 | 34 |
| Woori Investment Bank Co., Ltd. | 168 | 2,549 | 2,537 | 180 |
| Korea Credit Bureau Co., Ltd. | 6 | 54 | 53 | 7 |
| Woori Service Networks Co., Ltd. | 45 | 422 | 398 | 69 |
| Korea Finance Security Co., Ltd | 56 | 638 | 636 | 58 |
| Chin Hung International Inc. | 408 | 2,269 | 2,436 | 241 |
| K BANK Co., Ltd. | 212 | 2,073 | 2,100 | 185 |

- (15) Details of borrowing transactions with the related parties for credit loss as of December 31, 2018, are as follows (Unit: Korean won in millions):

| Related parties | | December 31, 2018 | |
|-----------------|------------------------|------------------------|-----------|
| | | Financing transactions | |
| | | Borrowings | Repayment |
| Parent | Woori Bank (Singapore) | 4,485 | - |

- (16) There are no significant equity transactions with the related parties for credit loss as of December 31, 2018 and 2017.
- (17) Guarantees between the related parties as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

1) Guarantees provided to the related parties are as follows:

| | Warranty | December 31, | December 31, |
|--|-----------------|--------------|--------------|
| | | 2018 | 2017 |
| Woori Bank | Loan commitment | 174,287 | 178,893 |
| Woori FIS Co., Ltd. | Loan commitment | 1,154 | 2,226 |
| Woori Credit Information Co., Ltd. | Loan commitment | 695 | 661 |
| Woori Private Equity Co., Ltd. | Loan commitment | 172 | 182 |
| Woori Fund Service Co., Ltd. | Loan commitment | 59 | 60 |
| Woori Finance Research Institute Co., Ltd. | Loan commitment | 294 | 318 |
| Woori Investment Bank Co., Ltd. | Loan commitment | 320 | 354 |
| Chin Hung International Inc. | Loan commitment | 309 | 142 |
| Korea Finance Security Co., Ltd. | Loan commitment | 203 | 204 |
| Korea Credit Bureau Co., Ltd | Loan commitment | 28 | 29 |
| Woori Service Networks Co., Ltd. | Loan commitment | 131 | 155 |
| Kumho Tires Co., Ltd. (Note 1) | Loan commitment | - | 636 |
| STX Corporation (Note 2) | Loan commitment | - | 53 |
| K BANK Co., Ltd. | Loan commitment | 15 | - |

(Note 1) It was a related entity of the Parent Company, but it was excluded from the associate because it lost significant influence due to the third-party rights offering.

(Note 2) The company was a related party of the Parent Company, but was excluded from the associate in the current year after the replacement with the asset held for sale.

2) Guarantees received from related parties

Unused commitments received from Woori Bank as of December 31, 2018 and 2017, are ₩500,000 million each.

(18) Details of derivative assets and commitment amount related to the liabilities with related parties as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | | December 31, 2018 | December 31, 2017 |
|------------|----------------------|-------------------|-------------------|
| Woori Bank | Unsettled commitment | 100,000 | 100,000 |

(10) The Group has the responsibility to jointly reimburse Woori Bank for the debts of Woori Bank prior to the split.

35. CONSOLIDATED STATEMENTS OF CASH FLOWS:

(1) Major transactions without cash inflows and outflows as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Other comprehensive income - fair value measurement | | |
| Changes in other comprehensive income related to the valuation of financial assets | (58) | - |
| Changes in other comprehensive income related to the valuation of AFS financial asset | - | 6,343 |
| Changes in other comprehensive income related to remeasurement of defined benefit plans | (1,737) | (409) |
| Changes in other comprehensive income related to cash flow hedge | (5,730) | 2,403 |
| Changes in other comprehensive income related to translation of overseas business | (320) | (294) |

(2) Changes in liabilities arising from financial activities as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

| December 31, 2018 | | | | | |
|-------------------|------------|------------------------------|----------------------|--------------|-----------|
| | Foundation | Financial activity cash flow | Non-cash transaction | | |
| | | | Currency fluctuation | Amortization | Term |
| Borrowing debt | - | 3,839 | 646 | - | 4,485 |
| Issued bonds | 6,121,803 | 887,802 | 26,951 | 3,373 | 7,039,929 |
| December 31, 2017 | | | | | |
| | Foundation | Financial activity cash flow | Non-cash transaction | | |
| | | | Currency fluctuation | Amortization | Term |
| Issued bonds | 5,317,130 | 858,745 | (56,621) | 2,549 | 6,121,803 |

36. IMPACT OF ADOPTION OF K-IFRS 1115:

In accordance with the adoption of K-IFRS 1115, the Group has changed its related accounting policies by deducting revenue from rewards and points provided to card members as a consideration for the payment to customers. The effect of changes in accounting policy on each item of consolidated financial statements as of December 31, 2018, is as follows (Unit: Korean won in millions):

| | Consolidated financial statements | | |
|-----------------------------|---|-------------|-------------|
| | Existing revenue recognition standard | Adjustments | K-IFRS 1115 |
| Assets | 9,987,400 | - | 9,987,400 |
| Liabilities: | 8,305,436 | - | 8,305,436 |
| Borrowing debt | 4,485 | - | 4,485 |
| Issued bonds | 7,039,929 | - | 7,039,929 |
| Provision | 59,408 | (4,366) | 55,042 |
| Current tax liabilities | 23,623 | - | 23,623 |
| Derivative liabilities | 33,754 | - | 33,754 |
| Other financial liabilities | 1,014,051 | - | 1,014,051 |
| Other liabilities | 130,186 | 4,366 | 134,552 |
| Equity | 1,681,964 | - | 1,681,964 |

| | Consolidated statement of comprehensive income | | |
|--|--|-------------|-------------|
| | Existing revenue recognition standard | Adjustments | K-IFRS 1115 |
| Operating profit | 166,772 | - | 166,772 |
| Net interest income | 507,790 | - | 507,790 |
| Net commission income | 29,693 | (17,395) | 12,298 |
| Commission revenue | 1,138,087 | (525,978) | 612,109 |
| Fees | 1,108,394 | (508,583) | 599,811 |
| Dividend income | 10,154 | - | 10,154 |
| Profit or loss - fair value measurement | 2,749 | - | 2,749 |
| Financial assets | | | |
| Impairment loss on credit loss | 244,762 | - | 244,762 |
| General maintenance fee | 170,765 | - | 170,765 |
| Other operating income | 31,913 | 17,395 | 49,308 |
| Non-operating profit / loss | (259) | - | (259) |
| Net income before income taxes | 166,513 | - | 166,513 |
| Net income | 126,534 | - | 126,534 |
| Total comprehensive income | 118,284 | - | 118,284 |

The adoption of K-IFRS 1115 has no significant effect on the consolidated statement of cash flows.

37. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS:

The Group has rewritten previous consolidated financial statements with respect to the attributable errors and misidentification of the corporate alliance points attributable to the annual fee income before December 31, 2017.

(1) The effect on the consolidated financial statements as of January 1, 2017, and for the year ended December 31, 2017, as a result of restatement of the consolidated financial statements is as follows (Unit: Korean won in millions):

| | December 31, 2017 | | | January 1, 2017 | | |
|----------------------------|-------------------|----------------|----------------|-----------------|----------------|----------------|
| | Revised | Revised amount | After revision | Revised | Revised amount | After revision |
| Assets | 8,607,481 | 3,757 | 8,611,238 | 7,606,108 | 1,050 | 7,607,158 |
| Deferred income tax assets | 24,292 | 3,757 | 28,049 | 30,167 | 1,050 | 31,217 |
| Liabilities | 6,975,193 | 15,525 | 6,990,718 | 6,180,893 | 4,338 | 6,185,231 |
| Other liabilities | 116,246 | 15,525 | 131,771 | 116,507 | 4,338 | 120,845 |
| Equity | 1,632,288 | (11,768) | 1,620,520 | 1,425,215 | (3,288) | 1,421,927 |
| Retained earnings | 576,318 | (11,768) | 564,550 | 475,104 | (3,288) | 471,816 |

(2) The effect on the consolidated statement of comprehensive income for the year ended December 31, 2017, as a result of the restatement of the consolidated financial statements is as follows.

| | December 31, 2017 | | |
|--------------------------------|-------------------|----------------|----------------|
| | Revised | Revised amount | After revision |
| Operating profit | 134,049 | (11,187) | 122,862 |
| Commission revenue | 1,072,999 | (11,187) | 1,061,812 |
| Non-operating profit / loss | (780) | - | (780) |
| Net income before income taxes | 133,269 | (11,187) | 122,082 |
| Income tax expense | (32,055) | 2,707 | (29,348) |
| Net income | 101,214 | (8,480) | 92,734 |
| Total comprehensive income | 107,322 | (8,480) | 98,842 |

38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS:

These consolidated financial statements have been approved by the board of directors on February 11, 2019, and will be finalized at the shareholders' meeting on March 26, 2019.

39. EVENTS AFTER THE REPORTING PERIOD:

After the end of the reporting period, Woori Finance Holdings Co., Ltd. was established on January 11, 2019. Accordingly, the Group has been transferred to Woori Finance Holdings Co., Ltd. as a subsidiary.

THE ISSUER

Woori Card Co., Ltd.
50, Jong-ro 1-gil
Jongno-gu, Seoul, Korea

LEGAL ADVISORS

To the Issuer as to matters of Korean law

LAB Partners
8th Floor, VPLEX
501, Teheran-ro, Gangnam-gu,
Seoul, Korea

To the Issuer as to matters of Taiwanese law

Lee and Li, Attorneys-at-Law
8th Floor, No.555, Sec. 4,
Zhongxiao E. Rd.
11072,
Taipei, Taiwan

To the Initial Purchasers as to matters of U.S. law

Simpson Thacher & Bartlett
35th Floor, ICBC Tower
3 Garden Road, Central
Hong Kong, China

INDEPENDENT AUDITORS

Samil PricewaterhouseCoopers
100 Hangang-daero
Yongsan-gu
Seoul, Korea 04386

Deloitte Anjin LLC
9th Floor, One IFC Building
10, Gukjegeumyung-ro,
Yeongdeungpo-gu
Seoul 07326, Korea

Ernst & Young Han Young
Taeyoung Building,
111 Yeouigwon-ro,
Yeongdeungpo-gu,
Seoul 07241, Korea

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP
1 Robinson Road
#18-00 AIA Tower
Singapore 048542

FISCAL AGENT

The Bank of New York Mellon, London Branch
One Canada Square London E14 5AL
United Kingdom

REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon SA/NV, Luxembourg Branch
Vertigo Building - Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

LEAD MANAGER

BNP Paribas SA, Taipei Branch

72F, Taipei 101
No. 7, Sec. 5 Xinyi Road
Taipei 110, Taiwan

CO-MANAGERS

Cathay United Bank Co., Ltd.

2F., No. 7, SongRen Road
Taipei City 11073, Taiwan

Capital Securities Corporation

14-3F, No. 156, Sec. 3, Minsheng E. Rd.
Taipei 105, Taiwan

Taishin International Bank Co., Ltd.

22F., No. 118, Sec. 4 Ren-ai Rd.
Da-an District
Taipei 106, Taiwan

SinoPac Securities Corporation

19F, No. 2, Sec. 1 Chongqing South. Rd.,
Taipei 100, Taiwan

