Financial statements of

Korea Exchange Bank of Canada

December 31, 2014

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December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Korea Exchange Bank of Canada

We have audited the accompanying financial statements of Korea Exchange Bank of Canada, which comprise the statement of financial position as at December 31, 2014, the statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Korea Exchange Bank of Canada as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 15, 2015
Toronto, Canada

Korea Exchange Bank of Canada

Statement of Financial Position

December 31, 2014

(In thousands of Canadian dollars)

	2014	2013
	$	$
Assets		
Cash resources		
Cash	**3,044**	3,142
Deposits with other banks (Note 6)	**98,835**	179,745
	101,879	182,887
Securities (Note 7)	**59,925**	-
Loans, net of allowance for credit losses (Notes 8, 9 and 10)	**1,286,212**	1,111,284
Other		
Property and equipment (Note 11)	**3,137**	2,931
Intangible asset (Note 12)	**2,984**	988
Other assets (Note 13)	**14,258**	13,105
Income taxes receivable	**347**	-
Deferred income tax assets (Note 18)	**705**	1,192
	21,431	18,216
	1,469,447	1,312,387
Liabilities		
Deposits (Note 14)		
Payable on demand	**158,452**	132,067
Payable after notice	**121,489**	97,860
Payable on a fixed date	**1,005,735**	918,318
	1,285,676	1,148.245
Cheques and other items in transit	**14,707**	8,187
Other liabilities (Note 15)	**11,198**	9,122
Income taxes payable	**-**	732
	25,905	18,041
	1,311,581	1,166,286
Shareholder's equity		
Share capital (Note 16)	**33,400**	33,400
Retained earnings	**124,466**	112,701
	157,866	146,101
	1,469,447	1,312,387

On behalf of the Board

President and Chief Executive Officer

Director, the Borad of Directors

The accompanying notes are an integral part of these financial statements.

Korea Exchange Bank of Canada

Statement of comprehensive income

For the year ended December 31, 2014

(In thousands of Canadian dollars except net income per share)

	2014	2013
	$	$
Interest income		
Loans	**44,953**	37,689
Deposits with other banks	**779**	763
Securities	**84**	-
Other	**80**	80
Total Interest Income	**45,896**	38,532
Interest expense		
Deposits	**16,821**	13,726
Net interest income	**29,075**	24,806
Non-interest revenue		
Commission revenue	**4,693**	3,751
Foreign exchange gains, net	**2,270**	2,516
Other revenue	**570**	979
	7,533	7,246
Total Revenue	**36,608**	32,052
Provision for credit losses (Note 8, 10 and 15)	**193**	378
Non-interest expenses		
Salaries	**7,979**	6,988
Pension contributions and other staff benefits	**1,546**	1,428
Premises and equipment, including amortization	**3,321**	3,018
General and administrative expenses	**3,992**	3,112
Commission expense	**3,349**	1,526
Other expenses	**81**	77
	20,268	16,149
Net income before provision for income taxes	**16,147**	15,525
Income taxes (Note 18)	**4,382**	4,098
Net income and comprehensive income	**11,765**	11,427

The accompanying notes are an integral part of these financial statements.

Korea Exchange Bank of Canada

Statement of changes in shareholder's equity
For the year ended December 31, 2014
(In thousands of Canadian dollars)

	2014	2013
	$	$
Share capital, beginning and end of year	**33,400**	33,400
Retained earnings, beginning of year	**112,701**	101,274
Net income	**11,765**	11,427
Retained earnings, end of year	**124,466**	112,701
Shareholder's equity, end of year	**157,866**	146,101

The accompanying notes are an integral part of these financial statements.

Korea Exchange Bank of Canada

Statement of cash flows

For the year ended December 31, 2014

(In thousands of Canadian dollars)

	2014	2013
	$	$
Operating activities		
Net income	**11,765**	11,427
Adjustments		
Provision for credit losses	**193**	378
Deferred income taxes (Note 18)	**487**	(157)
Depreciation and amortization (Note 11 and 12)	**1,110**	851
Change in interest receivable and payable, net	**1,171**	(1,184)
Unrealized foreign exchange losses	**25**	7
Foreign exchange translation gains	**28**	(13)
Change in other items, net		
Change in prepaid expense	**(9)**	(380)
Change in prepaid income tax, net of income tax payable	**(1,079)**	762
Change in other assets, net of other liabilities	**(128)**	(1,656)
Cash flows provided by operating activities	**13,563**	10,035
Financing activities		
Deposits, net of withdrawals	**137,431**	202,872
Cash flows provided by financing activities	**137,431**	202,872
Investing activities		
Purchase of securities	**(59,925)**	
Loans, net of repayments	**(175,285)**	(128,130)
Additions of premises and equipment	**(923)**	(1,570)
Additions of intangible assets	**(2,389)**	(106)
Net change in interest-bearing deposits with other banks	**52,661**	(54,062)
Cash flows used in investing activities	**(185,861)**	(183,868)
Increase (decrease) in cash and cash equivalents	**(34,867)**	29,039
Cash and cash equivalents, beginning of year	**93,189**	64,150
Cash and cash equivalents, end of year (Note 5)	**58,322**	93,189

Supplemental disclosure of cash flow information		
Amount of interest received in year	**46,216**	36,027
Amount of interest paid in year	**15,970**	12,405
Amount of income taxes paid in year	**4,242**	3,553

The accompanying notes are an integral part of these financial statements.

1.. Reporting entity

Korea Exchange Bank of Canada (the "Bank" or "KEBOC") is a company domiciled in Canada. The bank does not have any subsidiaries. The address of the Bank's registered office is 4950 Yonge St. Toronto, Ontario, Canada. The Bank is a wholly owned subsidiary of Korea Exchange Bank (the "Parent") and is licensed to operate as a bank in Canada with full banking powers under the Bank Act (Canada) as a foreign bank subsidiary. The Bank obtained its letters patent as a Canadian chartered bank and its banking license in 1981. The Bank has grown to 9 branches in Toronto, Vancouver and Calgary offering investment, loan, remittance, export & import, credit card and bill payment services.

2.. Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB). The financial statements also consider IFRS interpretations issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) and are in compliance with Section 308(4) of the Bank Act.

(b) Functional and presentation currency

These financial statements are presented in Canadian dollars (CAD), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in CAD has been rounded to nearest thousand.

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historic cost are translated at the historic exchange rate.

(c) Use of estimates and assumptions

The preparation of the financial statements requires management to make estimates and judgment that affect the application of accounting policies and the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The use of available information and the application of judgment are inherent in the formation of estimates. Actual results in the future may differ from estimates upon which financial information is prepared. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Management determined that the Bank's critical accounting policies where judgment and estimates are applied are those which relate to impairment of loans and advances, the valuation of financial instruments, and the valuation of deferred taxes. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes to financial statements.

Information about significant areas of estimation uncertainty and critical judgments relating to allowance for credit losses on loans are discussed in Note 10.

3. Significant accounting policies

The significant accounting policies used in the preparation of these financial statements are summarized below. Other than information in the statement of cash flows, the accrual basis is used to prepare the financial statements.

(a) Revenue recognition

1) Interest income and interest expense

Interest income (expense) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or interest expense over the relevant period.

2) Commission revenue

Commission revenues are classified and accounted as follows:

Classification	Details
Loan origination fee	Accounted for as an adjustment to the effective interest rate
Commission for rendering services	Revenue is recognized when the services are provided
Commission for performing significant activities	Revenue is recognized when the significant activities have been completed

(b) Financial instruments

The Bank's classification of financial assets and financial liabilities are as follows:

Loans	Loans and receivables
Securities	Held to maturity
Accrued interest receivable and other receivables	Loans and receivables
Deposits	Other financial liabilities
Cheques and other items in transit	Other financial liabilities
Accrued interest payable and accrued liabilities	Other financial liabilities

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and deposits with other banks (with an original term to maturity of 90 days or less) less cheques and other items in transit. Cash and cash equivalents are carried at amortized cost in the statement of financial position

(d) Deposits with other banks

Deposits with regulated financial institutions are recorded at amortized cost. Interest income on interest bearing deposits is recorded using effective interest method.

(e) Cheques and other items in transit, net

Cheques and other items in transit representing uncleared settlements with other banks are recorded at cost.

(f) Securities

Securities are held to maturity investments that have fixed or determinable payments and a fixed maturity that the bank has the positive intention and ability to hold to maturity.

3. Significant accounting policies (continued)

(g) Loans and receivables

Loans, accrued interest receivable and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be insignificant.

1) Deferred loan origination fees and costs

The Bank defers loan origination fees and costs associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

2) Allowance for credit losses

The Bank maintains an allowance for credit losses, which in management's opinion is considered adequate to absorb all credit-related losses in its portfolio of both on-and off-statement of financial position items, including deposits with regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

The allowance for credit losses consists of Collective Allowances and Individual Allowances, each of which is reviewed on a regular basis. The balance in the allowance for credit losses account is deducted from the related asset category, except for provisions against acceptances and off-statement of financial position items, if any, which are included in other liabilities.

Individual Allowances are determined on an item-by-item basis and reflect the associated estimated credit loss. Collective Allowances are established to absorb probable credit losses on the aggregate exposures in each of the Bank's business lines, for which losses are not yet specifically identified on an item-by-item basis. The Collective Allowances is based upon the credit rating determined using statistical analysis of past performance, current economic considerations, the level of allowance already in place and management's judgment.

The amount of the provision for credit losses that is charged to the statement of income and comprehensive income is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that management considers adequate to absorb all credit-related losses in its portfolio for on- and off-statement of financial position items, after charging amounts written off during the year, net of recoveries, to the allowance for credit losses account.

3) Impairment of financial assets

Financial assets, other than those classified as held for trading, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected. However, impairment losses expected as a result of future events are not recognized.

Objective evidence that a financial asset is impaired includes the following:

- significant financial difficulty of the issuer or obligor; or
- a breach of contract, such as a default or delinquency in interest or principal payments; or

3. Significant accounting policies (continued)

(g) Loans and receivables (continued)

3) Impairment of financial assets (continued)

- the lender, for economic or legal reasons relating to borrowers' financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group

For loans and receivables measured at amortized cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. All individually significant loans are assessed for objective evidence of individual impairment.

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

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines that the loan is fully secured, in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to a current status within 180 days from the date the payment has become contractually in arrears. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, interest continues to be recognized at the effective rate based on the revised expected future cash flows of the impaired loan.

Impairment losses are deducted from the allowance for credit losses when the impairment is considered unrecoverable. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the loan that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is being recognized in the statement of comprehensive income.

3. Significant accounting policies (continued)

(g) Loans and receivables (continued)

3) Impairment of financial assets (continued)

a) Allowance for credit losses on individual loans by individual assessment

Allowance for credit losses on loans are recognized as the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering borrower's repayment performance, financial position, overdue period, collateral, and mortgage amount. Individual Allowances for the loans are determined on an item-by-item basis and reflect the associated estimated credit loss. The individual allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimate realizable amount is determined by discounting the expected future cash flows at the original interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any collateral underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realizable amount. Individual allowances for residential mortgages and most personal loans are calculated using a formula method taking into account recent loss experience.

b) Allowance for credit losses on loans by collective assessment

Under IFRS, the allowance for credit losses on collective assessments are recognized by adjusting Probability of Default (PD) and Loss Given Default (LGD) from Basel II for the purpose of accounting and applying that to carrying amount of the loan portfolio. This approach considers various elements including borrower type, credit rating, and size of portfolio, Loss Emergence Period (LEP), and collection period and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

The collective allowance is established against the loan portfolio in respect of the Bank's core business lines where prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis. The collective allowance for the loans to corporate is underpinned by a risk rating process in which internal risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk and for the loans to household is assessed based on pool. Based upon recent observable data, senior management forms a judgment whether adjustments are necessary to the initially calculated (quantitative) allowance and the amount of any such adjustments. In making this judgment, management considers observable factors such as economic trends and business conditions, portfolio concentrations, and trends in volumes and severity of delinquencies. The level of the collective allowance is re-assessed on regular basis and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends in probability of loss, severity of loss and exposure at default factors; and management's current assessment of factors that may have affected the condition of the portfolio. While the total collective allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total Collective allowance is available to absorb all incurred losses in the loan portfolio for which there has been no individual allowance. The collective allowance for credit losses is recorded as a reduction of loans in the statement of financial position.

4) Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3. Significant accounting policies (continued)

(g) Loans and receivables (continued)

5) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when the Bank has the legal right to offset assets and liabilities and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(h) Property and equipment

Furniture and equipment and leasehold improvements are carried at cost less accumulated depreciation/amortization.

Furniture and equipment are depreciated using the straight-line method over their estimated useful lives of 4 years. Leasehold improvements are amortized over the 5 years using the straight-line method.

Gains and losses on disposal of equipment are recorded in the statement of comprehensive income in the year of disposal.

(i) Intangible asset

The intangible asset represents computer software that is not an integral part of the related hardware and is reported at cost less accumulated amortization on a straight-line basis over 5 years.

Gains and losses on disposal of computer software are recorded in the statement of comprehensive income in the year of disposal.

(j) Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in OCI or equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

The Bank follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of the assets and liabilities and their values for tax purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income, except to the extent that it relates to items recognized directly in OCI or equity, in the period that includes the date of enactment or substantive enactment.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, usually in respect of income taxes levied by the same tax authority on the same taxable entity, and the Bank intends to settle current tax liabilities and assets on a net basis or settle the tax assets and liabilities simultaneously.

Deferred tax assets and liabilities are offset if the Bank has a legally enforceable right to set off the deferred tax assets and liabilities related to income taxes levied by the same tax authority on either the same taxable entity; or different taxable entities, but the entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously for each future period in which these differences reverse.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

(k) Current year's changes in accounting standards

The Bank actively monitors developments and changes in standards from the IASB as well as regulatory requirements from OSFI. Effective January 1, 2014, the Bank adopted the following accounting policies and revisions:

1) IAS 32, Offsetting Financial Assets and Liabilities ("IAS 32")

The amendments to IAS 32 clarify the requirements for offsetting financial instruments. The Bank adopted the amendments to IAS 32 beginning January 1, 2014. These amendments had no significant impact on the Bank's consolidated financial statements as a result of adoption.

4. Future accounting standards

New international financial reporting standards and related interpretations, amendments to existing standards and interpretations not yet mandatorily effective for the year ended December 31, 2014 have not been applied in preparing these financial statements. This section contains standards and interpretations issued, which will be applicable to the Bank at a future date

(a) IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement. The replacement of IAS 39 was a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The three phases are: (a) classification and measurement of financial assets and liabilities - which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. Most of the IFRS 9 requirements for financial liabilities have been carried forward unchanged from IAS 39; (b) impairment - it introduces a new single model for the measurement of impairment losses on all financial instruments subject to impairment accounting. The expected credit loss model replaces the current "incurred loss" model and is based on a forward looking approach; and (c) hedging - it expands the scope of hedged items and hedging items and changes the effectiveness testing requirements and removes the ability to voluntarily discontinue hedge accounting.

The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The Bank does not intend to early adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The Bank is currently assessing the impact of the new standard on its financial statements.

(b) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the final IFRS 15 standard. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The standard becomes effective for annual periods beginning on or after January 1, 2017. The Bank is currently assessing the impact of the new standard on its financial statements.

(In thousands of Canadian dollars, except otherwise noted)

5. Cash and cash equivalents

Cash and cash equivalents composition is as follows:

	December 31, 2014	December 31, 2013
	$	$
Cash	**3,044**	3,142
Non-interest bearing deposits with other banks	**69,985**	98,234
Cheques and other items in transit, net	**(14,707)**	(8,187)
	58,322	93,189

6. Deposits with other banks

	December 31, 2014	December 31, 2013
	$	$
Non-interest bearing deposits	**69,985**	98,234
Interest-bearing deposits	**28,850**	81,511
	98,835	179,745

Average effective yield for interest bearing deposits based on book values and contractual interest rates are 2.15% (2013 - 2.07%).

Deposits with other banks include amounts denominated in foreign currencies of $51,211 (2013 - $45,511).

7. Securities

		2014		2013
	Fair value	**Carrying**	Fair value	Carrying
		$		$
Held to maturity			-	-
Issued by:				
Canadian federal government	**49,937**	**49,942**	-	-
Canadian provincial government	**9,983**	**9,983**	-	-
	59,920	**59,925**	-	-

Securities consist of held to maturity bonds that are issued by Government of Canada and Province of British Columbia. They are carried at amortized cost using the effective interest method. The fair value of securities are quoted price in an active market as of December 31, 2014.

(In thousands of Canadian dollars, except otherwise noted)

8. Loans

	December 31, 2014	December 31, 2013
	$	$
Individual loans	**176,443**	221,512
Business loans	**223,122**	188,554
Residential mortgages	**488,652**	371,837
Commercial mortgages	**398,382**	333,201
Other	**5,002**	1,955
Allowance for credit losses	**(5,033)**	(4,818)
Deferred loan fees	**(356)**	(957)
	1,286,212	1,111,284

Total net loans include loans of $100,393 (2013 - $72,987) denominated in foreign currency (USD).

Total net interest income from impaired loans is $499 (2013 - $31).

9. Impaired loans

	December 31, 2014			December 31, 2013		
	Gross impaired loans	**Individual allowance**	**Carrying amount**	Gross impaired loans	Individual allowance	Carrying amount
	$	**$**	**$**	$	$	$
Loans	**5,002**	**521**	**4,481**	1,955	306	1,649

An analysis of the age of loans that are past due as at the end of the reporting period but not impaired is as follows:

	December 31, 2014		December 31, 2013	
	Amount	**Ratio**	Amount	Ratio
Total loans*	**1,291,601**		1,117,059	
Overdue loans, including impaired loans	**5,636**	**0.44%**	2,784	0.25%
Overdue loans, but not impaired	**1,162**	**0.09%**	829	0.07%
Less than 31 days	**449**	**0.03%**	829	0.07%
31 to 89 days	**705**	**0.05%**	-	0.00%
90 days and older	**9**	**0.00%**	-	0.00%
Impaired loans	**4,474**	**0.35%**	1,955	0.18%

* Total loans: Net loans - allowance for credit losses - deferred loan fees (refer to Note 8)

(In thousands of Canadian dollars, except otherwise noted)

10. Allowance for credit losses on loans

	December 31, 2014			December 31, 2013		
	Individual allowances	**Collective allowances**	**Total**	Individual allowances	Collective allowances	Total
	$	**$**	**$**	$	$	$
Balance, beginning of year	**306**	**4,512**	**4,818**	302	4,512	4,814
Provision for credit losses	**344**	**(22)**	**322**	273	1	274
Write-off of credit losses	**(73)**	**-**	**(73)**	(206)	(18)	(224)
Unwinding effects*	**(56)**	**-**	**(56)**	(63)	-	(63)
Foreign currency translation gain/loss	**-**	**22**	**22**	-	17	17
Balance, end of year	**521**	**4,512**	**5,033**	306	4,512	4,818

*When the allowance is calculated, it is based on present value of future cash flows. Unwinding effects refer to the change in the present value attributable to the passage of time on the expected future cash flows and is reported as a reduction of the provision for credit losses in the statement of comprehensive income.

11. Property and equipment

Property and equipment comprise the following:

				2014	2013
	Furniture and fixtures	**Leasehold improvements**	**Vehicles**	**Total**	Total
	$	**$**	**$**	**$**	$
Cost					
At January 1	**3,809**	**5,317**	**84**	**9,210**	7,786
Additions	**923**	**0**	**-**	**923**	1,570
Disposals	**(90)**	**-**	**(84)**	**(174)**	(145)
At December 31	**4,642**	**5,317**	**-**	**9,959**	9,211
Accumulated depreciation					
At January 1	**(2,914)**	**(3,291)**	**(74)**	**(6,279)**	(5,885)
Depreciation expense for the year	**(386)**	**(321)**	**(10)**	**(717)**	(540)
Decrease due to disposals	**90**	**-**	**84**	**174**	145
At December 31	**(3,210)**	**(3,612)**	**-**	**(6,822)**	(6,280)
Net book value at December 31	**1,432**	**1,705**	**-**	**3,137**	2,931

(In thousands of Canadian dollars, except otherwise noted)

12. Intangible asset

The Bank has capitalized software development costs as follows:

	2014	2013
	Total	Total
	$	$
Cost		
At January 1	**1,618**	1,512
Additions	**2,389**	106
Disposals	**-**	-
At December 31	**4,007**	1,618
Accumulated amortization		
At January 1	**(630)**	(319)
Amortization expense for the year	**(393)**	(311)
At December 31	**(1,023)**	(630)
Net book value at December 31	**2,984**	988

13. Other assets

	December 31, 2014	December 31, 2013
	$	$
Interest receivable	**6,854**	7,174
Prepaid expenses	**875**	866
Other	**6,529**	5,065
	14,258	13,105

14. Deposits

				December 31, 2014	December 31, 2013
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
	$	**$**	**$**		$
Other banks	**5,533**	**-**	**-**	**5,533**	2,526
Individuals	**33,678**	**94,959**	**432,189**	**560,826**	488,049
Other	**119,241**	**26,530**	**573,546**	**719,317**	657,670
	158,452	**121,489**	**1,005,735**	**1,285,676**	1,148,245

Total deposits include $150,054 (Dec 31, 2013 - $117,985) denominated in foreign currencies (USD and South Korean Won (KRW)).

(In thousands of Canadian dollars, except otherwise noted)

15. Other liabilities

	December 31, 2014	December 31, 2013
	$	$
Interest payable	**9,227**	8,376
Reserve for impairment (guarantees)	**33**	21
Reserve for unused commitment	**136**	259
Other	**1,802**	466
	11,198	9,122

Provision for impaired (guarantees) for 2014 is $12 (2013 - $8).

Provision for unused commitment for 2014 is ($123) (2013 - $97).

16. Share capital

	December 31, 2014	December 31, 2013
	$	$
Authorized		
Unlimited common shares		
Issued and fully paid		
334,000 common shares	**33,400**	33,400

Par value per share is $100 per share. 100% of outstanding shares are owned by parent and no preferred stock exists. Subject to the Bank Act, the directors of the Bank may declare and pay a dividend in money, property or by issuing fully paid shares of the Bank or options or rights to acquire fully paid shares of the Bank. The directors of the Bank shall notify OSFI of the declaration of a dividend at least ten (10) days prior to the day fixed for its payment. However, declaration of dividend is limited if there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of any Regulation referred to in Subsection 485(1) or (2) or any direction made pursuant to Subsection 485(3) of the Bank Act. No dividends were paid during the years ended December 31, 2014 and 2013.

17. Fair values of financial instruments

The amounts set out in the table below represent the fair values of the Bank's financial instruments using the valuation methods and assumptions described below.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, some of the Bank's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

(In thousands of Canadian dollars, except otherwise noted)

17. Fair values of financial instruments (continued)

			December 31, 2014
	Book value	**Fair value**	**Fair value over (under) book value**
	$	**$**	**$**
Statement of financial position			
Assets			
Cash	**3,044**	**3,044**	**-**
Deposits with other banks	**98,835**	**98,835**	**-**
Securities	**59,925**	**59,920**	**(5)**
Loans, net of allowance for credit losses	**1,286,212**	**1,285,996**	**(216)**
Interest receivable	**6,854**	**6,854**	**-**
Liabilities			
Deposits	**1,285,676**	**1,287,030**	**1,354**
Cheques and other items in transit	**14,707**	**14,707**	**-**
Interest payable	**9,227**	**9,227**	**-**

			December 31, 2013
	Book value	Fair value	Fair value over (under) book value
	$	$	$
Statement of financial position			
Assets			
Cash	3,142 -	3,142	-
Deposits with other banks	179,745	179,745	-
Loans, net of allowance for credit losses	1,111,284	1,111,289	5
Interest receivable	7,174	7,174	-
Liabilities			
Deposits	1,148,245	1,150,270	2,025
Cheques and other items in transit	8,187	8,187	-
Interest payable	8,376	8,376	-

The following methods and assumptions were used to estimate the fair values of financial instruments:

Management considers that due to their short-term nature, the carrying values of certain financial instruments are assumed to approximate their fair values. These financial instruments include cash, deposits with other banks, interest receivable, cheques and other items in transit and interest payable.

(In thousands of Canadian dollars, except otherwise noted)

17. Fair values of financial instruments (continued)

Management considers that the estimated fair value of loans reflects changes in credit risk and general interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

(a) For floating rate loans, fair value is assumed to be equal to book values as the interest rates on these loans automatically reprice to market.
(b) For fixed rate loans that mature within one year are assumed to be equal to their book values due to their short-term nature.
(c) For all other loans, fair value is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.

(d) For securities, fair value is the quoted price in an active market as of December 31, 2014.

The fair values of deposits payable on demand, payable after notice and fixed date deposit payable on a fixed date that mature within one year, are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable on a fixed date over one year are determined by discounting the contractual cash flow using market interest rates currently offered for deposits with similar terms and risks.

18. Income taxes

Income tax expense for the year consists of the following:

	2014	2013
	$	$
Current		
Current year tax expense	**3,923**	4,247
Adjustment for prior year	**(28)**	8
	3,895	4,255
Deferred		
Origination/reversal of temporary differences	**487**	(148)
Changes in tax rates	**-**	(9)
	487	(157)
Total income tax expense	**4,382**	4,098

(In thousands of Canadian dollars, except otherwise noted)

18. Income taxes (continued)

The provision for income taxes differs from the income taxes that would be payable by applying the combined Canadian federal and provincial statutory income tax rate to the effective income tax rate. This difference results from the following:

	2014	2013
	$	$
Income before income taxes	**16,147**	15,525
Combined federal and provincial income tax rate	**26.32%**	26.27%
Income taxes at the statutory income tax rate	**4,250**	4,078
Non-deductible items	**37**	121
Prior year adjustment and other	**95**	(101)
Income tax expense	**4,382**	4,098
Comprised of :		
Current income taxes	**3,895**	4,255
Deferred income taxes	**487**	(157)
Income tax expense	**4,382**	4,098

Deferred tax assets (liabilities) arise from the following:

December 31, 2014	**Opening balance**	**Recognized in profit & loss**	**Acquisition/ disposition**	**Closing balance**
Property and equipment	**(301)**	**(206)**	**-**	**(507)**
Allowance reserve for credit losses	**-**			
Collective (general) allowances	**1,266**	**(19)**	**-**	**1,247**
Individual (specific) allowances	**13**	**1**	**-**	**14**
Others	**214**	**(263)**	-	**(49)**
Deferred tax assets	**1,192**	**(487)**	**-**	**705**

December 31, 2013	Opening balance	Recognized in profit & loss	Acquisition/ disposition	Closing balance
Property and equipment	(235)	(66)	-	(301)
Allowance reserve for credit losses				
Collective (general) allowances	1,221	45	-	1,266
Individual (specific) allowances	8	5	-	13
Others	41	173	-	214
Deferred tax assets	1,035	157	-	1,192

Management has determined there is an expectation of sufficient future profits to support the recoverability of the deferred tax assets.

(In thousands of Canadian dollars, except otherwise noted)

19. Pension plan

The Bank has a defined contribution plan that provides post-retirement benefits to the majority of its employees. The pension plan is funded by contributions from the Bank. Contributions to the plan are expensed in the year that they are made. Total cash contributions made to the contribution plan by the Bank for 2014 were $270 (2013 - $255).

20. Lease commitments

The Bank has obligations under long-term, non-cancellable operating leases for office premises. The future minimum annual lease payments for the remainder of the lease terms are as follows:

	$
2015	1,487
2016	1,249
2017	949
2018	768
2019 and thereafter	3,622
	8,075

The total rental expense charged in respect of office premises for the year ended December 31, 2014 was $1,830 (2013 - $1,769).

21. Guarantees and letters of credit

Summarized below are the guarantees issued and outstanding as at December 31:

	2014		2013	
	Fair value	**Maximum potential amount of future payments**	Fair value	Maximum potential amount of future payments
	$		$	
Guarantees	**52,242**	**52,242**	43,108	43,108
Letters of credit	**320**	**320**	325	325
	52,562	**52,562**	43,433	43,433

Guarantees and letters of credit are considered contingent liabilities and thus not recognized on the statement of financial position.

Performance guarantees are transaction-related contingencies and represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its performance obligations to third parties. The term of these guarantees can range up to 1 year. The Bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Financial letters of credit are direct credit substitutes and represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its financial obligations to third parties. The term of these guarantees can range up to 1 year.

(In thousands of Canadian dollars, except otherwise noted)

21. Guarantees and letters of credit (continued)

As many of these guarantees will expire or terminate without being drawn upon and do not take into consideration the possibility of recovery by means of recourse provisions or from collateral held or pledged, the contractual amounts are not indicative of future cash requirements or credit risk, and may not bear any relationship to the Bank's expected losses from these arrangements. In the event of a call on these commitments, the Bank has recourse against the customers.

22. Related party transactions

In the normal course of business, the Bank enters into transactions with its Parent and companies under common control on terms similar to those offered to non-related parties. These transactions are recorded at fair value. Significant balances and transactions with related parties are as follows:

	2014	2013
	$	$
Deposits with other banks	**2,427**	1,593
Deposits payable on demand	**5,264**	2,317
Management consulting fee	**1,547**	
Interest income - deposits with other banks	**34**	49

23. Directors and other key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being senior executives and members of the Board of Directors.

Directors that simultaneously are under an employment contract with the Bank or its affiliates do not receive additional remuneration for the services rendered as a director. In contrast, external directors that are not employees of the Bank are entitled to receive pre-determined annual remuneration.

Remuneration for executives, directors, and expatriate senior executives are determined in accordance with respective employment contracts and/or the remuneration policy of the Parent Bank. Notwithstanding, compensation for local executives are determined in accordance with the terms and conditions of the 'Procedures for Remuneration' as approved by the Board of Directors.

Compensation for external directors and senior executives including CEO are as follows:

	2014	2013
Number of directors and senior executives	**13**	17
Salaries and short-term employee benefits	**$2,141**	$1,796
Total	**$2,141**	$1,796

The amount of salaries and short-term employee benefits include the total amount paid to both predecessors and successors throughout the year. The number of directors and senior executives as at December 31, 2014 has not changed from the previous year. Salaries and short-term employee benefits contain the amount contributed toward defined contribution plan of $21 (2013 - $20).Post-employment benefits, other long-term benefits, termination benefits and share-based payments are not applicable in 2013 and 2014.

(In thousands of Canadian dollars, except otherwise noted)

24. Capital management

Regulatory capital and capital ratios

Effective first quarter of 2013, the Bank is required to calculate capital ratios using the Basel III framework. The Bank's regulatory capital consists of common shareholder's equity and retained earnings. Regulatory capital is a factor which allows management to assess the Bank's stability and security in relation to the overall risks inherent in its activities. The Bank's policy is to maintain its regulatory capital ratios consistent with the regulatory requirements as per OSFI guideline, which requires banks to maintain minimum Common Equity Tier 1 (CET 1) ratio of 7%, Tier 1 ratio of 8.5% and Total capital ratio of 10.5%. Regulatory capital ratios are reported monthly to management and are provided on a quarterly basis to the Board of the Directors' Risk Management Committee. The Bank had been in compliance with all externally and internally imposed capital requirement throughout the year.

	All-in December 31, 2014	**Transitional (1)** December 31, 2014	All-in December 31, 2013
	$	**$**	$
Common shares	**33,400**	**33,400**	33,400
Retained earnings	**124,466**	**124,466**	112,701
Total regulatory adjustments	**2,984**	**597**	988
Total Tier 1 Capital	**154,882**	**157,269**	145,113
Total Capital	**154,882**	**157,269**	145,113
	%	**%**	%
Tier 1 Capital Ratio	**16.38**	**16.59**	17.95
Total Capital Ratio	**16.38**	**16.59**	17.95
Asset to Capital Multiple (ACM) (2)		**9.67**	9.28

(1) Effective first quarter of 2013, Capital is calculated on a transitional basis as per OSFI guidelines. The transitional methodology is defined as capital calculated according to the current year's phase-in of regulatory adjustment and phase-out of non-qualifying capital instruments.
(2) Effective first quarter of 2013, Asset to Capital Multiple (ACM) is calculated on a transitional basis as per OSFI guidelines. As required by OSFI, the existing ACM will be replaced by the Basel III leverage ratio commencing in the first quarter of 2015.

25. Financial instruments and risk management

The Bank is exposed to market risk (consisting of interest rate and currency risk), liquidity risk, and credit risk. Parent Bank and Risk Management Committee have overall responsibility for the establishment of oversight of the Bank's risk management framework. Securitization and equity risk are not applicable to the Bank due to no exposure for trading purpose.

Interest rate risk ("IRR")

Interest rate risk arising from the Bank's lending, funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to net interest income and economic value of shareholders' equity.

The Bank's objective is to minimize the interest rate risk. For the IRR measurement, two key measures used under the standardized approach are 'Earnings at Risk' (net interest income) and 'Duration Gap' (economic value of equity), and the greater of the two is considered to be the interest rate risk for the period.

(In thousands of Canadian dollars, except otherwise noted)

25. Financial instruments and risk management (continued)

The net interest income and economic value of equity result from the differences between yields earned on the Bank's assets and interest rate paid on its liabilities and between the maturity and re-pricing mismatch (gap) of its assets and liabilities, respectively. These mismatches are inherent in the operations of the Bank and expose it to adverse changes in the level of interest rates.

The following table details assets and liabilities on the basis of the earlier of contractual maturity or re-pricing date. Use of tables to derive information about the Bank's interest rate risk position is limited by the fact that the actual re-pricing date of many financial instruments is different from the earlier of contractual maturity or re-pricing date. Examples of this include mortgages, which are shown at contractual maturity but which often repay earlier, and certain term deposits, which are shown at contractual maturity but which often cash out earlier.

	Floating rate	Within 3 months	Over 3 - 12 months	Over 1 - 5 years	Over 5 years	Non-interest sensitive	Total
	$	$	$	$	$	$	$
Assets							
Cash	-	-	-	-	-	3,044	3,044
Deposits with other banks	850	28,000	-	-	-	69,985	98,835
Effective interest rate		0.90%					
Securities	-	59,925	-	-	-	-	59,925
Effective interest rate		0.87%					
Loans, net of allowance for credit losses	1,062,645	58,520	102,368	68,068	-	(5,389)	1,286,212
Effective interest rate	3.72%	2.29%	2.86%	2.98%	-		
Other assets	-	-	-	-	-	21,431	21,431
Total assets	1,063,495	146,445	102,368	68,068	-	89,071	1,469,447
Liabilities and shareholder's equity							
Deposits payable on demand/notice	121,597	-	-	-	-	158,344	279,941
Deposits payable on a fixed date	321	255,157	545,944	204,297	16	-	1,005,735
Effective interest rate	0.25%	1.56%	1.90%	2.12%	3.00%		
Cheques and other items in transit	-	-	-	-	-	14,707	14,707
Other liabilities	-	-	-	-	-	11,198	11,198
Shareholder's equity	-	-	-	-	-	157,866	157,866
Total liabilities and shareholder's equity	121,918	255,157	545,944	204,297	16	342,115	1,469,447
Excess(deficiency) of assets over liabilities and shareholder's equity	941,577	(108,712)	(443,576)	(136,229)	(16)	(253,044)	

25. Financial instruments and risk management (continued)

Earnings at Risk

(Unit: Dollars in Thousands)

Interest Rate Shock	Interest Income	Interest Expense	Net Interest Income	Change in NII
-200 bp	32,118	12,411	19,707	(7,173)
-100 bp	38,824	14,958	23,866	(3,013)
-25 bp	44,108	17,852	26,256	(624)
-10 bp	45,174	18,500	26,674	(206)
No Change	45,885	19,005	26,880	-
+10 bp	46,596	19,515	27,081	201
+25 bp	47,664	20,281	27,383	503
+100 bp	53,001	24,109	28,892	2,012
+200 bp	60,117	29,212	30,904	4,025

The table above shows the impact of various parallel interest rate shifts on net interest income. As of the end of December 2014, an immediate and sustained 200bp rise in interest rates would increase net interest income by roughly $4.0 million over the next 12 months. The same amount of drop in interest rates would decrease net income by approximately $7.2 million. Due to the Bank's portfolio structure, the drop in interest rates would have a more adverse effect on financial statements than the rise in interest rates. The earnings at risk exposure reported for this period is within the approved limit, and will continue to be monitored by the Risk Management Department in accordance with the Bank's risk appetite and authorized limits.

Duration Gap

Durations for each time band are used as recommended by the BASEL committee. The weighted gaps are aggregated across time bands to produce an estimate of the change in economic value of the Bank that would result from the assumed changes in interest rates. As shown below, the economic value of equity as of 2014 year-end is estimated to decrease by $11,126 when the interest rate shock of 200bp is applied.

Time Band	Floating	1D ~ 1M	1 ~ 3M	3 ~ 6M	6 ~ 12M	1 ~ 2Y	2 ~ 3Y	3 ~ 4Y	4 ~ 5Y	5 ~ 7Y	Over 7Y	NON-RATE	TOTAL
Total Assets	1,063,495	59,296	87,149	65,597	36,771	47,730	18,461	1,413	464	0	0	89,071	1,469,447
Total Liab. & Equity	121,918	71,213	183,944	120,373	425,571	130,437	63,405	6,248	4,207	16	0	342,115	1,469,447
Excess (Deficit)	941,577	(11,917)	(96,795)	(54,776)	(388,800)	(82,707)	(44,944)	(4,835)	(3,743)	(16)	0	(253,044)	0
Proxy Duration	0.00	0.04	0.16	0.36	0.71	1.38	2.25	3.07	3.85	5.08	6.63		
Interest Rate Shock	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%		
VaR	0	(10)	(310)	(394)	(5,521)	(2,283)	(2,022)	(296)	(288)	(2)	0		**(11,126)**

Liquidity risk

Liquidity risk is the risk that the Bank may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet the commitment as it come due. The cost common sources of liquidity risk arises from mismatches in the timing and value to cash inflow and outflows, both from on- and off-balance sheet exposures.

(In thousands of Canadian dollars, except otherwise noted)

25. Financial instruments and risk management (continued)

Liquidity risk (continued)

The Bank's objective is to minimize liquidity risk. The Bank, to achieve this goal, operates to maintain:

- Appropriate balance of liquidity on a daily, monthly, quarterly and semi-annual basis through matching strategy
- Broad funding access, including preserving and promoting a reliable base of core client deposits and ongoing access to diversified sources of wholesale funding
- A regularly updated liquidity contingency plan which is prepared based on liquidity stress-testing results
- Centralized liquidity management policies, practices and processes

The Bank monitors its liquidity situation by daily reporting, monthly liquidity risk evaluation, quarterly scenario testing and semi-annual measurement determining the required amount to survive extra three days until the Bank receives line of credit from the parent bank. Three stress scenarios reflecting events that can impact the funding operations of the Bank are tested and reported at the Board of Directors meeting and Risk Management Committee on a quarterly basis. The scenarios give a quantitative assessment of the Bank's funding needs in the event of stressed market environment.

The following is the maturity analysis of financial liabilities:

	3 months or less	**3 months to 1 year**	**1 year to 3 years**	**Over 3 years**	**2014 Total**
	$	**$**	**$**	**$**	**$**
Demand and notice deposits	**38,473**	**-**	**241,468**	**-**	**279,941**
Fixed term deposits	**254,015**	**547,405**	**193,843**	**10,472**	**1,005,735**
Cheques and other items in transit	**14,707**	**-**	**-**	**-**	**14,707**
Others	**11,198**	**-**	**-**	**-**	**11,198**
Total financial liabilities	**318,393**	**547,405**	**435,311**	**10,472**	**1,311,581**

	3 months or less	3 months to 1 year	1 year to 3 years	Over 3 years	2013 Total
	$	$	$	$	$
Demand and notice deposits	61,744	-	168,183	-	229,927
Fixed term deposits	298,913	412,245	200,274	6,886	918,318
Cheques and other items in transit	8,187	-	-	-	8,187
Others	9,854	-	-	-	9,854
Total financial liabilities	378,698	412,245	368,457	6,886	1,166,286

(In thousands of Canadian dollars, except otherwise noted)

25. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and from securities. The Bank's objective is to minimize the credit risk. In order to manage the credit risk, the Bank sets up and complies with the credit risk limits, and periodically monitors and measures the credit risk of financial instruments using the established methodology such as BASEL II Pillar 1 and 2 risk measurements.

Maximum credit risk exposure by portfolio and sector before allowance for impairment, gross of unearned discount and before credit risk mitigation as at December 31, 2014 and 2013 was:

			2014			2013
Industry	**Drawn loans**	**Off statement of financial position guarantees**	**Total exposure**	Drawn loans	Off statement of financial position guarantees	Total exposure
	$	**$**	**$**	$	$	$
Manufacturing	**36,202**	**41,200**	**77,402**	70,805	32,752	103,557
Retail/service	**531,211**	**2,918**	**534,129**	387,808	7,245	395,053
Building/construction	**31,816**	**2,872**	**34,688**	40,075	372	40,447
Household	**667,884**	**-**	**667,884**	594,285	-	594,285
Other	**24,132**	**5,251**	**29,383**	23,129	2,739	25,868
Total exposure	**1,291,245**	**52,241**	**1,343,486**	1,116,102	43,108	1,159,210

Most of the Bank's loans are backed by collateral.

As of December 31, 2014, the fair value of collateral held to be realized upon power of sale for impaired loans is $4,536. It is assumed that appraisal value obtained for the collateral approximates the fair value of collateral to be realized for power of sale. For conservative analysis, in case of the collateral which is on market for power of sale, lower of listing price or appraisal value is used to determine fair value. Details of fair value of collateral held for impaired loans are as follows:

Loan type	**Collateral type**	**Fair value ($)**
Impaired Loan (Commercial mortgages)	Commercial Property	125
Impaired Loan (Residential mortgages and Businss loans)	Residential Property	4,411
Total		4,536

An analysis of the Bank's assets, by geographic area, on the basis of the location of ultimate risk, is as follows:

	December 31, 2014	December 31, 2013
	$	$
Canada	**1,418,826**	1,215,304
United States	**25,457**	40,318
Korea	**13,312**	34,414
Other international locations	**11,852**	22,351
	1,469,447	1,312,387

Residential and Commercial mortgage loans secured by Canadian properties are considered as 'Canada' as of 2014 and 2013 fiscal year end.

(In thousands of Canadian dollars, except otherwise noted)

25. Financial instruments and risk management (continued)

Currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The risk is managed by maintaining an appropriate matching policy for its foreign currency denoted assets and liabilities. It is measured using a historical 10-day VaR which is the difference between the current portfolio value and the portfolio value determined as the first percentile (assuming VaR is derived at the 99 percent confidence interval) in the left-hand tail of the distribution constructed by the histogram of portfolio values. The 10-day risk factor changes are applied to the current value of the risk factors and the current portfolio is revalued using the 10-day risk factor changes as many times as the number of days in the historical sample. It is important to decide which data is to be used for historical simulation and the most recent three years of historical data is used to calculate the 10-day VaR.

	Dec. 2014			Dec. 2013		
	USD	**KRW**	**VaR**	**USD**	**KRW**	**VaR**
Basic Rate	1.1595	0.0010657		1.0615	0.0010181	
Position (US$, KRW)	3,056	126,328,163		4,594	149,694,197	
Evaluated Value (C$)	3,543	134,628	**-4,654**	4,877	152,404	-6,055

26. Fair value of assets and liabilities by category and level

IFRS 7, Financial Instruments - Disclosures establishes a hierarchal framework which prioritizes and ranks the level of market price observability used in measuring fair value and requires enhanced disclosures about fair value measurements. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace. Investments with readily-available actively quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial assets and liabilities recorded at fair value on the Bank's statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Hierarchical levels, defined in IFRS 7 (27A) and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). Fair value is determined with at least one significant model assumption which is unobservable in the current market (i.e. limited trading volume) and therefore management exercises their judgment in determining the instrument's fair value.

(In thousands of Canadian dollars, except otherwise noted)

26. Fair value of assets and liabilities by category and level (continued)

The valuation of the Bank's assets and liabilities under IFRS 7 (27A) hierarchy is as follows:

December 31, 2014	**Total**	**Quoted price in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	$	**$**	**$**	**$**
Assets				
Loans	**1,285,996**	**-**	**-**	**1,285,996**
Securities	**59,920**	**59,920**	**-**	
Liabilities				
Deposits	**1,287,030**	**-**	**-**	**1,287,030**

December 31, 2013	Total	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$	$	$	$
Assets				
Loans	1,111,289		-	1,111,289
Liabilities				
Deposits	1,150,270	-	-	1,150,270

The Bank did not have any significant transfers between Levels 1, 2 and 3 during the years ended December 31, 2014 and 2013.

27. Financial statements authorization

When the financial statements are approved by the Board of Directors at the shareholders' meeting, they are authorized for issue. The Board of directors have power to amend the financial statements after they have been issued in case of unusual circumstances that significantly affect financial statement items. In such cases, upon approval from the board of directors, the financial statements can be revised after they are issued. The financial statements were authorized for issue on May 15, 2015 in accordance with IFRS.