

Important Notice

THIS DOCUMENT IS NOT FOR DISTRIBUTION TO ANY PERSON OTHER THAN TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR (2) PERSONS OTHER THAN U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) WITH ADDRESSES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached offering circular dated 10 May 2019 (the "Offering Circular"), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Circular. In reading, accessing or making any other use of the Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Offering Circular, including any modifications made to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE OFFERING CIRCULAR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES 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 STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES 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 AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE SECURITIES ARE BEING OFFERED AND SOLD ONLY: (1) WITHIN THE UNITED STATES OR TO A U.S. PERSON IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") ONLY TO PERSONS THAT ARE "QUALIFIED INSTITUTIONAL BUYERS" ("QIBS") (AS DEFINED IN RULE 144A), ACTING FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB, AND (2) OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS ("U.S. PERSONS") (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S. WITHIN THE UNITED KINGDOM, THE OFFERING CIRCULAR IS DIRECTED ONLY AT PERSONS WHO (A) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "FPO"); (B) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE FPO; OR (C) ARE OTHER PERSONS TO WHOM THE OFFERING CIRCULAR MAY BE LAWFULLY COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS RELEVANT PERSONS). OUTSIDE OF THE UNITED KINGDOM, THE OFFERING CIRCULAR IS BEING DIRECTED ONLY AT PERSONS WHO MAY LAWFULLY RECEIVE IT. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS" IN THE OFFERING CIRCULAR.

THE 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 THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION

OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT. THIS DOCUMENT IS NOT INTENDED FOR DISTRIBUTION TO AND MUST NOT BE PASSED ON TO ANY RETAIL CLIENT.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the offered securities described therein, (1) each prospective investor in respect of the securities being offered pursuant to Rule 144A must be a QIB, (2) each prospective investor in respect of the securities being offered outside of the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. Person and (3) each prospective investor in respect of the securities being offered in the United Kingdom must be a Relevant Person. By accepting the e-mail and accessing, reading or making any other use of the attached Offering Circular, you shall be deemed to have represented to the dealers named in the Offering Circular (the "Dealers"), being the sender of the attached, that (1) in respect of the securities being offered pursuant to Rule 144A, you are (or the person you represent is) a QIB, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is utilised by someone who is a QIB, or (2) in respect of the securities being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is utilised by a person other than a U.S. Person, (3) in respect of the securities being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, and (4) you are a person to whom the Offering Circular may be delivered in accordance with the restrictions set out in the section entitled "Subscription and Sale and Transfer and Selling Restrictions" in the Offering Circular.

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 authorised to, deliver or disclose the contents of this Offering Circular to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of The Export-Import Bank of Korea (the "Issuer") in such jurisdiction.

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 Dealers, the Issuer or any person who controls any of them or is a director, officer, employee or agent of any of them nor any affiliate of any such person accepts any liability or responsibility whatsoever to the fullest extent permitted by law 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 Dealers.

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.

The distribution of the Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Circular comes are required by the Dealers and the Issuer to inform themselves about, and to observe, any such restrictions.



THE EXPORT-IMPORT BANK OF KOREA

(A statutory juridical entity established under The Export-Import Bank of Korea Act of 1969, as amended, in the Republic of Korea)

US\$25,000,000,000

Global Medium Term Note Programme

Under The Export-Import Bank of Korea Global Medium Term Note Programme described in this Offering Circular (the “**Programme**”), The Export-Import Bank of Korea (the “**Issuer**” or the “**Bank**” or “**KEXIM**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”). The aggregate principal amount of Notes outstanding will not at any time exceed US\$25,000,000,000 (or the equivalent in other currencies).

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “**Singapore Stock Exchange**”) in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange.

Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange 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 any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. The Programme provides that Notes may be listed or admitted to trading on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

Each Series (as defined herein) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**” or “**Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**” or “**Global Note**”). Global Notes may be deposited on the issue date of a relevant series with a common depository on behalf of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). The provisions governing the exchange of interests in Global Notes for interests in other Global Notes and definitive Notes are described in “Form of Notes and Transfer Restrictions”. Each Series of Notes in registered form will be represented by one or more global certificates (each a “**Global Certificate**”) in fully registered form without interest coupons, deposited on the issue date (i) with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) and/or (ii) with, and registered in the name of a nominee of, a common depository for Euroclear and Clearstream, which may be exchangeable under their terms for definitive Registered Notes (as defined herein). See “Form of Notes and Transfer Restrictions—Registered Notes”.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY INCLUDE NOTES IN BEARER FORM THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES EXCEPT, IN THE CASE OF NOTES IN REGISTERED FORM, TO QUALIFIED INSTITUTIONAL BUYERS PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”). FOR CERTAIN RESTRICTIONS ON TRANSFER OF THE NOTES, SEE “FORM OF NOTES AND TRANSFER RESTRICTIONS”.

Arranger
UBS

Dealers

Banco Bilbao Vizcaya Argentaria, S.A.
BNP PARIBAS
Citigroup
Credit Suisse
DBS Bank Ltd.
Goldman Sachs International
ING
Morgan Stanley
Nomura
Standard Chartered Bank

Barclays
BofA Merrill Lynch
Crédit Agricole CIB
Daiwa Capital Markets Europe
Deutsche Bank
HSBC
J.P. Morgan
MUFG
Société Générale Corporate & Investment Banking
UBS

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Issuer, to the Issuer and its subsidiaries and affiliates taken as a whole (the “Group”) and to the Notes that is material in the context of the issue and offering of the Notes, the statements contained in it relating to the Issuer and to the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Issuer and to the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

To the fullest extent permitted by law, none of the Dealers, the Arranger or the Agents accept any liability in relation to the information contained or incorporated by reference in this Offering Circular, any other information provided by the Issuer in connection with the Programme or any other statement, made or purported to be made by the Arranger or any Dealer or Agent on its behalf in connection with the Issuer or the issue and offering of Notes. Each of the Arranger, Dealers and Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or Arrangers (as defined in “Summary of the Programme”). Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in certain jurisdictions. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Form of Notes and Transfer Restrictions” and “Subscription and Sale”.

This Offering Circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and

Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any Notes will only be available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

The Pricing Supplement in respect of any Notes may include a legend entitled Prohibition of Sales to EEA Retail Investors, which will indicate: (A) that 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); (B) that 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 2016/97 (as amended, “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 Directive; and (C) that 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 has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

A determination will be made in relation to each issue about whether the PRIIPs Regulation applies to the Notes constituting such issue.

The Pricing Supplement in respect of any Notes may include a legend entitled MiFID II Product Governance which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “MiFID II”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “MiFID Product Governance Rules”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

The Notes have not been and will not be registered under the Securities Act, and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, or delivered directly or indirectly within the United States or for the account or benefit of U.S. persons as defined in Regulation S under the Securities Act. Prospective purchasers are hereby notified that a seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A under such act.

None of the Dealers or the Arranger has separately verified the information contained herein. None of the Dealers or the Arranger makes any representation or warranty, express or implied, or accepts any responsibility or liability, with respect to the accuracy or completeness of any of the information contained or incorporated in this Offering Circular or any other information or statement made or purported to be made in relation to the Issuer, the Programme, the Notes or the distribution of the Notes. Neither this Offering Circular nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Offering Circular or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any

information coming to the attention of any of the Dealers or the Arranger. Investors and potential investors acknowledge that they have not relied, and will not rely, on the Arranger or the Dealers in connection with their investigation of the accuracy of any information or their decision whether to invest in any Notes.

In connection with the issue of any Tranche (as defined in “Summary of the Programme”) of Notes under the Programme, the Dealer (if any) specified in the relevant Pricing Supplement as the Stabilising Managers (or any person acting on behalf of any Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilising Managers (or any person acting on behalf of any Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

This Offering Circular has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Offering Circular as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer or Arranger to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer or Arranger have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer or Arranger to publish or supplement a prospectus for such offer.

For the purposes of this provision, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

The price and amount of the Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer or Arranger at the time of issue in accordance with prevailing market conditions.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

SINGAPORE INFORMATION

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) — Unless otherwise stated in the Pricing Supplement in respect of any Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes to be issued under the Programme shall be 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).

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Notes in accordance with Rule 144A, the Bank will be required under the Terms and Conditions of the Notes to furnish, upon request, to any Noteholder and any prospective purchaser of such Notes from such Noteholder the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request the Bank is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to furnish to the United States Securities and Exchange Commission certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

ENFORCEMENT OF CIVIL LIABILITIES

The Bank is a statutory juridical entity established under The Export-Import Bank of Korea Act of 1969, as amended, in Korea. Substantially all of the officers of the Bank and certain directors and other persons named herein reside in Korea, and substantially all or a significant portion of the assets of the officers and certain directors and other persons named herein that reside in Korea and substantially all of the assets of the Bank are located in Korea. As a result, it may not be possible for investors to effect service of process outside Korea upon those persons or to enforce against them or against the Bank in any jurisdiction outside Korea 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.

FORWARD LOOKING STATEMENTS

This Offering Circular includes “forward-looking statements,” as defined in Section 27A of the Securities Act and Section 21E of the Exchange Act, including statements regarding the Bank’s expectations and projections for future operating performance and business prospects. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Although the Bank believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. This Offering Circular discloses important factors that could cause actual results to differ materially from the Bank’s expectations (“**Cautionary Statements**”). All subsequent written and oral forward-looking statements attributable to the Bank or persons acting on behalf of the Bank are expressly qualified in their entirety by the Cautionary Statements.

Factors that could adversely affect the future performance of the Korean economy include:

- difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;
- adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union (“Brexit”);
- 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 Japanese yen exchange rates or revaluation of the Chinese renminbi and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;
- declines in consumer confidence and a slowdown in consumer spending;
- increasing levels of household debt;

- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- further decreases in the market prices of Korean real estate;
- 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), as well as a slowdown in the growth of China's economy, which is Korea's most important export market;
- the recent political scandal in Korea involving a confidant of the President and the resulting social unrest, as well as related investigations of Korean conglomerates and their senior management for bribery, embezzlement and other possible misconduct;
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;
- the economic impact of any pending or future free trade agreements;
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, 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 risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea or other parts of the world, including an outbreak of severe acute respiratory syndrome, swine or avian flu, Ebola or Middle East respiratory syndrome.
- 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 (such as the ongoing controversy between Korea and China regarding the decision to allow the United States to deploy the Terminal High Altitude Area Defense system in Korea);
- political uncertainty or increasing strife among or within political parties in Korea;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- hostilities or political or social tensions involving oil producing countries in the Middle East or North Africa and any material disruption in the supply of oil or sudden increase in the price of oil; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise indicated, all references to “won”, “Won” or “₩” contained in this Offering Circular are to the currency of Korea, references to “U.S. dollars”, “Dollars”, “USD”, “\$” or “US\$” are to the currency of the United

States of America, references to “**Canadian Dollar**” or “**CAD**” are to the currency of Canada, references to “**Euro**”, “**EUR**” or “**€**” are to the currency of the European Union, references to “**Japanese Yen**”, “**JPY**” or “**¥**” are to the currency of Japan, references to “**Chinese Renminbi**” or “**CNY**” are to the currency of the People’s Republic of China, references to “**Swiss Franc**” or “**CHF**” are to the currency of Switzerland, references to “**British Pound**” or “**GBP**” are to the currency of the United Kingdom, references to “**Deutsche Mark**” are to the currency of the Federal Republic of Germany, references to “**Hong Kong Dollar**” or “**HKD**” are to the currency of Hong Kong, S.A.R., references to “**Singapore dollar**” or “**SGD**” are to the currency of Singapore, references to “**Turkish Lira**” or “**TRY**” are to the currency of Turkey, references to “**Malaysia Ringgit**” or “**MYR**” are to the currency of Malaysia, references to “**Brazilian Real**” or “**BRL**” are to the currency of Federative Republic of Brazil, references to “**Mexican Peso**” or “**MXN**” are to the currency of the United Mexican States, references to “**New Zealand Dollar**” or “**NZD**” are to the currency of New Zealand, references to “**Taiwan Dollar**” or “**TWD**” are to the currency of Taiwan, references to “**Thai Baht**” or “**THB**” are to the currency of Thailand, references to “**Australian Dollar**” or “**AUD**” are to the currency of Australia, references to “**Indian Rupee**” or “**INR**” are to the currency of India, references to “**Indonesian Rupiah**” or “**IDR**” are to the currency of Indonesia, references to “**Russian Ruble**” or “**RUB**” are to the currency of the Russian Federation, references to “**Swedish Krona**” or “**SEK**” are to the currency of Sweden, references to “**South African Rand**” or “**ZAR**” are to the currency of South Africa, references to “**Danish Krone**” or “**DKK**” are to the currency of Denmark and references to “**Peruvian Sol**” or “**PEN**” are to the currency of Peru. Except where otherwise stated, Won amounts have been translated into Dollars at the rate of Won 1,118.1 to US\$1.00, which was the market average exchange rate as announced by the Seoul Money Brokerage Services, Ltd. on 31 December 2018. No representation is made that the Won or Dollar amounts referred to herein could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

References herein to “**Korea**” or the “**Republic**” are references to the Republic of Korea, and references herein to “**Government**” are references to the government of the Republic of Korea. References to “**we**”, “**us**”, “**our**”, the “**Issuer**” or the “**Bank**” are references to The Export-Import Bank of Korea.

In this Offering Circular, where information has been presented in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, actual numbers may differ from those contained herein due to rounding. All discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

The Bank’s financial statements and separate financial information included in this Offering Circular were prepared under International Financial Reporting Standards as adopted by Korea (“**Korean IFRS**” or “**K-IFRS**”). References in this Offering Circular to “separate” financial statements and information are to financial statements and information prepared on a non-consolidated basis. Unless specified otherwise, the Bank’s financial and other information included in this Offering Circular is presented on a separate basis in accordance with Korean IFRS and does not include such information with respect to its subsidiaries.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited separate and consolidated annual financial statements and, if published later, the most recently published interim separate and consolidated financial statements (if any) of the Issuer from time to time;
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time; and
- (c) the most recent shelf registration statement or post-effective amendment filed with the Securities and Exchange Commission by the Bank and other reports (including any prospectus supplements) filed with the Securities and Exchange Commission by the Bank since the most recent filing of the shelf registration statement or post-effective amendment, as the case may be,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement

contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available from the principal office in London of Deutsche Bank AG, London Branch (the “**Fiscal Agent**”).

The Issuer will, in connection with the listing of the Notes on the Singapore Stock Exchange, so long as the rules of such exchange so require, in the event of any material change in the information contained in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Singapore Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new Offering Circular will be prepared.

SUPPLEMENTARY OFFERING CIRCULAR

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant change affecting any matter contained in this Offering Circular whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Offering Circular, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Offering Circular or publish a replacement Offering Circular for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

TABLE OF CONTENTS

	Page
Summary of the Programme	1
Terms and Conditions of the Notes	6
Form of Pricing Supplement	27
Form of Notes and Transfer Restrictions	35
Use of Proceeds	44
The Export-Import Bank of Korea	45
Overview	45
Capitalization	46
Business	47
Selected Financial Statement Data	49
Operations	51
Description of Assets and Liabilities	56
Debt	64
Credit Policies, Credit Approval and Risk Management	66
Capital Adequacy	67
Overseas Operations	68
Property	68
Management and Employees	69
Financial Statements and the Auditors	70
The Republic of Korea	72
Land and History	72
Government and Politics	74
The Economy	76
Principal Sectors of the Economy	83
The Financial System	89
Monetary Policy	94
Balance of Payments and Foreign Trade	97
Government Finance	104
Debt	106
Taxation	109
Summary of Dealer Agreement	118
Subscription and Sale	119
General Information	124
Index to Financial Statements	126

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular.

Issuer	The Export-Import Bank of Korea
Description.....	Global Medium Term Note Programme
Size.....	Up to US\$25,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
Arranger.....	UBS AG Hong Kong Branch
Dealers.....	Banco Bilbao Vizcaya Argentaria, S.A. Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Daiwa Capital Markets Europe Limited DBS Bank Ltd. Deutsche Bank AG, Singapore Branch Goldman Sachs International The Hongkong and Shanghai Banking Corporation Limited ING Bank N.V., Singapore Branch J.P. Morgan Securities plc Merrill Lynch International, LLC Seoul Branch MUFG Securities EMEA plc Morgan Stanley & Co. International plc Nomura International plc Société Générale Standard Chartered Bank UBS AG Hong Kong Branch

The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to all persons appointed as a dealer in respect of one or more Tranches.

Fiscal Agent	Deutsche Bank AG, London Branch
Paying Agents and Transfer Agents.....	Deutsche Bank AG, London Branch, Deutsche Bank Trust Company Americas and Deutsche Bank Luxembourg S.A.

For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that a permanent Global Note is exchanged for Definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore (the “**Singapore Paying Agent**”) (unless the Issuer obtains an exemption from the Singapore Stock Exchange) where the Definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a permanent Global Note is exchanged for Definitive Notes, an announcement of such exchange shall be

made by the Issuer or on the Issuer's behalf through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the Singapore Paying Agent.

Registrar	Deutsche Bank Trust Company Americas
Method of Issue.....	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant Pricing Supplement.
Issue Price.....	Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly-paid Notes will not be issued under the Programme.
Form of Notes	The Notes may be issued in bearer form only (“ Bearer Notes ”), in bearer form exchangeable for Registered Notes (“ Exchangeable Bearer Notes ”) or in registered form only (“ Registered Notes ”). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their Issue Date (as defined in the Terms and Conditions of the Notes) or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Summary of the Programme—Selling Restrictions”), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (“ Regulation S ”) will be represented by interests in an unrestricted Global Certificate, in registered form, without interest coupons attached (each, an “ Unrestricted Global Certificate ”), which will be deposited on or about their Issue Date with Deutsche Bank AG, London Branch, as common depositary for, and registered in the name of BT Globenet Nominees Limited as nominee for such common depositary in respect of interests held through, Euroclear and Clearstream. A beneficial interest in the Unrestricted Global Certificate may at all times be held only through Euroclear and Clearstream. Registered Notes offered and sold within the United States to qualified institutional buyers in reliance on Rule 144A will be represented by interests in a restricted Global Certificate, in registered form, without coupons attached (each a “ Restricted Global Certificate ”), which will be deposited on or about their Issue Date with Deutsche Bank Trust Company Americas, as custodian for, and registered in the name of Cede & Co. as nominee for, DTC. The Restricted Global Certificate (and any definitive Registered Notes issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Certificate.
Clearing Systems.....	Clearstream and Euroclear for Bearer Notes, Clearstream, Euroclear and DTC for Registered Notes. Application will be made for trading of Registered Notes in PORTAL, as specified in the applicable Pricing Supplement. In relation to any Tranche, such other clearing system as may be agreed between the Issuer,

the Fiscal Agent and the relevant Dealer.

Initial Delivery of Notes	On or before the Issue Date for each Tranche, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream and/or a custodian for DTC. Global Notes or Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies.....	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in US Dollars, Australian Dollars, Canadian Dollars, Danish Kroner, Euro, Hong Kong Dollars, New Zealand Dollars, Pounds Sterling, Swedish Kronor, Swiss Francs or Yen or in other currencies if the Issuer and the relevant Dealer or Dealers so agree.
Maturities.....	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by then current laws, regulations, directives and/or central bank requirements.
Notes with a maturity of less than one year:	
Notes having a maturity of less than one year from the date of issue will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "Subscription and Sale."	
Denomination.....	The Notes will be issued in minimum denominations equal to or greater than €1,000 as indicated in the relevant Pricing Supplement, or such greater minimum denomination as may be required from time to time by then current laws, regulations, directives and/or central bank requirements. Integral multiples will be as set out in the relevant Pricing Supplement.
Fixed Interest Rate Notes.....	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest set separately for each Series by reference to LIBOR, LIBID or LIMEAN (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.
Variable Coupon Amount Notes ..	The Pricing Supplement issued in respect of each issue of variable coupon amount Notes will specify the basis for calculating the amounts of interest payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant Pricing Supplement.
Interest Periods and Interest Rates.	The length of the interest periods for the Notes and the applicable interest rate

or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.

Variable Redemption Amount Notes.....	The Pricing Supplement issued in respect of each issue of variable redemption amount Notes will specify the basis for calculating the redemption amounts payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant Pricing Supplement.
Redemption by Instalments.....	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, dual currency Notes, reverse dual currency Notes, optional dual currency Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption.....	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of Notes	The Notes will constitute unsecured and unsubordinated obligations of the Issuer, as described in “Terms and Conditions of the Notes — Status”.
Negative Pledge	See “Terms and Conditions of the Notes—Negative Pledge”.
Cross Default	See “Terms and Conditions of the Notes—Events of Default”.
Early Redemption.....	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes—Redemption, Purchase and Options”.
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Korea, subject to customary exceptions, all as described in “Terms and Conditions of the Notes—Taxation”.
Governing Law	English law.
Listing.....	Approval in-principle has been received from the Singapore Stock Exchange in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes, if traded on the Singapore Stock Exchange, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable

Pricing Supplement will state whether or not the relevant Notes are to be listed or admitted to trading and, if so, on which stock exchange(s).

Selling Restrictions..... For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, European Economic Area, United Kingdom, Korea, France, Japan, Hong Kong, Singapore, The Netherlands and Switzerland, see “Subscription and Sale”.

The Notes will be issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless the Notes are issued other than in compliance with the D Rules but in circumstances in which the Notes will comply with the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, will be attached to each Global Note or Global Certificate together with the relevant Pricing Supplement and which (subject to simplification by the deletion of non-applicable provisions), shall be endorsed on Bearer Notes or on the Certificates relating to Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are issued pursuant to an amended and restated issue and paying agency agreement (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Agency Agreement**”) dated 13 May 2016 among the Issuer, Deutsche Bank AG, London Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the “**Deed of Covenant**”) dated 13 May 2016 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Fiscal Agent**”, the “**Paying Agents**” (which expression shall include the Fiscal Agent), the “**Registrar**”, the “**Transfer Agents**” and the “**Calculation Agent(s)**”. The Noteholders (as defined below), the holders of the interest coupons (the “**Coupons**”) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts for the payment of instalments of principal (the “**Receipts**”) relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. **Form, Denomination and Title**

The Notes are issued in bearer form (“**Bearer Notes**”, which expression includes Notes that are specified to be Exchangeable Bearer Notes), in registered form (“**Registered Notes**”) or in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) in each case in the denomination(s) shown thereon.

The Notes will be issued in minimum denominations equal to or greater than €1,000 as indicated in the relevant Pricing Supplement, or such greater minimum denomination as may be required from time to time by then current laws, regulations, directives and/or central bank requirements. Integral multiples will be as set out in the relevant Pricing Supplement.

All Registered Notes shall have the same minimum denominations. Integral multiples for Registered Notes will be as set out in the relevant Pricing Supplement. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same denomination as the lowest denomination of Exchangeable Bearer Notes.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Notes that do not bear interest in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Any Bearer Note the principal amount of which is redeemable in instalments is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with

the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) *Exchange of Exchangeable Bearer Notes:* Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one denomination may not be exchanged for Bearer Notes of another denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) *Transfer of Registered Notes:* One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes:* In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Conditions 2(a), (b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice or surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (d), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar.

(e) *Exchange Free of Charge:* Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or

the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) *Closed Periods*: No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b)). An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date (as defined in Condition 7(b)).

(g) *Rule 144A Information Furnishing Requirements*: For so long as any of the Registered Notes bearing the Securities Act Legend remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the United States Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) under such Act, make available to any Noteholder in connection with any sale thereof and any prospective purchaser of such Notes from such Noteholder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

3. Status

The Notes and the Receipts and Coupons relating to them constitute and will at all times hereafter constitute (subject to Condition 4), direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank and will rank pari passu among themselves, without any preference one over the other by reason of priority of date of issue or currency of payment or otherwise, and at least equally with all other unsecured and unsubordinated general obligations of the Issuer (subject to certain statutory exceptions under the laws of the Republic of Korea (“**Korea**”)).

4. Negative Pledge

So long as any of the Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement) neither the Issuer nor any Major Subsidiary (as defined below) will create or permit to be outstanding any mortgage, charge, pledge or other security interest upon the whole or any part of its property, assets or revenues, present or future, to secure (i) any Quoted Indebtedness (as defined below), or (ii) any guarantee or indemnity or other like obligation relating to any Quoted Indebtedness, without in any such case at the same time according to the Notes, Receipts or Coupons either the same security as is granted to or is outstanding in respect of such indebtedness, guarantee, indemnity or other like obligation or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

“**Major Subsidiary**” means at any relevant time a subsidiary (as defined in the Agency Agreement) of the Issuer:

- (i) whose total assets or gross revenues (or, where the subsidiary in question itself has subsidiaries, whose total consolidated assets or gross consolidated revenues, as the case may be) attributable to the Issuer represent not less than 20 per cent. of the total consolidated assets or the gross consolidated revenues of the Issuer, all as calculated by reference to the then latest audited accounts of such subsidiary and of any other entity which is a subsidiary of that subsidiary and which would, if the latter subsidiary produced consolidated accounts, be included in such consolidated accounts and the then latest consolidated accounts of the Issuer; or
- (ii) to which is transferred all or substantially all the assets and undertakings of a subsidiary which immediately prior to such transfer is a Major Subsidiary.

“**Quoted Indebtedness**” means notes, debentures, bonds or other instruments evidencing indebtedness which (a) either are by their terms payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside Korea by or with the authorisation of the Issuer and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

5. Interest and other Calculations

(a) *Interest Rate and Accrual*: Each Note bears interest on its outstanding principal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Interest Rate, such interest being payable in arrear on each Interest Payment Date.

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Interest Rate in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(b) *Interest Rate on Floating Rate Notes*: If the Interest Rate is specified as being Floating Rate, the Interest Rate for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(i) if the Primary Source for the Floating Rate is a Page, subject as provided below, the Interest Rate shall be:

(x) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(y) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(ii) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (i)(x) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (i)(y) applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Interest Rate shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent;

(iii) if paragraph (ii) above applies, the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Interest Rate shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Relevant Currency that at least two out of five leading banks selected by the Calculation Agent in the Principal Financial Centre of the country of the Relevant Currency are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (x) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (y) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Interest Rate shall be the Interest Rate determined on the previous Interest Determination Date (after readjustment for any difference

between any Margin, Rate Multiplier or Maximum or Minimum Interest Rate applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period);

- (iv) if ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Interest Rate is to be determined, the Interest Rate applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which;
 - (a) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
 - (b) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and
 - (c) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement;

(c) *Interest Rate on Zero Coupon Notes:* Where a Note the Interest Rate of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Redemption Amount of such Note. As from the Maturity Date, the Interest Rate for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 6(b)).

(d) *Margin, Maximum/Minimum Interest Rates, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding*

- (i) If any Margin or Rate Multiplier is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Interest Rates, in the case of (x), or the Interest Rates for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (iii) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph;
- (ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified hereon, then any Interest Rate, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be;
- (iii) For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

(e) *Calculations:* The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Interest Rate and the outstanding principal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(f) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts:* As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation, it shall determine the Interest Rate and calculate the amount of interest payable (the “**Interest Amounts**”) in respect of each denomination of the Notes for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system and the rules of such listing authority, stock exchange and/or quotation system so require, such listing authority, stock exchange and/or quotation system as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Interest Rate payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(g) *Definitions:* In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement.

“**Business Day**” means:

- (i) in relation to any sum payable in euro, a TARGET2 Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre of the Relevant Currency and in each (if any) Additional Business Centre.

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;

- (ii) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) **“FRN Convention”, “Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
 - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the **“Calculation Period”**):

- (i) if **“Actual/Actual (ICMA)”** is so specified, means:
 - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if **“Actual/365”** or **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (iii) if “**Actual/365 (Fixed)**” is so specified, the actual number of days in the Calculation Period divided by 365;
- (iv) if “**Actual/360**” is so specified, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**” is so specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

“**Effective Date**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to an Interest Rate and Interest Accrual Period, the date specified as such hereon or, if none is so specified, the first day of such Interest Accrual Period if the Relevant Currency is Sterling or the day falling two Business Days in London for the Relevant Currency prior to the first day of such Interest Accrual Period if the Relevant Currency is not Sterling.

“**Interest Payment Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (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.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified hereon.

“Interest Rate” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.).

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuters Money 3000 Service (“**Reuters**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent.

“Reference Banks” means the institutions specified as such hereon or, if none, four (or, if the Relevant Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark.

“Regular Period” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period .

“Relevant Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the financial centre as may be specified as such hereon or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Relevant Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“**Relevant Time**” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified hereon or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre.

“**Representative Amount**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the amount specified as such hereon or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“**Specified Duration**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b).

“**TARGET2 Settlement Day**” means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

(h) *Calculation Agent and Reference Banks:* The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for an Interest Period or to calculate any Interest Amount, Instalment Amount or the Redemption Amount or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) *Redemption by Instalments and Final Redemption*

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to any Issuer’s or Noteholder’s option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding principal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the principal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer’s or Noteholder’s option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified hereon at its Redemption Amount (which, unless otherwise provided, is its principal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) *Early Redemption of Zero Coupon Notes*

- (i) The Redemption Amount payable in respect of any Note that does not bear interest prior to the Maturity Date, the Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Note shall be the scheduled Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.
- (iii) If the Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d).

(c) *Redemption for Taxation Reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Redemption Amount (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Korea or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors 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 the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) *Redemption at the Option of the Issuer and Exercise of Issuer's Options:* If so provided hereon, the Issuer may, on giving irrevocable notice to the Noteholders falling within the Issuer's Option Period redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of the Notes in the principal amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Redemption Amount together with interest accrued to the date fixed for redemption.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and the rules of each listing

authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation.

(e) *Redemption at the Option of Noteholders and Exercise of Noteholders' Options:* If so provided hereon, the Issuer shall, at the option of the holder of any such Note, redeem such Note on the date or dates so provided at its Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out hereon the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Noteholders' Option Period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) *Purchases:* The Issuer and any of its subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(g) *Cancellation:* All Notes purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. Payments and Talons

(a) *Bearer Notes:* Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the holder, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with a bank in the principal financial centre for that currency (in the case of a Sterling cheque, a town clearing branch of a bank in the City of London).

(b) Registered Notes

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Register Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register (i) where in global form, at the close of the business day (being for the purpose a day on which DTC and/or Euroclear and Clearstream, as applicable, are open for business) preceding the due date for payment thereof and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the

due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the currency in which such payments are due by cheque (in the case of a Sterling cheque, a town clearing branch of a bank in the City of London) drawn on a bank in the principal financial centre of the country of the currency concerned, subject as provided in paragraph (a) above, and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and, subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of the country of that currency.

(c) *Payments in the United States:* Notwithstanding the foregoing, if any Bearer Notes are denominated in US Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments Subject to Fiscal Laws:* All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Appointment of Agents:* The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require (v) a Paying Agent and (vi) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in US Dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

(i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Redemption Amount due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) If the Notes so provide, upon the due date for redemption of any Bearer Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons*: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) *Non-Business Days*: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means any day (other than a Saturday or a Sunday) that is:

- (i) (a) if the currency of payment is euro, a TARGET2 Settlement Day or (b) if the currency of payment is not euro, any day which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the Principal Financial Centre of the currency of payment; and
- (ii) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in: (a) the relevant place of presentation (in the case of Notes in definitive form) and (b) any Additional Financial Centre specified in the relevant Pricing Supplement.

(i) *Definitions*: In these Conditions, unless the context otherwise requires, “Additional Financial Centre(s)” means the city or cities specified as such in the relevant Pricing Supplement.

8. Taxation

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Korea or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such

additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with Korea other than the mere holding of the Note, Receipt or Coupon; or

(b) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(c) to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it), Receipt or Coupon is presented for payment; or

(d) presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it; (ii) “interest” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it; and (iii) “principal” and/or “interest” shall be deemed to include any additional amounts that may be payable under this Condition.

9. Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within five years (in the case of principal) or three years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Redemption Amount of such Note together with accrued interest to the date of payment shall become immediately due and payable without any further formality:

(i) *Non-Payment*: the Issuer fails to pay the interest or principal on any of the Notes when due and such failure continues for 15 days; or

(ii) *Breach of Other Obligations*: the Issuer defaults in the performance or observance of or compliance with any of its other obligations set out in the Notes which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Issuer by any Noteholder; or

(iii) *Cross-Default*: any other notes, debentures, bonds or other indebtedness for money borrowed having an aggregate principal amount of US\$10,000,000 (or its equivalent in any other currency) or more (hereinafter collectively called “**Indebtedness**”) of the Issuer or of any of its Major Subsidiaries shall become prematurely repayable following a default, or steps are taken to enforce any security therefor, or the Issuer or any of its Major Subsidiaries defaults in the repayment of any such Indebtedness at the maturity thereof (or at the expiration of any applicable grace period therefor, if any) or any guarantee of or indemnity in respect of any Indebtedness of others given by the Issuer or any of its Major Subsidiaries shall not be honoured when due and called upon except where the liability to make such payments is being contested in good faith by appropriate means; or

(iv) *Enforcement Proceedings*: a distress of execution or other legal process is levied or enforced or sued out upon or against any substantial part of the property, assets or revenues of the Issuer or any of its Major Subsidiaries; except where such distress or execution is being contested in good faith or stayed within 60 days of having been so levied, enforced or sued out; or

(v) *Insolvency*: the Issuer or any of its Major Subsidiaries becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of an administrator, liquidator or receiver of the Issuer or any of its Major Subsidiaries or of the whole or any part of the undertaking, property, assets or revenues of the Issuer or any of its Major Subsidiaries or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on the whole or any substantial part of its business; or

(vi) *Winding-up*: an order is made or an effective resolution passed for winding-up the Issuer or any of its Major Subsidiaries; or

(vii) *Moratorium*: a moratorium is agreed or declared by the Issuer in respect of any indebtedness of the Issuer or any of its Major Subsidiaries or Korea declares a moratorium on the payment of any External Indebtedness (including obligations arising under guarantees) of Korea or Korea becomes liable to repay prematurely any sums in respect of such External Indebtedness (including obligations arising under guarantees) as a result of a default under, or breach of the terms applicable to, such External Indebtedness or such obligations, or Korea ceases to be a member in good standing of the International Monetary Fund or the International Bank for Reconstruction and Development or the international monetary reserves of Korea become subject to any lien, charge, mortgage, encumbrance or other security interest or any segregation or other preferential arrangement (whether or not constituting a security interest) for the benefit of any creditor or class of creditors; or

(viii) *Article 37*: Korea ceases to control (directly or indirectly) the Issuer or for any reason fails to provide the financial support to the Issuer stipulated by Article 37 of The Export-Import Bank of Korea Act of 1969, as amended (“**Article 37**”) or Article 37 is amended in a manner which prejudices the rights of the Noteholders, or is repealed; or

(ix) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes; and (ii) to ensure that those obligations are legally binding and enforceable, is not taken, fulfilled or done.

For the purpose of this Condition 10, “**External Indebtedness**” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of Korea. No periodic evidence is required to be furnished by the Issuer as to the absence of Events of Default.

11. Meeting of Noteholders and Modifications

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or

representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes; (ii) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes; (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes; (iv) if a Minimum and/or a Maximum Interest Rate, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum; (v) to vary any method of, or basis for, calculating the Redemption Amount, including the method of calculating the Amortised Face Amount; (vi) to vary the currency or currencies of payment or denomination of the Notes; (vii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply; or (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) *Modification of Agency Agreement:* The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12. Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and listing authority, stock exchange and/or quotation system regulations, at the specified office of the Fiscal Agent (and, if the Notes are then admitted to listing, trading and/or quotations by any listing authority, stock exchange and/or quotation system (which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its specified office in the place required by such listing authority, stock exchange and/or quotation system) (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in the conditions of such Notes to "Issue Date" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly; provided, however, that any further notes that have the same CUSIP, ISIN or other identifying number as the original Notes shall be issued either in a "qualified reopening" for U.S. federal income tax purposes or otherwise as part of the same "issue" for U.S. federal income tax purposes.

14. Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) for so long as the Bearer Notes are listed on the

Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in a daily newspaper of general circulation in Singapore. It is expected that such publication will be made in the *Financial Times* in London and the *Business Times* in Singapore. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the holders of the Notes one day after the day on which the said notice was given to Euroclear and/or Clearstream and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream and/or DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream and/or DTC, as the case may be, may approve for this purpose.

15. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

16. Redenomination, Renominalisation and Reconditioning

(a) *Application:* This Condition 16 (Redenomination, Renominalisation and Reconditioning) is applicable to the Notes only if it is specified in the relevant Pricing Supplement as being applicable.

(b) *Notice of redenomination:* If the country of the Specified Currency becomes or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "**Redenomination**

Date”), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

(c) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Fiscal Agent then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
- (ii) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the “**Euro Exchange Date**”) on which the Issuer gives notice (the “**Euro Exchange Notice**”) to the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 16) shall remain in full force and effect; and
 - (C) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

(d) *Interest*: Following redenomination of the Notes pursuant to this Condition 16, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

(e) *Interest Determination Date*: If the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and Page determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET2 Settlement Day before the first day of the relevant Interest Period.

(f) *Definitions:* In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Specified Currency**” has the meaning given in the relevant Pricing Supplement.

“**Participating Member State**” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty.

“**Treaty**” means the Treaty establishing the European Communities as amended.

17. **Governing Law and Jurisdiction**

(a) *Governing Law:* The Notes are and all matters, disputes, claims or non-contractual obligations arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The Courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with Notes.

(c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England:* Condition 17(b) (Jurisdiction) is for the benefit of the Noteholders only. As a result, nothing in this Condition 17 (Governing law and jurisdiction) prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Service of process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Kexim Bank (UK) Limited at 3rd Floor, Moorgate Hall, 155 Moorgate, London EC2M 6XB, United Kingdom or at any address of The Export-Import Bank of Korea in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) *Consent to enforcement etc.:* The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.

Pricing Supplement dated [•]

The Export-Import Bank of Korea
Issue of [Aggregate Nominal Amount of Tranche][Title of Notes]
under the US\$25,000,000,000
Global Medium Term Note Programme

[THE NOTES TO WHICH THIS PRICING SUPPLEMENT RELATES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, UNLESS SO REGISTERED, 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 REGULATIONS 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 APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE NOTES WILL BE OFFERED AND SOLD ONLY (I) OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATIONS AND (II) WITH RESPECT TO NOTES IN REGISTERED FORM ONLY, WITHIN THE UNITED STATES IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)]¹

[IN CONNECTION WITH THIS ISSUE, THE STABILISING MANAGER[S] (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON THE STABILISING MANAGER[S] (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.]

[IMPORTANT – EEA RETAIL INVESTORS / PROHIBITION OF SALES TO EEA 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”). 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 2016/97 (as amended, “**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 Directive. 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 has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

¹ To be inserted in respect of an issue of Notes to qualified institutional buyers pursuant to Rule 144A.

[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET

Solely for the purposes of the manufacturer's(s') product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's(s') target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's(s') target market assessment) and determining appropriate distribution channels.]

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. The terms and conditions of the Notes (the “**Conditions**”) shall consist of the terms and conditions set out in the offering circular dated 10 May 2019 as amended and supplemented from time to time by the Issuer (the “**Offering Circular**”) and as amended and supplemented below. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular. This Pricing Supplement must be read in conjunction with the Offering Circular.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----|---|--|
| 1. | Issuer: | The Export-Import Bank of Korea |
| 2. | (i) Series Number: | [] |
| | (ii) Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] | [] |
| 3. | Specified Currency or Currencies: | [] |
| 4. | Aggregate Nominal Amount: | |
| | (i) Series: | [] |
| | (ii) Tranche: | [] |
| 5. | [(i)] Issue Price: | [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| | [(ii)] Net proceeds: | [] (Required only for listed issues)] |
| 6. | Specified Denominations: | [] ²
[] |
| 7. | [(i)] Issue Date: | [] |
| | [(ii)] Interest Commencement Date (if different from the Issue Date): | []] |
| 8. | Maturity Date: | <i>[specify date or (for Floating Rate Notes or any other Notes for which the Interest Period end date(s) are adjusted) Interest Payment Date falling in the relevant month and year]</i>

<i>If the Maturity Date is earlier than the first anniversary of the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” or (ii) another applicable exemption from section 19 of the FSMA must be available.</i> |

² If the issue proceeds are received by the Issuer in the United Kingdom and the Maturity Date is earlier than the first anniversary of the Issue Date, the Notes must have a minimum denomination of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” (or another applicable exemption from section 19 of the Financial Services and Markets Act 2000 must be available).

9. Interest Basis: [● per cent. Fixed Rate]
[[specify reference rate] +/- ● per cent. Floating Rate]
[Zero Coupon]
[Other (specify)]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Dual Currency]
[Instalment]
[Other (specify)]
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Listing: [Application has been made for the Notes to be listed on the Singapore Exchange Securities Trading Limited/other (*specify*)/None]
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note/Variable Coupon Amount Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount[(s)]: [] [per Note of [] Specified Denomination and [] per Note of [] Specified Denomination]
- (iv) Day Count Fraction: [30/360]/[Actual/Actual (ICMA)]/[*If neither of these options applies, give details*]
- (v) Broken Amount(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*]
- (vi) Other terms relating to the method of calculating interest for Fixed Rate/ Variable Coupon Amount Notes: [Not Applicable/give details]
(Consider if day count fraction, particularly for Euro denominated issues, should be on an Actual/Actual (ICMA) basis. Also consider what should happen to unmatured Coupons in the event of early redemption of the Notes.)
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/ Following Business Day]

- Convention/ Modified Following Business Day
Convention/ Preceding Business Day Convention/ other
(give details)]
- (iii) Additional Business Centre(s): [Not Applicable/give details]
- (iv) Primary Source for Floating Rate: [Page/Reference Banks/ISDA Determination]
- (v) Party responsible for calculating the Interest Rate and Interest Amount(s) (if not the Fiscal Agent): [[Name] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)]
- (vi) Page determination:
- Reference Rate: [] (Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)
 - Relevant Screen Page: [] (In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
 - Interest Determination Date(s): [] (Second London business day prior to the start of each Interest Period if LIBOR (other than sterling or euro LIBOR), first day of each Interest Period if sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Time: [For example, 11:00 a.m. London time]
 - Relevant Financial Centre: [For example, London/Euro-zone (where Euro-zone means the region comprised of member states of the European Union that adopt the single currency euro in accordance with the Treaty establishing the European Community as amended by the Treaty on European Union and the Treaty of Amsterdam)]
- (vii) Reference Banks determination: [Specify four]
- (viii) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (ix) Representative Amount [Specify if page or Reference Bank quotes are to be given in respect of a transaction of a specified notional amount]
- (x) Relevant Currency: [Specify if not currency of denomination]
- (xi) Effective Date: [Specify if quotes are not to be obtained with effect from commencement of Interest Period]
- (xii) Specified Duration: [Specify period for quote, if not duration of Interest Period]
- (xiii) Margin(s): [+/-] [] per cent., per annum
- (xiv) Minimum Interest Rate: [] per cent. per annum
- (xv) Maximum Interest Rate: [] per cent. per annum
- (xvi) Rate Multiplier (if applicable): []

- (xvii) Day Count Fraction: []
- (xviii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [Not Applicable/Condition 5(c) below will apply/[]]
17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Amortisation Yield: [] per cent. per annum
- (ii) Any other formula/basis of determining amount payable: [*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 6(b)(ii)*]
18. Dual Currency Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of exchange/method of calculating Rate of exchange: [*Give details*]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
- (iii) Provisions applicable where calculation by reference to rate of exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

19. Call Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Issuer's Option Period (Call): []
- (ii) Redemption Amount(s) (Call) and method, if any, of calculation of such amount(s): []
- (iii) If redeemable in part:
- (a) Minimum Redemption/ Instalment Amount: []
- (b) Maximum Redemption/ Instalment Amount: []
- (iv) Notice period (if other than as set out in the Conditions): [] (*a minimum of 5 business days' notice required*)

20. Put Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Noteholders' Option Period: []
- (ii) Redemption Amount(s) and method, if any, of calculation of such amount(s):
- (iii) Notice period (if other than as set out in the Conditions): [] *(a minimum of 15 business days' notice required)*
21. Redemption Amount (at maturity): [Par/other/see Appendix]
22. Redemption for Taxation Reasons
- (i) Redemption for Taxation Reasons permitted on days other than Interest Payment Dates: [Yes/No]
- (ii) Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable *(if both the Redemption Amount payable on redemption for taxation reasons and on event of default are the principal amount of the Notes/specify if different from the principal amount of the Notes)*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes: [Bearer Notes:
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.]
 [Temporary Global Note exchangeable for Definitive Notes on [] days' notice.]
 [Permanent Global Note exchangeable for Definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].
 [Exchangeable Bearer/Registered]
 [Registered Notes]
24. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. *Note that this paragraph relates to the place of payment, and not interest period end dates, to which sub-paragraph 16(iii) relates*]
25. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
26. Details relating to Instalment Notes: Instalment Date(s); Instalment Amount(s): [Not Applicable/give details]
27. Redenomination, renominatisation and [Not Applicable/The provisions [in Condition 16 *(Redenomination, Renominatisation and Reconventioning)*]

- reconventioning provisions: [annexed to this Pricing Supplement] apply]
28. Consolidation provisions: [Not Applicable/The provisions [in Condition 13 (*Further Issues*)] [annexed to this Pricing Supplement] apply]
29. Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

30. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
(ii) Stabilising Manager[s] (if any): [Not Applicable/*give name*]
31. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
32. U.S. Selling Restrictions [Regulation S Cat. 2/Rule 144A]
33. TEFRA: [Not Applicable/The [C/D] Rules are applicable]
34. Additional selling restrictions: [Not Applicable/*give details*]
35. Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

OPERATIONAL INFORMATION

36. ISIN Code: []
37. Common Code: []
38. CUSIP: []
39. Any clearing system(s) other than Euroclear, Clearstream and DTC and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
40. Delivery: Delivery [against/free of] payment
41. Additional Paying Agent(s) (if any): []
42. Registrar: []

[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]/[capital markets products other than prescribed capital markets products] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and [Excluded Investment Products]/[Specified 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).] (*To be inserted in the case of an offer of the notes to investors in Singapore*)

[RISK REGARDING BENCHMARK REGULATION REFORMS

The London Interbank Offered Rate (“LIBOR”) and the Euro Interbank Offered Rate (“EURIBOR”) and other indices which are deemed to be “benchmarks” are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others have yet to be implemented. 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 any Notes linked to such benchmarks.

Regulation (EU) 2016/1011 (the “Benchmark Regulation”) was published in the Official Journal of the EU on June 29, 2016 and has been in force since January 1, 2018. The Benchmark Regulation applies to the provision of benchmarks,

the contribution of input data to a benchmark and the use of a benchmark, within the EU. Among other things, (i) it requires benchmark administrators (such as ICE Benchmark Administration Limited and the European Money Market Institute, which currently administer LIBOR and EURIBOR, respectively) to be authorized or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognized or endorsed) and (ii) it prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorized or registered (or, if non-EU based, not deemed equivalent or recognized or endorsed). On July 27, 2017, the U.K. Financial Conduct Authority (the “FCA”) announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR after 2021. The FCA announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

The Benchmark Regulation could have a material impact on any Notes linked to a rate or index deemed to be a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to such benchmark; (ii) trigger changes in the rules or methodologies used in the benchmarks or (iii) lead to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to a benchmark. Moreover, if a benchmark ceases to be calculated or administered and no replacement base rate is identified or selected, the fallback provisions for the interest rate calculations under the Notes may result in interest accruing at a fixed rate based on the rate which applied in the previous period when the benchmark was available, effectively converting the Notes into fixed rate securities.

Investors should make their own assessment about the potential risks imposed by the Benchmark Regulation reforms, investigations and licensing issues and consult their own independent advisers in making any investment decision with respect to the Notes linked to a benchmark.] *(To be inserted in the case of a floating rate note issuance)*

[Condition 5(c) Effect of Benchmark Transition Event

(i) Benchmark Replacement

If the Issuer or its designee determines that a Benchmark Transition Event (as defined herein) and its related Benchmark Replacement Date (as defined herein) have occurred prior to the Reference Time (as defined herein) in respect of any determination of the Benchmark (as defined herein) on any date, the Benchmark Replacement (as defined herein) will replace the then-current Benchmark for all purposes relating to the applicable Notes in respect of such determination on such date and all determinations on all subsequent dates.

(ii) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes (as defined herein) from time to time.

At the request of the Issuer, but subject to receipt by the Agents of a certificate signed by two duly authorised officers of the Issuer pursuant to Condition 5(c)(iv) and at least five London banking days’ prior notice thereof, the Agents shall (at the expense of the Issuer), without any requirement for the consent or approval of Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Replacement Conforming Changes (including, inter alia, by amending or supplementing the Agency Agreement), provided that the Agents shall not be obliged so to concur if, in the opinion of any of the Agents, doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Agents in these Conditions or the Agency Agreement (including, for the avoidance of doubt, any supplemental agency agreement) in any way.

In connection with any Benchmark Replacement Conforming Changes in accordance with this Condition 5(c)(ii), the Issuer shall comply with the rules of any stock exchange on which the applicable Notes are for the time being listed or admitted to trading.

(iii) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(c), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the Issuer's or its designee's sole discretion, and, notwithstanding anything to the contrary in these Conditions or the Agency Agreement, shall become effective with respect to the applicable Notes without consent from any other party.

(iv) Notices, etc.

Any Benchmark Replacement (including any Benchmark Replacement Adjustment) and the specific terms of any Benchmark Replacement Conforming Changes determined under this Condition 5(c) will be notified promptly by the Issuer to the Fiscal Agent and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Replacement Conforming Changes, if any.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Agents a certificate signed by two duly authorised officers of the Issuer:

- (A) confirming (1) that a Benchmark Transition Event has occurred and (2) the Benchmark Replacement (including any Benchmark Replacement Adjustment) and the specific terms of any Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 5(c); and
- (A) certifying that the Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of the Benchmark Replacement.

The Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof.

(v) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(c)(i), (ii), (iii) and (iv), the Benchmark and the fallback provisions provided for in the Agency Agreement will continue to apply unless and until the Fiscal Agent has been notified of the Benchmark Replacement (including any Benchmark Replacement Adjustment) and the specific terms of any Benchmark Replacement Conforming Changes, in accordance with Condition 5(c)(iv).

(vi) Certain Defined Terms

As used in this Condition 5(c):

“Benchmark” means, initially, LIBOR (if LIBOR is specified as the Reference Rate in the applicable Pricing Supplement); provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR or the then-current Benchmark, then “Benchmark” means the applicable Benchmark Replacement.

“Benchmark Replacement” means the Interpolated Benchmark; provided that if the Issuer or its designee cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then “Benchmark Replacement” means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (A) the sum of: (1) Term SOFR and (2) the Benchmark Replacement Adjustment;

- (B) the sum of: (1) Compounded SOFR and (b) the Benchmark Replacement Adjustment;
- (C) the sum of: (1) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (2) the Benchmark Replacement Adjustment;
- (D) the sum of: (1) the ISDA Fallback Rate and (2) the Benchmark Replacement Adjustment;
- (E) the sum of: (1) the alternate rate of interest that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (2) the Benchmark Replacement Adjustment.

“Benchmark Replacement Adjustment” means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;
- (C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time.

“Benchmark Replacement Conforming Changes” means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “Interest Period,” timing and frequency of determining rates and making payments of interest, changes to the definition of “Corresponding Tenor” solely when such tenor is longer than the Interest Period and other administrative matters) with respect to these Conditions, the Agency Agreement or otherwise that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary).

“Benchmark Replacement Date” means the earliest to occur of the following events with respect to the then-current Benchmark:

- (A) in the case of clause (A) or (B) of the definition of “Benchmark Transition Event,” the later of (1) the date of the public statement or publication of information referenced therein and (2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark; or
- (B) in the case of clause (C) of the definition of “Benchmark Transition Event,” the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

“Benchmark Transition Event” means the occurrence of one or more of the following events with respect to the then-current Benchmark:

- (A) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that such administrator has ceased or will cease to provide the Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;
- (B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or
- (C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

“Compounded SOFR” means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which will be compounded in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period) being established by the Issuer or its designee in accordance with:

- (A) the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; provided that:
- (B) if, and to the extent that, the issuer or its designee determines that Compounded SOFR cannot be determined in accordance with clause (A) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the issuer or its designee giving due consideration to any industry-accepted market practice for U.S. dollar-denominated floating rate notes at such time.

Notwithstanding the foregoing, Compounded SOFR will include a describe lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period.

“Corresponding Tenor” with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

“Federal Reserve Bank of New York’s Website” means the website of the Federal Reserve Bank of New York at <http://www.newyorkfed.org>, or any successor source.

“Interpolated Benchmark” with respect to the Benchmark means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (A) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (B) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor.

“ISDA Definitions” means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

“ISDA Fallback Adjustment” means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

“ISDA Fallback Rate” means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

“Reference Time” with respect to any determination of the Benchmark means (A) if the Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (B) if the Benchmark is not LIBOR, the time determined by the Issuer or its designee in accordance with the Benchmark Replacement Conforming Changes.

“Relevant Governmental Body” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

“SOFR” with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York’s Website.

“Term SOFR” means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

“Unadjusted Benchmark Replacement” means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.] *(Consider adding this Condition in the case of a floating rate note issuance)*

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the US\$25,000,000,000 Global Medium Term Note Programme of The Export-Import Bank of Korea.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: _____
Duly authorised

FORM OF NOTES AND TRANSFER RESTRICTIONS

Initial Issue of Notes

Upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream (the “**Common Depository**”) or registration of Registered Notes in the name of any nominee for Euroclear, Clearstream and/or DTC and delivery of the relative Global Certificate to the Common Depository and/or a custodian for DTC (the “**Custodian**”), Euroclear, Clearstream or DTC (as the case may be) will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository or the Custodian may (if indicated in the relevant Pricing Supplement) also be credited to the accounts of other clearing systems through direct or indirect accounts with Euroclear, Clearstream and DTC held by other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, DTC or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, DTC or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, DTC or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, DTC or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

1. *Temporary Global Notes*: Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below):

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in a transaction to which TEFRA is not applicable (as to which, see “Summary of the Programme-Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part, upon certification as to non-US beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions (as defined herein) in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

2. *Permanent Global Notes*: Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes” below, in part for Definitive Notes or, in the case of (iii) below, Registered Notes:

- (i) unless principal in respect of any Notes is not paid when due, by the Issuer giving notice to the Noteholders and the Fiscal Agent of its intention to effect such exchange;

- (ii) if the relevant Pricing Supplement provides that such Global Note is exchangeable at the request of the holder, by the holder giving notice to the Fiscal Agent of its election for such exchange;
- (iii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Fiscal Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and
- (iv) otherwise, (1) if the permanent Global Note is held on behalf of Euroclear or Clearstream or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system 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 (2) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

3. *Partial Exchange of Permanent Global Notes:* For so long as a permanent Global Note is held on behalf of a clearing system and that clearing system so permits, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes if principal in respect of any Notes is not paid when due.

4. *Delivery of Notes:* On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate principal amount in integral multiples of the Specified Denomination of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Offering Circular, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes. For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that a permanent Global Note is exchanged for Definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore (the “**Singapore Paying Agent**”) (unless the Issuer obtains an exemption from the Singapore Stock Exchange) where the Definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a permanent Global Note is exchanged for Definitive Notes, an announcement of such exchange shall be made by the Issuer or on the Issuer’s behalf through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the Singapore Paying Agent. If a Global Note is exchangeable for Definitive Notes at the option of the Noteholders / other than in the limited circumstances, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

5. Exchange Date: “**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its Issue Date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular (the “**Conditions**”). The following is a summary of certain of those provisions:

1. *Payments:* No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-US beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

2. *Prescription:* Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of five years (in the case of principal) and three years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

3. *Meetings:* The holder of a permanent Global Note or a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each minimum denomination of Notes for which such Global Note may be exchanged.

4. *Cancellation:* Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant permanent Global Note.

5. *Purchase:* Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

6. *Issuer’s Option:* Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream or other relevant clearing system (as the case may be).

7. *Noteholders’ Options:* Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation.

8. *Events of Default:* Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the principal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by an Unrestricted Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 13 May 2016 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Unrestricted Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

9. *Notices:* So long as any Notes are represented by a Global Note and/or a Global Certificate, as the case may be, and such Global Note and/or Global Certificate, as the case may be, is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication and/or mailing, as the case may be, as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note and/or the Global Certificate, as the case may be, except that, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, notices relating to such Notes shall also be published in a daily newspaper of general circulation in the place or places required by those rules.

10. *Redenomination:* If the Notes are redenominated pursuant to Condition 16 (*Redenomination, Renominalisation and Reconventioning*), then following redenomination:

- (a) if Definitive Notes are required to be issued, they shall be issued at the expense of the Issuer in the denominations of euro 0.01, euro 1,000, euro 10,000, euro 100,000 and such other denominations as the Fiscal Agent shall determine and notify to the Noteholders; and
- (b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest euro 0.01.

Form of Registered Notes

Registered Notes offered and sold outside the United States to non-US persons in reliance on Regulation S will be represented by interests in an Unrestricted Global Certificate, in registered form, without interest coupons attached, which will be deposited on or about the Issue Date with, and registered in the name of BT Globenet Nominees Limited, as nominee for, the Common Depositary. A beneficial interest in the Unrestricted Global Certificate may at all times be held only through Euroclear and Clearstream.

Registered Notes offered and sold within the United States to qualified institutional buyers in reliance on Rule 144A will be represented by interests in a Restricted Global Certificate, in registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Issue Date with Deutsche Bank Trust Company Americas as the Custodian for, DTC. The Restricted Global Certificate (and any definitive Registered Notes issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note.

Each Unrestricted Global Certificate will have an ISIN and each Restricted Global Certificate will have a CUSIP number.

Transfer Restriction in respect of Registered Notes

On or prior to the 40th day after the Issue Date, a beneficial interest in the Unrestricted Global Certificate may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Certificate

only upon receipt by the Registrar of a written certification from the transferee (in the applicable form provided in the Agency Agreement) to the effect that such transfer is being made to a person who is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers.

A beneficial interest in the Restricted Global Certificate may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Certificate only upon receipt by the Registrar of a written certification from the transferor (in the applicable form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S.

Any beneficial interest in either the Restricted Global Certificate or the Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Certificate will, upon transfer, cease to be a beneficial interest in such Global Certificate and become a beneficial interest in the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Certificate for so long as such person retains such an interest.

Each person purchasing Notes from a Dealer or its affiliate (the “**Vendor**”) acknowledges that (i) it has not relied on the Vendor in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision and (ii) no person has been authorised to give any information or to make any representation concerning the Issuer or the Notes other than those contained in this Offering Circular, and, if given or made, such other information or representation should not be relied upon as having been authorised by the Issuer or the Vendor. This Offering Circular has been prepared by the Issuer solely for use in connection with the offer and sale of the Notes outside the United States to non-US persons and for resales of the Notes to qualified institutional buyers (within the meaning of Rule 144A) in the United States and for the listing of the Notes on the Singapore Stock Exchange. The Issuer and the Vendor reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the number of Notes which may be offered pursuant to Rule 144A, if any. This Offering Circular does not constitute an offer to any person in the United States or to any US person other than a “qualified institutional buyer” within the meaning of Rule 144A under the Securities Act to whom an offer has been made directly by the Vendor.

Each prospective purchaser of Notes offered in reliance on Rule 144A (a “**144A Offeree**”), by accepting delivery of this Offering Circular, will be deemed to have represented and agreed with respect to such Notes as follows:

- (1) such 144A Offeree acknowledges that this Offering Circular is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this Offering Circular, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited; and
- (2) such 144A Offeree agrees to make no photocopies of this Offering Circular or any documents referred to herein and, if such 144A Offeree does not purchase Notes or the offering is terminated, to return this Offering Circular and all documents referred to herein to the Vendor.

Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered in reliance on Rule 144A will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

- (i) The purchaser is (A) a qualified institutional buyer within the meaning of Rule 144A (“**QIB**”), (B) acquiring such Notes for its own account or for the account of a QIB and (C) aware, and each beneficial

owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A

- (ii) The purchaser understands that the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the Notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except in accordance with the legend set forth below.
- (iii) The Restricted Global Certificate will bear a legend to the following effect, unless the Issuer and holder thereof agree otherwise in accordance with applicable law:

“THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER OR ITS AFFILIATES”.

- (iv) The Issuer, the Registrar and the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (v) It understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Certificate. Before any interest in the Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A.

Exchange of Interests in Global Certificates

Registration of title to Notes initially represented by a Restricted Global Certificate in a name other than DTC or a successor depository or one of their respective nominees will not be permitted unless (i) DTC or such successor depository notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Restricted Global Certificate or ceases to be a “clearing agency” registered under the Exchange Act), or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depository, (ii) principal in respect of any Notes is not paid when due (provided that the rules of DTC so permit) or (iii) the relevant Pricing Supplement specifies that the Restricted Global Certificate is exchangeable for definitive Registered Notes, and in any such case the Fiscal Agent has received a notice from the registered holder of the Restricted Global Certificate requesting exchange of the Restricted Global Certificate in full for individual definitive certificates (the “**Certificates**”).

Registration of title to Notes initially represented by an Unrestricted Global Certificate in a name other than the nominee of the Common Depositary will not be permitted unless (i) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (ii) principal in respect of any Notes is not paid when due (provided that the rules of Euroclear and Clearstream so permit) or (iii) the relevant Pricing Supplement specifies that the Unrestricted Global Certificate is exchangeable for definitive Registered Notes, and in any such case the Registrar or any Transfer Agent has received a notice from the registered holder of specified amount of the Unrestricted Global Certificate requesting exchange of the Unrestricted Global Certificate for individual Certificates.

In such circumstance, the relevant Global Certificate shall be exchanged in full or in part, as the case may be, for Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders in integral multiples of the Specified Denomination. A person having an interest in a Global Certificate must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Certificates and (ii) in the case of the Unrestricted Global Certificate on or prior to the 40th day after the Issue Date, or in the case of the Restricted Global Certificate, a fully completed, signed certificate substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale, that the transfer is being made in compliance with the provisions of Rule 144A or Regulation S, as the case may be. Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “— Transfer Restrictions in respect of Registered Notes”. For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that a Global Certificate is exchanged for Certificates, the Issuer will appoint and maintain a paying agent in Singapore (unless the Issuer obtains an exemption from the Singapore Stock Exchange) where the Certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for Certificates, an announcement of such exchange shall be made by the Issuer or on the Issuer’s behalf through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the Certificates, including details of the Singapore Paying Agent.

The holder of a Registered Note may transfer such Registered Note in accordance with the provisions of Condition 2. Certificates may not be eligible for trading in the clearing system.

Upon the transfer, exchange or replacement of a Certificate bearing the Rule 144A legend referred to under “Transfer Restrictions in respect of Registered Notes”, or upon specific request for removal of the Rule 144A legend on a Certificate, the Issuer will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of or exchange of interests in a Global Certificate for Certificates for a period of three business days prior to the due date for any payment of principal. For the purposes hereof and for payment of interest, “**business day**” means a day on which commercial banks and foreign exchange markets are open for business in London and New York City.

Notwithstanding anything to the contrary herein, no exchanges to Certificates shall be made if the Specified Denomination of Notes in the applicable Pricing Supplement is formulated in such a way that a lower integral multiple is used for any amounts in excess of the Specified Denomination. Furthermore, such formulation shall not be permitted for any issuance of Notes that are to be represented by permanent Global Notes exchangeable for Certificates.

Euroclear, Clearstream and DTC Arrangement for Registered Notes

So long as DTC or its nominee or Euroclear, Clearstream or the nominee of the Common Depositary is the registered holder of a Global Certificate, DTC, Euroclear, Clearstream or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Certificate for all purposes under the Agency Agreement and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global

Certificates will be made to DTC, Euroclear, Clearstream or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, any Agent or any Dealer or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by Euroclear or Clearstream from the Fiscal Agent, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Fiscal Agent, all distribution of principal and interest with respect to book-entry interests in the Notes from the Fiscal Agent through DTC. Distribution in the United States will be subject to relevant US tax laws and regulations.

Interest on the Notes (other than interest payable on redemption) will be paid to the holder shown on the Register on the close of the business day preceding the due date for such payment so long as the Notes are represented by a Global Certificate, instead of on the fifteenth day before the due date for such payment (as provided by Condition 2(f)) so long as the Notes are in definitive form. Trading between a Restricted Global Certificate and a related Unrestricted Global Certificate will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Certificate to such persons will be limited. As DTC, Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holding of book-entry interests in the Notes through Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) BT Globenet Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

Interests in each Unrestricted Global Certificate and Restricted Global Certificate will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream Accountholders

Secondary market sale of book-entry interests in the Notes held through Euroclear or Clearstream to purchasers of book-entry interests in the Notes through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System. Where payment is not effected in US Dollars separate payments outside DTC are required to be made between the DTC participants.

Trading between Euroclear/Clearstream Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Certificate (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or

Clearstream accountholder must send to Euroclear or Clearstream delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit appropriate instructions to the Common Depository and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholders, as the case may be. On the settlement date, the Common Depository will (i) transmit appropriate instruction to the Custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by the relevant Unrestricted Global Certificate and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Restricted Global Certificate.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in an Unrestricted Global Certificate (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12 noon, New York City time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Restricted Global Certificate and (ii) increase the amount of Notes registered in the name of the nominee for the Common Depository and evidenced by the relevant Unrestricted Global Certificate. Certificate book-entry interests will be delivered free of payment to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Although the foregoing set out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream and Euroclear, none of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, any Agent or any Arranger or Dealer or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear, Clearstream or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency of any purpose of the arrangements described above.

USE OF PROCEEDS

The net proceeds of each issue of Notes will be used by the Issuer for its general funding purposes, including the repayment of foreign currency obligations and the making of foreign currency loans.

THE EXPORT-IMPORT BANK OF KOREA

Overview

We were established in 1976 as a special governmental financial institution pursuant to the Export-Import Bank of Korea Act, as amended (the “KEXIM Act”). Since our establishment, we have been promoting the export and competitiveness of Korean goods and services in international markets. To this end, we have introduced financing facilities and implemented lending policies that are responsive to the needs of Korean exporters.

Our primary purpose, as stated in the KEXIM Act, is to “promote the sound development of the national economy and economic cooperation with foreign countries by extending the financial aid required for export and import transactions, overseas investment and the development of natural resources abroad.” Over the years, we have developed various financing facilities and lending policies that are consistent with the Government’s overall economic policies. In the latter part of the 1980s, as a result of changing trade conditions and the increased internationalization of the Korean economy, overseas investment credits and import credits were promoted and began to constitute an important portion of our business. In recent years, we have focused on the development of new financing facilities, including structured financing for ships and project financing for the construction of industrial plants and the development of natural resources abroad.

As of December 31, 2018, we had ₩72,120 billion of outstanding loans, including ₩38,525 billion of outstanding export credits, ₩26,442 billion of outstanding overseas investment credits and ₩4,653 billion of outstanding import credits, as compared to ₩71,884 billion of outstanding loans, including ₩41,369 billion of outstanding export credits, ₩24,107 billion of outstanding overseas investment credits and ₩3,726 billion of outstanding import credits as of December 31, 2017.

Although our management has control of our day-to-day operations, our operations are subject to the close supervision of the Government. The Government’s determination each fiscal year regarding the amount of financial support to extend to us, in the form of contributions to capital or transfers of our income to reserves, plays an important role in determining our lending capacity. The Government has the power to appoint or dismiss our President, Deputy President, Senior Executive Directors and Auditor.

The Government supports our operations pursuant to Article 37 of the KEXIM Act. Article 37 of the KEXIM Act provides that “the annual net losses of the Export-Import Bank of Korea shall be offset each year by the reserve, and if the reserve be insufficient, the Government shall provide funds to cover the deficit.” As a result of the KEXIM Act, the Government is generally responsible for our operations and is legally obligated to replenish any deficit that arises if our reserves, consisting of our surplus and capital surplus items, are insufficient to cover any of our annual net losses. In light of the above, if we have insufficient funds to make any payment under any of our obligations, including the debt securities covered by this Offering Circular, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable us to make such payment when due. The provisions of Article 37 do not, however, constitute a direct guarantee by the Government of our obligations, and the provisions of the KEXIM Act, including Article 37, may be amended at any time by action of the National Assembly.

In January 2014, the Government amended the KEXIM Act to:

- increase our authorized capital from ₩8,000 billion to ₩15,000 billion;
- expand our operation scope that enables us, among other things, to invest in (i) funds intended to support export and import transactions by small and medium-sized enterprises and (ii) special purpose companies that carry out value added overseas development projects in a flexible way; and
- reduce restrictions on our financing and investment activities by providing additional flexibility to us to cope with changes in market conditions.

In March 2016, the Government amended the KEXIM Act, which will take effect at the end of June 2016, to strengthen its enforcement powers by allowing:

- the Minister of Economy and Finance to impose any necessary sanctions against the officers of the Bank; and

- the Financial Services Commission to request the Minister of Economy and Finance to apply sanctions against the employees of the Bank.

Capitalization

As of December 31, 2018, our authorized capital was ₩15,000 billion and capitalization was as follows:

	December 31, 2018 ⁽¹⁾	
	(billions of Won)	
Long-Term Debt ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ :		
Borrowings in Korean Won	₩	—
Borrowings in Foreign Currencies.....		3,830
Export-Import Financing Debentures		47,021
Total Long-Term Debt.....	₩	50,851
Capital and Reserves:		
Capital Stock ⁽⁷⁾	₩	11,815
Additional Paid-in-Capital		—
Capital Adjustments.....		(129)
Retained Earnings.....		1,117
Legal Reserve ⁽⁸⁾		346
Voluntary Reserve ⁽⁸⁾		—
Reserve for Bad Loans ⁽⁹⁾		302
Unappropriated Retained Earnings.....		597
Adjustments on the initial application of K-IFRS 1109.....		(129)
Other Components of Equity ⁽¹⁰⁾		680
Total Capital and Reserve	₩	13,483
Total Capitalization ⁽⁸⁾	₩	64,334

- (1) Except as described in this Offering Circular, there has been no material adverse change in our capitalization since December 31, 2018.
- (2) Consists of borrowings and debentures with maturities of more than a year remaining.
- (3) We have translated borrowings in foreign currencies as of December 31, 2018 into Won at the rate of ₩1,118.10 to US\$1.00, which was the market average exchange rate as announced by the Seoul Monetary Brokerage Services Ltd., on December 31, 2018.
- (4) As of December 31, 2018, we had contingent liabilities totaling ₩40,011 billion, which consisted of ₩34,795 billion under outstanding guarantees and acceptances and ₩5,216 billion under contingent guarantees and acceptances issued on behalf of our clients. For further information relating to our contingent liabilities under outstanding guarantees as of December 31, 2018, see “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 36.”
- (5) As of December 31, 2018, we had entered into 462 interest rate related derivative contracts with a notional amount of ₩40,969 billion and 619 currency related derivative contracts with a notional amount of ₩34,494 billion in accordance with our policy to hedge interest rate and currency risks. See “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 20.”
- (6) See “—Description of Assets and Liabilities—Sources of Funding” for an explanation of these sources of funds. All our borrowings, whether domestic or international, are unsecured and unguaranteed.
- (7) As of December 31, 2018, our authorized ordinary share capital was ₩15,000 billion and issued fully-paid capital stock was ₩11,815 billion. See “—Business—Government Support and Supervision.”
- (8) See “—Business—Government Support and Supervision” for a description of the manner in which annual net income is transferred to the legal reserve and may be transferred to the voluntary reserve.

- (9) If the estimated allowance for credit loss determined by K-IFRS for the accounting purposes is lower than that for regulatory purposes as required by Supervisory Regulation of Banking Business, we reserve such difference as the regulatory reserve for bad loans. See “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 23.”
- (10) See “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 22.”

Business

Purpose and Authority

We were established in 1976 as a special governmental financial institution pursuant to the KEXIM Act. The KEXIM Act, the Enforcement Decree of the KEXIM Act (the “KEXIM Decree”) and our Articles of Incorporation (the “By-laws”) define and regulate our powers and authority. We are treated as a special juridical entity under Korean law and are not subject to certain of the laws regulating activities of commercial banks.

We were established, as stated in the KEXIM Act, to “promote the sound development of the national economy and economic cooperation with foreign countries by extending the financial aid required for export and import transactions, overseas investment and the development of natural resources abroad.” As an instrument in serving the Government’s public policy objectives, we do not seek to maximize our profits. We do, however, strive to maintain an adequate level of profitability to strengthen our equity base in order to support the growth in the volume of our business.

Our primary purpose has been the provision of loans and guarantees to facilitate Korean companies’ exports and overseas investments and projects. Most of our activities have been carried out pursuant to this authority.

We have the authority to undertake a range of financial activities. These fall into four principal categories:

- export credits;
- overseas investment credits;
- import credits; and
- guarantee facilities.

Export credits include loans to facilitate Korean exports of capital and non-capital goods and technical and non-technical services. Overseas investment credits consist of loans to finance Korean overseas investments and projects. Import credits include the extension of loans to finance Korean imports of essential materials and natural resources. Guarantee facilities are made available to support the obligations of Korean exporters and importers.

We also have the authority to administer, on behalf of the Government, the Government’s Economic Development Cooperation Fund and the Inter-Korea Cooperation Fund, formerly known as South and North Korea Co-operation Fund.

We may also undertake other business activities incidental to the foregoing, including currency and interest rate swap transactions. We have engaged in such swap transactions for hedging purposes only.

Government Support and Supervision

The Government’s determination each fiscal year, regarding the amount of financial support to extend to us, plays an important role in determining our lending capacity. Such support has included contributions to capital, loans and transfers of our income to reserves.

Our authorized capital was ₩30 billion when the Government enacted the KEXIM Act in 1969. The National Assembly amended the KEXIM Act and increased our authorized capital to ₩150 billion in 1974, ₩500 billion in 1977, ₩1,000 billion in 1986, ₩2,000 billion in January 1998, ₩4,000 billion in September 1998 and ₩8,000 billion in January 2009. In January 2014, the Government further increased our authorized capital to ₩15,000 billion.

As of December 31, 1996, the capital contribution from the Government was approximately ₩686 billion, all in cash. Since 1997, the Government has made capital contributions not only in cash but also in the form of shares of common stock of Government-affiliated entities. Recent examples include the Government's contributions to our capital of (i) ₩130 billion, ₩40 billion, ₩75 billion, ₩15 billion, ₩10 billion, ₩935 billion, ₩10 billion and ₩65 billion in cash in January 2014, January 2015, August 2015, September 2015, July 2016, September 2016, October 2016 and November 2016, respectively, and (ii) ₩380 billion and ₩1,000 billion in the form of shares of Korea Land & Housing Corporation in July 2014 and December 2015, respectively, ₩500 billion in the form of shares of Korea Aerospace Industries Ltd. in June 2016, ₩125 billion in the form of shares of Yeosu Gwangyang Port Authority in May 2017, ₩125 billion in the form of shares of Incheon Port Authority in May 2017 and ₩1,167 billion in the form of shares of Korea Aerospace Industries Ltd. in June 2017, in order to enhance our capacity to finance projects, including large-scale overseas development projects. Taking into account these capital contributions, our total capital stock was ₩11,815 billion as of December 31, 2018.

Pursuant to the KEXIM Act, only the Government, The Korea Development Bank, The Bank of Korea, certain designated domestic banking institutions, exporters' associations and international financial organizations may contribute to our capital stock. As of December 31, 2018, the Government directly owned 66% of our capital stock and indirectly owned, through The Bank of Korea and The Korea Development Bank, 10% and 24%, respectively, of our capital stock. See “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 1.”

In addition to contributions to our capital, the Government provides funding for our financing activities. The Government has made loans available to us for our lending activities. See “—Description of Assets and Liabilities—Sources of Funding.”

The Government also supports our operation pursuant to Articles 36 and 37 of the KEXIM Act. Article 36 of the KEXIM Act and the By-laws provide that we shall apply our net income earned during each fiscal year, after deduction of depreciation expense for such fiscal year, in the following manner and in order of priority:

- first, at least 10% of such net income is transferred to our legal reserve until the total amount of our legal reserve equals the total amount of our capital stock;
- second, if the Minister of Economy and Finance approves such distribution, the balance of any such net income, after such transfer to the legal reserve, is distributed to the institutions, other than the Government, that have contributed to our capital (up to a maximum 15% annual dividend rate); and
- third, the remaining balance of any such net income is distributed in whatever manner our Operations Committee determines and the Minister of Economy and Finance approves, such as additions to our voluntary reserve.

Article 37 of the KEXIM Act provides that “the annual net losses of the Export-Import Bank of Korea shall be offset each year by the reserve, and if the reserve be insufficient, the Government shall provide funds to cover the deficit.” As a result of the KEXIM Act, the Government is generally responsible for our operations and is legally obligated to replenish any deficit that arises if our reserves are insufficient to cover any of our annual net losses. In light of this provision, if we have insufficient funds to make any payment under any of our obligations, the Government would take appropriate steps by making a capital contribution, by allocating funds or by taking other action to enable us to make such payment when due. The provisions of Article 37 do not, however, constitute a direct guarantee by the Government of our obligations, and the provisions of the KEXIM Act, including Article 37, may be amended at any time by action of the National Assembly.

The Government closely supervises our operations including in the following ways:

- the President of the Republic appoints our President upon the recommendation of the Minister of Economy and Finance;
- the Minister of Economy and Finance appoints our Deputy President and Senior Executive Directors upon the recommendation of our President;
- the Minister of Economy and Finance appoints our Auditor;

- one month prior to the beginning of each fiscal year, we must submit our proposed program of operations and budget for the fiscal year to the Minister of Economy and Finance for his approval and immediately after the approval of the Minister of Economy and Finance, we must report such program to the National Assembly;
- the Minister of Economy and Finance must approve our operating manual, which sets out guidelines for all principal operating matters, including the range of permitted financings;
- the Board of Audit and Inspection, a Government department, examines our settlement of accounts annually;
- each of the Minister of Economy and Finance and the Financial Services Commission has broad authority to require reports from us on any matter and to examine our books, records and other documents. On the basis of the reports and examinations, the Minister of Economy and Finance may issue any orders it deems necessary to enforce the KEXIM Act or delegate examinations to the Financial Services Commission;
- the Financial Services Commission may supervise our operations to ensure managerial soundness based upon the KEXIM Decree and the Supervisory Regulations of Banking Business legislated by the Financial Services Commission and may issue orders deemed necessary for such supervision;
- we must submit our annual report to the Ministry of Economy and Finance (formerly, the Ministry of Finance and Economy) within two months after the end of each fiscal year and to the National Assembly within nine months after the end of each fiscal year outlining our operations and analyzing our activities during the relevant fiscal year; and
- we may amend our By-laws and operating manual only with the approval of the Minister of Economy and Finance.

Selected Financial Statement Data

Except where expressly indicated otherwise in this Offering Circular, loans in Won and loans in foreign currencies are collectively referred to as the “Loans”; bills bought, foreign exchange bought, advances for customers, call loans and interbank loans in foreign currency are collectively referred to as the “Other Loans”; Loans and Other Loans are collectively referred to as the “Loan Credits”; confirmed guarantees and acceptances are collectively referred to as the “Guarantees”; and Loan Credits and Guarantees are collectively referred to as the “Credit Exposure.”

Our separate financial information as of and for the year ended December 31, 2018 has reflected the application of the new accounting standard, K-IFRS 1109. As permitted by the transition rules of K-IFRS 1109, our comparative separate financial information as of and for the year ended December 31, 2017 has not been restated to retroactively apply K-IFRS 1109 and is not directly comparable to our separate financial information as of and for the year ended December 31, 2018. For information regarding the impact of the application of K-IFRS 1109, see “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 39”

You should read the following selected financial statement data together with our separate financial statements and notes included in this Offering Circular.

	Year Ended December 31,		
	2016	2017	2018 ⁽¹⁾
	(billions of Won)		
Income Statement Data			
Total Interest Income	₩ 2,231	₩ 2,684	₩ 2,951
Total Interest Expense.....	1,417	1,604	1,968
Net Interest Income.....	815	1,080	983
Operating Income (Loss).....	(1,958)	229	742
Income (Loss) before Income Tax.....	(1,958)	229	753
Income Tax Expense (Benefit)	(471)	56	156
Net Income (Loss)	(1,487)	173	597

	Year Ended December 31,		
	2016	2017	2018 ⁽¹⁾
	(billions of Won)		
	As of December 31,		
	2016	2017	2018 ⁽¹⁾
	(billions of Won)		
Balance Sheet Data			
Total Loan Credits ⁽²⁾	₩ 76,724	₩ 71,884	₩ 72,120
Total Borrowings ⁽³⁾	71,880	66,699	70,836
Total Assets.....	89,775	83,946	89,799
Total Liabilities.....	78,555	71,433	76,317
Total Shareholders' Equity.....	11,220	12,513	13,483

- (1) Reflects the application of K-IFRS 1109. For information regarding the impact of the application of K-IFRS 1109, see “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 39”.
- (2) Gross amount, including bills bought, foreign exchange bought, call loans, inter-bank loans in foreign currency, advance for customers and others and before deducting valuation adjustment of loans in foreign currencies, allowance for loan losses and deferred loan origination fees. See “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 10.”
- (3) Includes debentures.

2018

We had net income of ₩597 billion in 2018 compared to net income of ₩173 billion in 2017. The principal factor for the increase in net income to ₩597 billion in 2018 from ₩173 billion in 2017 was a decrease in impairment loss on loans to ₩327 billion in 2018 from ₩1,724 billion in 2017, primarily due to an improvement in loan quality. That factor was partially offset by impairment loss on guarantees of ₩57 billion in 2018 compared to reversal of impairment loss on guarantees of ₩879 billion in 2017, primarily due to an increase in guarantees to shipbuilding companies in 2018 compared to a significant decrease in guarantees to shipbuilding companies in 2017.

As of December 31, 2018, our total assets increased by 7% to ₩89,799 billion from ₩83,946 billion as of December 31, 2017, primarily due to a 30% increase in financial investments to ₩8,845 billion as of December 31, 2018 from ₩6,782 billion as of December 31, 2017 and a 76% increase in cash and due from financial institutions to ₩3,683 billion as of December 31, 2018 from ₩2,092 billion as of December 31, 2017.

As of December 31, 2018, our total liabilities increased by 7% to ₩76,317 billion from ₩71,433 billion as of December 31, 2017, primarily due to a 9% increase in debentures to ₩65,943 billion as of December 31, 2018 from ₩60,685 billion as of December 31, 2017.

The increases in assets and liabilities were primarily due to increases in the volume of loans and debt, respectively. The depreciation of the Won against the U.S. dollar as of December 31, 2018 compared to December 31, 2017 magnified the effect of the increase in the volume of loans and debt, as a majority of our assets and liabilities consisted of foreign currency loans and debt (including significant percentages in U.S. dollars).

As of December 31, 2018, our total shareholders' equity increased by 8% to ₩13,483 billion from ₩12,513 billion as of December 31, 2017, due to increases in other components of equity and retained earnings.

2017

We had net income of ₩173 billion in 2017 compared to net loss of ₩1,487 billion in 2016. The principal factors for the net income of ₩173 billion in 2017 compared to the net loss of ₩1,487 billion in 2016 included:

- reversal of impairment loss on guarantees of ₩879 billion in 2017 compared to impairment loss on guarantees of ₩1,165 billion in 2016, primarily due to a decrease in refund guarantees to shipbuilding companies, which resulted in an improvement in guarantee quality; and
- an increase in net interest income to ₩1,080 billion in 2017 from ₩815 billion in 2016, primarily due to an increase in interest income from loans which more than offset an increase in interest expense from debentures.

The above factors were partially offset by income tax expense of ₩56 billion in 2017 compared to income tax benefit of ₩471 billion in 2016, primarily due to income before income tax of ₩229 billion in 2017 compared to loss before income tax of ₩1,958 billion in 2016.

As of December 31, 2017, our total assets decreased by 6% to ₩83,946 billion from ₩89,775 billion as of December 31, 2016, primarily due to a 6% decrease in Loan Credits to ₩71,884 billion as of December 31, 2017 from ₩76,724 billion as of December 31, 2016.

As of December 31, 2017, our total liabilities decreased by 9% to ₩71,433 billion from ₩78,555 billion as of December 31, 2016, primarily due to a 38% decrease in borrowings to ₩6,013 billion as of December 31, 2017 from ₩9,761 billion as of December 31, 2016 and a 2% decrease in debentures to ₩60,685 billion as of December 31, 2017 from ₩62,119 billion as of December 31, 2016.

The decreases in assets and liabilities were primarily due to the appreciation of the Won against the U.S. dollar as of December 31, 2017 compared to December 31, 2016, as a majority of our assets and liabilities consisted of foreign currency loans and debt (including significant percentages in U.S. dollars). The decreases in the volume of loans and debt magnified the effect of the appreciation of the Won against the U.S. dollar.

As of December 31, 2017, our total shareholders' equity increased by 12% to ₩12,513 billion from ₩11,220 billion as of December 31, 2016, primarily due to an increase in capital stock.

Operations

Loan Operations

Our primary objective since our establishment has been to promote the export and competitiveness of Korean goods and services in international markets. To this end, we have introduced various financing facilities and implemented lending policies that are responsive to the needs of Korean exporters and foreign importers. Over the years, we have also developed financing facilities and lending policies that are consistent with the Government's overall economic policies. In the latter part of the 1980s, as a result of changing trade conditions and the increased internationalization of the Korean economy, overseas investment credits and import credits were promoted and began to constitute an important portion of our business. Our lending programs include (1) export credits to Korean exporters or foreign buyers of Korean goods and services, (2) overseas investment credits to Korean firms and (3) import credits to Korean importers.

Before approving a credit, we consider:

- economic benefits to the Republic;
- the industry's rank in the order of priorities established by the Government's export-import policy;
- credit risk associated with the loans to be extended; and
- the goal of diversifying our lending activities.

The KEXIM Act and the By-laws provide that we may extend credit only where repayment “is considered probable.” Accordingly, we carefully investigate the financial position of each prospective borrower and the technical and financial aspects of the project to be financed, and a loan is made only if we believe there is reasonable assurance of repayment. See “—Credit Policies, Credit Approval and Risk Management—Credit Approval.”

In 2018, we provided Loans of ₩48,745 billion, a decrease of 5% from the previous year, and our commitments of Loans amounted to ₩48,423 billion, a decrease of 4% from the previous year. The decreases in disbursements and commitments for Loans were primarily attributable to decreased demand from the shipbuilding and overseas construction industries.

The following table sets out the total amounts of our outstanding Loan Credits, categorized by type of credit:

	As of December 31,			As % of 2018 Total
	2016	2017	2018	
	(billions of Won)			
Export Credits				
Industrial Plants.....	₩ 17,105	₩ 15,082	₩ 15,416	21%
Shipbuilding.....	14,328	14,855	10,036	14
Ferrous & nonferrous metal products.....	1,971	1,738	1,683	2
Petrochemical products.....	1,462	1,577	1,562	2
Automobiles.....	1,732	1,945	1,797	2
Electronic machineries.....	1,682	2,048	2,280	3
Others ⁽¹⁾	4,348	4,124	5,750	8
Sub-total.....	42,628	41,369	38,525	53
Overseas Investment Credits.....	27,527	24,107	26,442	37
Import Credits.....	3,741	3,726	4,653	6
Others ⁽²⁾	3,306	3,981	2,496	3
Present Value Premium/Discount.....	(478)	(1,297)	4	0
Total Loan Credits.....	₩ 76,724	₩ 71,884	₩ 72,120	100%

(1) Includes general machinery, service sector, etc.

(2) Includes call loans, loans for Inter-bank loans in foreign currency, advances for customers, etc.

Source: Internal accounting records

The following table sets out our new loan commitments, categorized by type of credit:

New Loan Credit Commitments by Type of Credit

	As of December 31,			As % of 2018 Total
	2016	2017	2018	
	(billions of Won)			
Export Credits				
Industrial Plants.....	₩ 3,227	₩ 5,051	₩ 4,378	9%
Shipbuilding.....	7,703	7,352	4,615	10
Ferrous & nonferrous metal products	1,327	1,352	1,292	3
Petrochemical products.....	3,822	4,206	3,455	7
Automobiles	3,494	3,535	2,418	5
Electronic machineries.....	1,843	2,108	2,152	4
Others ⁽¹⁾	8,901	7,446	8,849	18
Sub-total.....	30,317	31,050	27,159	56
Overseas Investment Credits.....	13,369	12,361	13,666	28
Import Credits.....	6,221	6,905	7,598	16
Total.....	₩ 49,907	₩ 50,316	₩ 48,423	100%

(1) Includes general machinery, service sector, etc.

Source: Internal accounting records

Export Credits

We offer export credits to either domestic suppliers or foreign buyers to finance export transactions.

Export Credits to domestic suppliers include:

- export loans to Korean exporters that export capital goods such as ships, industrial plants and machinery;
- pre-shipment credit to Korean exporters or manufacturers producing export products;
- technical service credit to Korean companies that export technical services abroad, including overseas construction projects;
- short-term trade financing to Korean exporters that manufacture export goods under short-term export contracts;
- small business export credit to small and medium-sized enterprises that manufacture export goods or supply materials needed by their primary exporters;
- rediscount on trade bills to domestic commercial banks for exporters;
- forfaiting to Korean exporters by discounting trade bills under the usance line of credit from export transactions on a non-recourse basis; and
- export factoring to Korean exporters by discounting trade receivables that occurs from open account export transactions on credit on a non-recourse basis.

Export credits to foreign buyers include:

- direct loans to foreign buyers that purchase Korean goods and services;

- project finance to foreign companies that intend to import industrial plants, facilities and technical services from Korea for large-scale projects, of which the cash flows from such projects are the main source for repayment;
- structured finance to foreign shipping companies that purchase ships from Korean shipyards, of which the repayment usually depends on the cash flows generated by the operation of ships; and
- interbank export loans to creditworthy banks in foreign countries to help foreign buyers obtain credit for the purchase of goods and services of Korean origin.

As of December 31, 2018, export credits in the amount of ₩38,525 billion represented 53% of our total outstanding Loan Credits. Our disbursements of export credits in 2018 amounted to ₩28,396 billion, a decrease of 14% from the previous year, primarily due to decreased shipbuilding activity. Our commitments of export credits in 2018 amounted to ₩27,159 billion, a decrease of 13% from the previous year

We offer export credits to Korean companies in order to provide them with the funds required for the manufacture or construction of capital and non-capital goods and readying of technical services designated in our operating manual for export. Capital goods eligible for export credit financings currently include ships, industrial plants, industrial machinery and overseas construction projects. With respect to eligible items supported by our export credits, ships have traditionally had the largest share of our export credit operations.

We offer export loans and technical service credits to domestic suppliers at fixed (no less than the Commercial Interest Reference Rate under the OECD Arrangement (as defined below)) or floating rates of interest with maturities of up to 12 years for ships and maturities of varying terms, from two to 18 years, for financings of other eligible items. We typically require a minimum down payment of 20% of the contract amount for ship export financings and a minimum down payment of 15% for financings of other eligible items. When the credit rating of a prospective borrower does not meet our internal rating criteria, these export credits are secured by promissory notes issued in connection with the relevant transaction, or letters of guarantees or letters of credit issued or confirmed by a creditworthy international bank or the importer's government or central bank. Other terms and conditions under such export credit facilities must be in accordance with the Arrangement on Guidelines for Officially Supported Export Credits by the Organization for Economic Cooperation and Development (the "OECD Arrangement"). We offer direct loans to foreign buyers, project finance to project companies and structured finance for ships to foreign shipping companies under similar terms and conditions as export credit financings to domestic suppliers. We offer interbank export loans to overseas banks to facilitate imports by foreign importers of Korean manufactured goods. Interbank export loans are offered at fixed or floating rates of interest with maturities of up to ten years.

Overseas Investment Credits

We extend overseas investment credits to either Korean companies or foreign companies in which a Korean company has an equity share, to finance investments in eligible overseas businesses and projects. Such financing programs include:

- overseas investment credit to Korean companies that invest abroad in the form of capital subscription, acquisition of stocks and long-term credit;
- overseas project credit to Korean companies or their overseas subsidiaries engaging in businesses outside Korea;
- major resources development credit to Korean companies for development of natural resources and acquisition of mining rights abroad; and
- overseas business credit to foreign companies in which Korean companies have an equity stake, in the form of funds for purchasing equipment or working capital.

As of December 31, 2018, overseas investment credits amounted to ₩26,442 billion, representing 37% of our total outstanding Loan Credits. Our commitments of overseas investment credits in 2018 amounted to ₩13,666 billion, an increase of 11% from the previous year. Our disbursements of overseas investment credits in 2018 amounted to ₩

12,974 billion, an increase of 13% from the previous year. The increases in new commitments and disbursements for overseas investment credits were primarily due to increased demand in overseas investment and project credits.

Proposals for overseas investment credits to finance the acquisition of important materials or the development of natural resources for the Korean economy, as determined by the Government, are given priority, together with projects that promote the export of Korean goods and services. As a result, projects financed by our overseas investment credit program have been mainly in the fields of manufacturing or development of natural resources.

We offer overseas investment credits at either fixed or floating rates of interest with maturities up to 30 years. Such facilities may require security in the form of a bank guarantee, pledge or mortgage on the borrower's local assets. Depending upon the size of the borrower, we will provide up to 100% of the financing required for the overseas investment project.

Import Credits

We offer import credits to Korean companies that directly import essential materials, natural resources and high-technology materials whose stable and timely supply is required for the national economy, or to Korean companies that import such items after developing them overseas. Import credits are extended for importation of eligible items, including nuclear fuels, aircraft, mineral ores, crude oil, lumber, wood pulp, grains, cotton, sugar, and equipment and machinery for research and development, and for use in advanced technological industries.

As of December 31, 2018, import credits in the amount of ₩4,653 billion represented 6% of our total outstanding Loan Credits. Disbursements and new commitments of import credits amounted to ₩7,376 billion and ₩7,598 billion, respectively, in 2018, an increase of 7% and 10%, respectively, from the previous year, primarily due to an increase in demand for financing for raw materials used for export and domestic consumption.

We offer import credits at either fixed or floating rates of interest with maturities up to ten years for equipment and machinery and shorter maturities of up to two years for other items, which may require security in the form of a bank guarantee, pledge or mortgage on the borrower's local assets. We generally provide up to 80% of the import contract amount, but provide up to 90% of the import contract amount in the case of small and medium-sized enterprises and up to 100% for transactions with a letter of credit opened by a bank.

Guarantee Operations

We provide guarantees in favor of Korean commercial banks and foreign banks or foreign importers in respect of the obligations of Korean exporters in order to facilitate export and import financings. Such guarantee programs for Korean exporters and importers include (1) financial guarantees to co-financing banks that provide loans for transactions that satisfy our eligibility requirements and (2) project-related guarantees to foreign importers for the performance of Korean exporters on eligible projects in the form of bid bonds, advance payment bonds, performance bonds and retention bonds. Guarantee commitments as of December 31, 2018 decreased to ₩40,011 billion from ₩42,809 billion as of December 31, 2017. Guarantees we had confirmed as of December 31, 2018 decreased to ₩34,795 billion from ₩38,961 billion as of December 31, 2017.

We mainly issue project-related guarantees, which include:

- advance payment guarantees that are issued to overseas importers of Korean goods and services to support obligations to refund down payments made to Korean exporters in the event of a failure to deliver the goods to be exported; and
- performance guarantees that are issued to foreign importers to support the performance by Korean exporters of their contractual obligations.

In 2018, we issued project-related confirmed guarantees in the amount of ₩6,172 billion, an increase of 2% from the previous year

We also issue letters of credit to foreign exporters to assist in the financing of projects approved in connection with import credit loans, and to Korean exporters to assist in the financing of projects approved in connection with export credit loans.

For further information regarding our guarantee and letter of credit operations, see “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 36.”

Government Account Operations

Economic Development Cooperation Fund

In 1987, the Government established the Economic Development Cooperation Fund (the “EDCF”) to provide loans, at concessional interest rates, to governments or agencies of developing countries for projects that contribute to industrial development or economic stabilization of such countries. We administer the EDCF on behalf of the Government and are responsible for project appraisal, documentation and administrative work relating to the EDCF Loans. The EDCF business accounts are maintained separately from our own account on behalf of the Government, and we derive no separate income or expenditures from our operation of the EDCF business. Government contributions constitute the primary funding source of the EDCF. Loan disbursements by the EDCF in 2018 amounted to ₩858 billion for 106 projects in 32 countries, an increase of 15% from the previous year. As of December 31, 2018, the total outstanding loans extended by the EDCF was ₩7,055 billion, an increase of 12% from the previous year.

Inter-Korea Cooperation Fund

In 1991, the Government established the Inter-Korea Cooperation Fund (the “IKCF”) to promote mutual exchanges and cooperation between the Republic and North Korea by engaging in funding and financing activities to support family reunions, cultural events, academic seminars, trade and economic cooperation between the two countries. We administer the IKCF under the initiative and policy coordination of the Ministry of Unification. The IKCF accounts are maintained separately from our own account on behalf of the Government. Government contributions are the major funding source of the IKCF. The IKCF disbursements during 2018 amounted to ₩212 billion for 679 projects, and cumulative total disbursements as of December 31, 2018 were ₩6,957 billion, an increase of 3% from ₩6,745 billion as of December 31, 2017.

Other Operations

We engage in various other activities related to our financing activities.

Activities in which we currently engage include:

- country information services performed by the Overseas Economic Research Institute, which conducts country studies and country risk evaluation to assist in the efficient utilization of our financial resources;
- export credit advisory services, which are aimed at bringing about a larger share of overseas bidding by giving Korean exporters a wide range of knowledge on the country, industry, market and financial situation of the importing country in the early stage of the tendering process or contract negotiations;
- consulting services by in-house professionals including lawyers, accountants and regional experts who consult on international transactions; and
- management of Korea’s foreign direct investment database.

Description of Assets and Liabilities

Total Credit Exposure

We extend credits to support export and import transactions, overseas investment projects and other relevant products in various forms including loans and guarantees.

The following table sets out our Credit Exposure as of December 31, 2016, 2017 and 2018, categorized by type of exposure extended:

		As of December 31,								
		2016		2017		2018				
		(billions of Won, except for percentages)								
A	Loans in Won.....	₩	16,178	13%	₩	18,956	18%	₩	16,837	16%
B	Loans in Foreign Currencies		55,523	44		47,873	45		51,861	49
C	Loans (A+B)		71,701	56		66,829	62		68,698	65
D	Other Loans.....		5,023	4		5,056	5		3,422	3
E	Loan Credits (C+D)		76,724	60		71,884	67		72,120	68
F	Allowances for Loan Losses		(2,926)	(2)		(3,287)	(3)		(1,554)	(1)
G	Loan Credits including present value discounts (E-F)		73,798	58		68,597	64		70,566	67
H	Guarantees		53,615	42		38,961	36		34,795	33
I	Credit Exposure (G+H)		127,413	100		107,558	100		105,361	100

Loan Credits by Geographic Area

The following table sets out the total amount of our outstanding Loan Credits as of December 31, 2016, 2017 and 2018, categorized by geographic area ⁽¹⁾:

		As of December 31, ⁽¹⁾			As % of 2018 Total		
		2016	2017	2018			
		(billions of Won)					
Asia ⁽²⁾	₩	56,012	₩	55,044	₩	56,209	78%
Europe.....		5,463		3,509		5,630	8
America.....		11,190		9,229		7,757	11
Africa.....		4,059		4,102		2,524	3
Total.....	₩	76,724	₩	71,884	₩	72,120	100%

(1) For purposes of this table, export credits have been allocated to the geographic areas in which the foreign buyers of Korean exports are located; overseas investment credits have been allocated to the geographic areas in which the overseas investments being financed are located; and import credits have been allocated to the geographic areas in which the sellers of the imported goods are located.

(2) Includes Australia.

Source: Internal accounting records

We engage in business related to Iran, including transactions involving as counterparties Iranian banks that may be indirectly owned or controlled by the Iranian government. The U.S. State Department has designated Iran as a state sponsor of terrorism, and U.S. law generally prohibits U.S. persons from doing business in Iran. We are a Korean bank and our activities with respect to Iran have not involved any U.S. person in either a managerial or operational role and have been subject to policies and procedures designed to ensure compliance with applicable Korean laws and regulations. We believe that our activities related to Iran are not subject to the mandatory sanctions administered or enforced by the United States Government (including, without limitation, Section 104 of the U.S. Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (“CISADA”) and the Iran Financial Sanctions Regulations issued by the U.S. Secretary of the Treasury thereunder (the “IFSR”).

Our business related to Iran consists solely of extensions of credit and financing provided in connection with exports of Korean goods and services to Iran and our disbursements of Iran-related credits are made directly to Korean suppliers or exporters. Such activities have involved export-related credits to finance the export contracts of Korean exporters supplying goods and services to Iranian companies, extensions of credit through non-recourse discounting of export trade bills, and purchases of promissory notes securing export transactions. Our Loans to Iran represented 0.3%, 0.5% and 0.0% of our total assets as of December 31, 2016, 2017 and 2018, respectively, and also represented 0.3%, 0.7%

and 0.0% of our Loan Credits as of those respective dates. Our total operating revenues from transactions with Iran in 2016, 2017 and 2018 represented 0.3%, 0.3% and 0.1% of our total operating revenues, respectively.

We are aware, through press reports and other means, of initiatives by governmental entities in the U.S. and by U.S. institutions such as universities and pension funds, to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran, including, without limitation, CISADA and IFSR. It is possible that such initiatives may result in our being unable to gain or retain entities subject to such prohibitions as customers or as investors in our debt securities. In addition, our reputation may suffer due to our association with Iran. Such a result could have significant adverse effects on our business or the price of our debt securities.

Individual Exposure

The KEXIM Decree imposes limits on our aggregate credits extended to a single person or business group. As of the date hereof, we are in compliance with such requirements.

As of December 31, 2018, our largest Credit Exposure was to Daewoo Shipbuilding & Marine Engineering, or DSME, in the amount of ₩4,157 billion. As of December 31, 2018, our second largest and third largest Credit Exposures, respectively, were to Samsung Heavy Industries Co., Ltd. in the amount of ₩2,840 billion and to Hyundai Heavy Industries Co., Ltd. in the amount of ₩2,077 billion.

The following table sets out our five largest Credit Exposures as of December 31, 2018⁽¹⁾:

Rank	Name of Borrower	Loan Credits	Guarantees	Total
			(billions of Won)	
1	Daewoo Shipbuilding & Marine Engineering Co., Ltd.....	₩ 636	₩ 3,521	₩ 4,157
2	Samsung Heavy Industries Co., Ltd.	1,247	1,593	2,840
3	Hyundai Heavy Industries Co., Ltd.	706	1,371	2,077
4	Doosan Heavy Industries Co., Ltd.....	853	1,187	2,040
5	Hanwha Engineering & Construction Co., Ltd.....	-	1,813	1,813

(1) Excludes loans and guarantees extended to affiliates.

Source: Internal accounting records.

In recent years, DSME, one of the largest shipbuilding and offshore construction companies in Korea, suffered from financial difficulties primarily due to significant losses incurred in connection with the construction of offshore plants resulting from a prolonged slowdown in the global shipbuilding industry. In October 2015, we announced that we, along with The Korea Development Bank, plan to provide financial support to DSME, including provision of liquidity support of up to ₩4.2 trillion. In December 2016, in a bid to improve DSME's capital structure, we exchanged a term loan in the amount of ₩1 trillion provided by us to DSME for perpetual bonds newly issued by DSME, while KDB engaged in debt-for-equity swaps amounting to ₩1.8 trillion. In March 2017, we and The Korea Development Bank announced a second joint plan to provide an additional ₩2.9 trillion in financial support to DSME, which was approved by the other creditors in April 2017. Based on such plan, we exchanged a term loan in the amount of ₩1.28 trillion provided by us to DSME for perpetual bonds issued by DSME and The Korea Development Bank provided additional debt-to-equity swaps of ₩0.3 trillion in June 2017. Other creditors also provided debt-to-equity swaps for up to 80% of their debt with DSME and rescheduled the maturities of the remainder. In March 2019, KDB and Hyundai Heavy Industries Co., Ltd. ("HHI") entered into a conditional agreement under which HHI will purchase a controlling stake in DSME from KDB. Under the agreement, HHI will create a holding company to control its shipbuilding business into which KDB will transfer all of its shares of common stock in DSME in return for an equity stake in the holding company. The completion of this transaction is subject to various conditions, including due diligence and approval from the anti-trust authorities of the European Union and applicable countries. We expect that our exposure to DSME will not change as a result of such transaction between KDB and HHI.

In addition, we have Credit Exposures to a number of financially troubled Korean companies including STX Offshore & Shipbuilding and Sungdong Shipbuilding & Marine Engineering Co., Ltd. STX Offshore & Shipbuilding, which had filed for court receivership in June 2016 and executed debt-for-equity swaps with their creditors (including us), exited court receivership in July 2017. Sungdong Shipbuilding & Marine Engineering, which had been in voluntary out-of-court debt restructuring since 2010, filed for court receivership in March 2018. As of December 31, 2018, our Credit Exposure to STX Offshore & Shipbuilding and Sungdong Shipbuilding & Marine Engineering amounted to ₩64 billion and ₩637 billion, respectively.

Asset Quality

The Supervisory Regulation of Banking Business (“Supervisory Regulation”) legislated by the Financial Services Commission requires banks, including us, to analyze and classify their credits into one of five categories as normal, precautionary, substandard, doubtful or estimated loss by taking into account borrowers’ repayment capacity as well as a number of other factors including the financial position, profitability, transaction history of the relevant borrower and the value of any collateral or guarantee taken as security for the extension of credit. Categorizations are applied to all loans except call loans and interbank loans, which are classified as normal. Credit categorizations are as follows:

- Normal** Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, do not raise concerns regarding their ability to repay the credits.
- Precautionary**..... Credits extended to customers (1) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although there have not occurred any immediate risks of default in repayment; or (2) which are in arrears for one month or more but less than three months.
- Substandard**..... (1) Credits extended to customers, which in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred considerable risks for default in repayment as the customers’ ability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) extended to customers which are judged to have incurred serious risks due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of “Doubtful Customers” or “Estimated-loss Customers” (each as defined below).
- Doubtful** That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers (“Doubtful Customers”) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred serious risks of default in repayment due to noticeable deterioration in their ability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months.
- Estimated Loss**..... That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers (“Estimated-loss Customers”), which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks of default in repayment due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses.

Under K-IFRS, we establish provisions for credit losses with respect to loans using either a case-by-case or collective approach. We assess individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if we determine that no objective evidence of impairment exists for a loan, it includes such loan in a group of loans with similar credit risk characteristics and assesses them collectively for impairment regardless of whether such loan is significant. If there is objective evidence that an impairment loss has been incurred for individually significant loans, the amount of the loss is measured as the difference between the financial asset’s carrying amount and the present value of the estimated future cash flows discounted at such asset’s original effective interest rate. Future cash flows are estimated through a case-by-case analysis of individually assessed assets, which takes into account the benefit of any guarantee or

other collateral held. The value and timing of future cash flow receipts are based on available estimates in conjunction with facts available at the time of review and reassessed on a periodic basis as new information becomes available. For collectively assessed loans, we base the level of provisions for credit losses on a portfolio basis in light of the homogenous nature of the assets included in each portfolio. The provisions are determined based on a quantitative review of the relevant portfolio, taking into account such factors as the level of arrears, the value of any security, and historical and projected cash recovery trends over the recovery period. For more detailed information regarding our loan loss provisioning policy, see “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 3(6).”

Asset Classifications

The following table provides information on our loan loss reserves:

	As of December 31, 2016		As of December 31, 2017		As of December 31, 2018	
	Loan Amount ⁽¹⁾	Loan Loss Reserve ⁽²⁾	Loan Amount ⁽¹⁾	Loan Loss Reserve ⁽²⁾	Loan Amount ⁽¹⁾	Loan Loss Reserve ⁽²⁾
	(billions of Won)					
Normal	₩ 132,096	₩ 391	₩ 114,923	₩ 290	₩ 117,870	₩ 844
Precautionary.....	15,312	1,421	12,387	880	7,622	900
Sub-standard.....	2,743	763	605	167	529	48
Doubtful	1,838	1,117	2,395	1,732	845	523
Estimated Loss	1,621	1,092	1,436	1,291	383	321
Total.....	₩ 153,610	₩ 4,785	₩ 131,748	₩ 4,359	₩ 127,248	₩ 2,636

(1) These figures include loans (excluding interbank loans and call loans), domestic usance bills, bills bought, notes bought, advances for customers, confirmed acceptances and guarantees.

(2) Consists of (i) allowance for loan losses; (ii) provisions for confirmed and unconfirmed acceptances and guarantees; and (iii) certain financial guarantee contract liabilities in the amount of ₩215 billion as of December 31, 2016, ₩396 billion as of December 31, 2017 and ₩330 billion as of December 31, 2018.

Reserves for Credit Losses

Non-performing assets (“NPA”) are defined as assets that are classified as substandard or below.

The following table sets out our 10 largest non-performing assets as of December 31, 2018:

Borrower	Loans	Guarantees	Total
	(billions of Won)		
Daesun Shipbuilding & Engineering Co., Ltd.	₩ 486	₩ 121	₩ 607
Sungdong Shipbuilding & Marine Engineering Co., Ltd.	240	-	240
Dongbu Steel Co., Ltd.	46	56	102
DB Metal Co., Ltd.	99	-	99
Hanjin Heavy Industries & Construction Co., Ltd..	-	81	81
RECAUDO BOGOTA S.A.S.	56	22	78
STX Offshore & Shipbuilding Co., Ltd.....	57	8	65
Sedae Eneritech Co., Ltd.	20	-	20
Daechang HRSG Corporation.....	12	6	18
Saehwa IMC Co., Ltd.	14	-	14
Total	₩ 1,030	₩ 295	₩ 1,325

In the early 1990's, at the direction of the Government, we extended a commodity loan in the aggregate amount of US\$466 million to Vnesheconombank, the Bank for Foreign Economic Affairs of the former Soviet Union, which was guaranteed by the government of the former Soviet Union, as part of the Government's policy to enhance economic cooperation between the two countries. Since the dissolution of the Soviet Union, the Government had been negotiating repayment terms with the government of the Russian Federation, which agreed to assume the guarantee of the former Soviet Union in respect of the obligations of Vnesheconombank under such loan. In 1995, the two governments came to an agreement on a repayment schedule in respect of approximately half of the loan. Since the agreement was made, US\$229 million of the principal was repaid.

In June 2003, the two governments reached an agreement as to the rescheduling of the remaining portion of the loan and the change of the borrower from Vnesheconombank to the government of the Russian Federation. As a result, in September 2003, we upgraded the classification of the outstanding ₩258 billion (including accrued and unpaid interest) of our exposure to the government of the Russian Federation from estimated loss to doubtful in terms of asset quality and established a 70% provisioning level for that credit exposure. In June 2004, we further upgraded the classification of our exposure to the government of the Russian Federation from doubtful to precautionary in terms of asset quality, following the continued repayment of the loan by the government of the Russian Federation in accordance with the agreed payment schedule. As of December 31, 2018, our exposure to the government of the Russian Federation amounted to ₩83 billion and we established a 0.2% provisioning level for that credit exposure.

We cannot provide any assurance that our current level of exposure to non-performing assets will continue in the future or that any of its borrowers (including its largest borrowers as described above) is not currently facing, or in the future will not face, material financial difficulties.

As of December 31, 2018, the amount of our non-performing assets was ₩1,562 billion, a decrease of 60% from ₩3,934 billion as of December 31, 2017. As of December 31, 2018, our non-performing asset ratio was 1.5%, compared to 3.6% as of December 31, 2017

The following table sets forth our reserves for possible credit losses as of December 31, 2016, 2017 and 2018:

	As of December 31,		
	2016	2017	2018
	(billions of Won, except for percentages)		
Loan Loss Reserve (A) ⁽¹⁾	₩ 4,785	₩ 4,359	₩ 2,636
NPA (B) ⁽²⁾	6,202	4,437	1,757
Total Shareholders' Equity (C).....	11,220	12,513	13,483
Reserve to NPA (A/B)	77%	98%	150%
Equity at Risk (B-A)/C	13%	0%	—

(1) Consists of allowance for loan losses and provisions for confirmed acceptances and guarantees, excluding the regulatory reserve for loans and guarantees.

(2) Non-performing assets, which are defined as assets that are classified as substandard or below.

Source: Internal accounting records

The following table sets forth our actual loan loss reserve ratios as of December 31, 2016, 2017 and 2018:

Classification of Loans	Actual Reserve Coverage (as of December 31, 2016)	Actual Reserve Coverage (as of December 31, 2017)	Actual Reserve Coverage (as of December 31, 2018)
Normal	0.4%	0.3%	0.9%
Precautionary.....	17.7%	12.2%	21.4%
Substandard.....	31.2%	28.0%	9.6%
Doubtful	69.1%	80.0%	76.6%
Estimated Loss	75.0%	97.8%	91.4%

Investments

Under the KEXIM Decree, we are not allowed to hold stocks or securities of more than three years' maturity in excess of 60% of our equity capital. However, investment in the following securities is not subject to this restriction:

- Government bonds;
- BOK currency stabilization bonds;
- securities acquired via contributions by the Government; and
- securities acquired through investment approved by the Minister of Economy and Finance, for research related to our operations, for our financing or pursuant to Korean statutes.

As of December 31, 2018, our total investment in securities amounted to ₩11,356 billion, representing 13% of our total assets. Our securities portfolio consists primarily of financial assets at fair value through other comprehensive income ("FVOCI"). Financial assets at FVOCI mainly consist of marketable securities (including equity securities in Industrial Bank of Korea which was recapitalized by the Government through us) and non-marketable securities (including equity securities in Korea Expressway Corporation and Korea Land & Housing Corporation). In 2014, we sold 976,625 shares of common stock, which represented all of our holding of common stock in Kumho Tire, for ₩11 billion. In 2015, we sold 3,459,279 shares of common stock, which represented all of our holding of common stock in SAMT Co., Ltd., for ₩4 billion. In 2016, we sold 639,505 shares of common stock, which represented 5% of our holdings of common stock in Taihan Electric Wire Co., Ltd., for ₩2 billion. In 2017, we sold 2,199,936 shares of common stock of STX Heavy Industries, which represented all of our holdings of common stock in the company, for ₩19 billion

The following table sets out the composition of our securities as of December 31, 2016, 2017 and 2018:

Type of Investment Securities	As of December 31, 2016		As of December 31, 2017		As of December 31, 2018 ⁽¹⁾	
	Amount	%	Amount	%	Amount	%
	(billions of Won, except for percentages)					
Available-for-sale Securities	₩ 7,027	89%	₩ 6,693	71%	₩ 8,629 ⁽²⁾	76%
Held-to-maturity Securities	111	1	89	1	216 ⁽³⁾	2
Investments in Associates and Subsidiaries.....	766	10	2,599	28	2,511	22
Total	₩ 7,904	100%	₩ 9,381	100%	₩ 11,356	100%

(1) Reflects the application of K-IFRS 1109. For information regarding the impact of the application of K-IFRS 1109, see "—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 39".

(2) Is classified as financial assets at FVOCI under K-IFRS 1109, effective for annual periods beginning on January 1, 2018.

(3) Is classified as financial assets at amortized cost under K-IFRS 1109, effective for annual periods beginning on January 1, 2018.

For further information relating to the classification guidelines and methods of valuation for unrealized gains and losses on our securities, see "—Financial Statements and the Auditors—Notes to separate financial statements and of and for the years ended December 31, 2018 and 2017—Note 3 and Note 5."

Guarantees and Acceptances and Contingent Liabilities

We have credit risk factors that are not reflected on the balance sheet, which include risks associated with guarantees and acceptances. Guarantees and acceptances do not appear on the balance sheet, but rather are recorded as an off-balance sheet item in the notes to the financial statements. Guarantees and acceptances include financial guarantees, project related guarantees, such as bid bond, advance payment bond, performance bond or retention bond, and acceptances and advances relating to trade financings such as letters of credit or import freight. Contingent liabilities, for which the guaranteed amounts were not finalized, appear as unconfirmed guarantees and acceptance items in the notes to the financial statements as off-balance sheet items.

As of December 31, 2018, we had issued a total amount of ₩34,795 billion in confirmed guarantees and acceptances, of which ₩30,775 billion, representing 88% of the total amount, was classified as normal, ₩3,687 billion, representing 11% of the total amount, was classified as precautionary, and ₩332 billion, representing 1% of the total amount, was classified as substandard or below

Derivatives

The objective in our strategy and policies on derivatives is to actively manage and minimize our foreign exchange and interest rate risks. It is our policy to hedge all currency and interest rate risks wherever possible (taking into consideration the cost of hedging). We use various hedging instruments, including foreign exchange forwards and options, interest rate swaps, and cross currency swaps.

Under our internal trading rules that have been submitted to the Financial Supervisory Service, our policy is to engage in derivative transactions mainly for hedging our own position. As part of our total exposure management system, we monitor our exposure to derivatives and may make real-time inquiries, which enables our Risk Management Department to check our exposure on a regular basis. Under the guidelines set by the Financial Supervisory Service, we are required to submit reports on our derivatives exposure to the Financial Supervisory Service on a quarterly basis. As a measure to reduce the risk of intentional manipulation or error, we have separated responsibility for different functions such as initiation, authorization, approval, recording, monitoring and reporting to the Financial Supervisory Service. The Risk Management Department conducts regular reviews of derivative transactions to monitor any breach of compliance with the relevant regulatory requirements.

As of December 31, 2018, our outstanding loans made at floating rates of interest totaled approximately ₩ 51,677 billion, whereas our outstanding borrowings made at floating rates of interest totaled approximately ₩ 51,399 billion, including those raised in Australian Dollar, Euro, British Pound, and Brazil Real and swapped into U.S. dollar floating rate borrowings. As a result, we are exposed to possible interest rate risks to the extent that the amount of our borrowings made at floating rates of interest exceeds the amount of our loans made at floating rates of interest. Foreign exchange risk arises because a majority of our assets and liabilities are denominated in non-Won currencies. In order to match our currency and interest rate structure, we generally enter into swap transactions.

The following table shows the unsettled notional amounts and estimated fair values of derivatives we held as of the dates indicated.

	As of December 31,								
	2016			2017			2018		
	Unsettled Notional Amount	Fair Value of Assets	Fair Value of Liabilities	Unsettled Notional Amount	Fair Value of Assets	Fair Value of Liabilities	Unsettled Notional Amount	Fair Value of Assets	Fair Value of Liabilities
	(billions of Won)								
Currency forwards	₩ 5,581	₩ 145	₩ 157	₩ 6,451	₩ 113	₩ 152	₩ 5,349	₩ 49	₩ 56
Currency swaps	23,132	273	2,501	24,519	547	1,136	29,145	392	1,597
Interest rate swaps.....	34,407	395	530	38,781	419	681	40,969	471	881
Total.....	₩ 63,120	₩ 813	₩ 3,188	₩ 69,751	₩ 1,079	₩ 1,969	₩ 75,463	₩ 912	₩ 2,534

As of December 31, 2018, we had entered into 619 currency related derivative contracts with a notional amount of ₩34,494 billion and had entered into 462 interest rate related derivative contracts with a notional amount of ₩ 40,969 billion. In connection with our currency forwards and currency swaps, we had net valuation loss of ₩1,211 billion in 2018 and ₩628 billion in 2017, primarily due to the appreciation of the U.S. dollar against other currencies, which resulted in an increase in the value of our obligations denominated in the U.S. dollar. In connection with our interest rate swaps, we recorded net valuation loss of ₩411 billion in 2018 and ₩262 billion in 2017, primarily due to an increase in benchmark interest swap rates, such as the U.S. dollar interest swap rate in 2018, which resulted in a decrease in the value

of our floating-for-fixed interest rate swaps. See “—Financial Statements and the Auditors—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 20.”

Sources of Funding

We obtain funds primarily through borrowings from the issuance of bonds in both domestic and international capital markets, borrowings from domestic and foreign financial institutions, capital contributions and internally generated funds. Internally generated funds result from various activities we carried on and include principal and interest payments on our loans, fees from guarantee operations and other services, and income from marketable securities we hold.

We raised a net total of ₩54,005 billion (new borrowings plus loan repayments by our clients less repayment of our existing debt) during 2018, a 1% increase compared with the previous year’s ₩53,486 billion. The total loan repayments, including prepayments by our clients, during 2018 amounted to ₩50,616 billion, an increase of 7% from ₩47,448 billion during 2017.

Since our establishment, the Government has, from time to time, provided us with loans to support our lending to Korean exporters and provide liquidity to us. As of December 31, 2018, we had no outstanding borrowings from the Government. We also issued Won-denominated domestic bonds in the aggregate amounts of ₩12,270 billion, ₩13,670 billion and ₩12,865 billion during 2016, 2017 and 2018, respectively.

We have diversified our funding sources by borrowing from various overseas sources and issuing long-term floating-rate notes and fixed-rate debentures in the international capital markets. These issues were in foreign currencies, including the U.S. dollar, Thai Baht, Malaysia Ringgit, Japanese Yen, Australian Dollar, Euro, Hong Kong Dollar, Singapore Dollar, Swiss Franc, Brazilian Real, Turkish Lira, Mexican Peso, Peruvian Sol, Indian Rupee, Indonesian Rupiah, Chinese Yuan, New Zealand Dollar, Saudi Riyal, Taiwan Dollar, Philippine Peso, Russian Ruble, South African Rand, Deutsche Mark, Danish Krone, Swedish Krona, Czech Koruna, Norwegian Krone, British Pound and Canadian Dollar and have original maturities ranging from one to thirty years.

During 2018, we issued Eurobonds in the aggregate principal amount of US\$5,395 million in various types of currencies under our existing medium term notes program, an 11% increase from US\$4,857 million in 2017. These bond issues consisted of offerings of US\$1,291 million, HKD 1,300 million, BRL 2,606 million, EUR 850 million, CNY 4,920 million, INR 21,100 million, AUD 91.8 million, IDR 5,683,000 million, CHF 800 million and MXN 150 million. In addition, we issued global bonds during 2018 in the aggregate amount of US\$2,500 million under our U.S. shelf registration statement (the “U.S. Shelf Program”) compared with US\$3,500 million in 2017. As of December 31, 2018, the outstanding amounts of our notes and debentures were US\$34,888 million, JPY 143,820 million, HKD 6,011 million, BRL 3,534 million, EUR 3,537 million, THB 10,300 million, CHF 1,200 million, AUD 3,726 million, INR 32,042 million, CNY 10,693 million, IDR 9,328,400 million, PEN 266 million, NZD 1,097 million, ZAR 654 million, NOK 2,250 million, GBP 60 million, CAD 690 million, SEK 250 million, MXN 150 million and SGD 200 million

We also borrow from foreign financial institutions in the form of loans that are principally made by syndicates of commercial banks at floating or fixed interest rates and in foreign currencies, with original maturities ranging from two to five years. As of December 31, 2018, the outstanding amount of such borrowings from foreign financial institutions was US\$1,500 million.

Our capital stock has increased from time to time since our establishment. From January 1998 to December 2018, the Government contributed ₩10,435 billion to our capital. As of December 31, 2018, our total capital stock amounted to ₩11,815 billion, and the Government, The Bank of Korea and The Korea Development Bank owned 66%, 10% and 24%, respectively, of our capital stock.

In connection with our fund raising activities, we have from time to time sold third parties promissory notes, including related guarantees, acquired as collateral in connection with export credit financings.

The KEXIM Act provides that the aggregate outstanding principal amount of all of our borrowings, including the total outstanding export-import financing debentures we issued in accordance with the KEXIM Decree, may not exceed an amount equal to thirty times the sum of our capital stock plus our reserves. As of December 31, 2018, the aggregate outstanding principal amount of our borrowings (including export-import financing debentures), which was ₩70,945 billion, was equal to 19% of the authorized amount of ₩370,020 billion.

We are not permitted to accept demand or time deposits.

Each year we must submit to the Government for its approval an operating plan which includes our target levels for different types of funding. The following table is the part of the operating plan dealing with fund-raising for 2019:

Sources of Fund	(billions of Won)
Capital Contribution	—
Borrowings.....	24,000
Net Collection of Loans	25,000
Collection of Loans.....	45,676
Repayment of Debts.....	(20,676)
Others.....	—
Total.....	₩ 49,000

Debt

Debt Repayment Schedule

The following table sets out the principal repayment schedule for our outstanding debt (consisting of borrowings and debentures) as of December 31, 2018:

Debt Principal Repayment Schedule

Currency⁽¹⁾	Maturing on or before December 31,				
	2019	2020	2021	2022	Thereafter
	(billions of Won)				
Won	₩ 10,570	₩ 890	₩ 595	₩ 210	₩ 2,400
Foreign ⁽²⁾	10,024	10,165	9,944	7,103	19,543
Total Won Equivalent.....	₩ 20,594	₩ 11,055	₩ 10,539	₩ 7,313	₩ 21,943

(1) Borrowings and debentures in foreign currency have been translated into Won at the market average exchange rates on December 31, 2018, as announced by the Seoul Money Brokerage Services Ltd.

(2) This figure includes debentures, bank loans, commercial papers and repurchase agreements.

Normally we determine the level of our foreign currency reserves based upon an estimate, at any given time, of aggregate loan disbursements to be made over the next two to three months. Our average foreign currency reserves in 2017 and 2018 were approximately US\$3,671 million and US\$3,246 million, respectively.

Although we currently believe that such reserves, together with additional borrowings available under our uncommitted short-term backup credit facilities and commercial paper programs, will be sufficient to repay our outstanding debt as it becomes due, there can be no assurance that we will continue to be able to borrow under such credit facilities, or that the devaluation of the Won will not adversely affect our ability to access funds sufficient to repay our foreign currency denominated indebtedness in the future. In addition to maintaining sufficient foreign currency reserves, we monitor the maturity profile of our foreign currency assets and liabilities to ensure that there are sufficient maturing assets to meet our liabilities as they become due.

As of December 31, 2018, our foreign currency assets maturing within three months, six months and one year exceeded our foreign currency liabilities coming due within such periods by US\$4,374 million, US\$5,778 million and US\$6,049 million, respectively. As of December 31, 2018, our total foreign currency assets exceeded our total foreign currency liabilities by US\$303 million

Internal and External Debt of the Bank

The following table summarizes, as of December 31 of the years indicated, the outstanding internal debt of the Bank:

Internal Debt of the Bank

	<u>(billions of Won)</u>
2014	8,670
2015	9,700
2016	12,080
2017	14,120
2018	14,665

The following table sets out, by currency and the equivalent amount in U.S. Dollars, the outstanding external debt of the Bank as of December 31, 2018:

External Debt of the Bank

	<u>Amount in Original Currency</u>	<u>Equivalent Amount in U.S. Dollars ⁽¹⁾</u>
	<u>(billions)</u>	
US\$	US\$ 34.9	US\$ 34.9
Euro (EUR)	EUR 3.5	4.0
Japanese yen (JPY)	JPY 143.8	01.3
Brazilian real (BRL)	BRL 3.5	0.9
Australian Dollars (AUD)	AUD 3.7	2.6
British Pound (GBP)	GBP 0.1	0.1
Thai Baht (THB)	THB 10.3	0.3
Hong Kong dollar (HKD)	HKD 6.0	0.8
Swiss franc (CHF)	CHF 1.2	1.2
Swedish Krona (SEK)	SEK 0.3	0.0
Indonesian rupiah (IDR)	IDR 9,328.4	0.6
Chinese Yuan (CNY)	CNY 10.7	1.6
Norwegian Krone (NOK)	NOK 2.3	0.3
Mexican Peso (MXN)	MXN 0.2	0.0
New Zealand Dollar (NZD)	NZD 1.1	0.7
Indian Rupee (INR)	INR 32.0	0.5
South African Rand (ZAR)	ZAR 0.7	0.0
Peru Nuevo sol (PEN)	PEN 0.3	0.1
Canadian Dollar (CAD)	CAD 0.7	0.5
Singapore Dollar (SGD)	SGD 0.2	0.1
		<u>US\$ 50.6</u>

(1) Amounts expressed in currencies other than U.S. dollar are converted to U.S. dollar at the exchange rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2018 or the prevailing market rate on December 31, 2018.

The following table summarizes, as of December 31 of the years indicated, the outstanding external debt of the Bank:

External Debt of the Bank

	(billions of Won)
2014	48,411
2015	54,631
2016	59,847
2017	52,710
2018	56,594

For further information on the outstanding indebtedness of the Bank, see “—Tables and Supplementary Information.”

Debt Record

We have never defaulted in the payment of principal of, or interest on, any of our obligations.

Credit Policies, Credit Approval and Risk Management

Credit Policies

The Credit Policy Department functions as our centralized policy-making and planning division with respect to our lending activities. The Credit Policy Department formulates and revises our internal regulations on loan programs, sets basic lending guidelines on a country basis and gathers data from our various operating groups and produces various internal and external reports.

Credit Approval

We have multiple levels of loan approval authority, depending on the loan amount and other factors such as the nature of the credit, the conditions of the transaction, and whether the loan is secured. Our Board of Directors can approve loans of any amount. The Chief Executive Credit Committee, Credit Committee, Loan Officer Committee, Director Generals and Directors each have authority to approve loans up to a specified amount. The amount differs depending on the type of loan and certain other factors, for example, whether a loan is collateralized or guaranteed.

At each level of authority, loan applications are reviewed on the basis of the feasibility of the project from a technical, financial and economic point of view in addition to evaluating the probability of recovery. In conducting such a review, the following factors are considered:

- eligibility of the transaction under our financing criteria;
- country risk of the country of the borrower and the country in which the related project is located;
- credit risk of the borrower;
- a supplier’s ability to perform under the related supply contract;
- legal disputes over the related project and supply contract; and
- availability of collateral.

When the credit rating of a prospective borrower does not meet our internal rating criteria, our policy is to ensure that the loans are either guaranteed or made on a partially or fully secured basis. As of December 31, 2018, approximately 13% of our total outstanding loans were guaranteed or made on a partially or fully secured basis.

Risk Management

Our overall risk management policy is set by the Risk Management Committee, which meets on a quarterly basis and from time to time to establish tolerance limits for various exposures, whereas the overall risk management is overseen by the Risk Management Department, which is responsible for monitoring risk exposure.

The Risk Management Department reports our loan portfolio to the Financial Supervisory Service on a quarterly basis. The Risk Management Department also monitors our operating groups' compliance with internal guidelines and procedures. To manage liquidity risk, we review the strategy for the sources and uses of funds, with each division submitting projected sources and uses to the Treasury Group. The Risk Management Department and the Treasury Group continually monitor our overall liquidity and the Treasury Group prepares both weekly and monthly cash flow forecasts. Our policy is to maintain a liquidity level, which can cover loan disbursements for a period of two to three months going forward. We protect ourselves from potential liquidity squeezes by maintaining sufficient amount of liquid assets with additional back-up of short-term credit lines.

Our core lending activities expose us to market risk, mostly in the form of interest rate and foreign currency risks. The Risk Management Department reports interest rate and foreign exchange gap positions to the Risk Management Committee on a quarterly basis. We also monitor changes in, and matches of, foreign currency assets and liabilities in order to reduce exposure to currency fluctuations.

One of the key components of our risk management policy, which also affects our fund-raising efforts, is to monitor matches of asset maturities and liability maturities. The average maturity as of December 31, 2018 for our Won- and foreign currency-denominated loans was 16 months and 42 months, respectively, and for Won- and foreign currency-denominated liabilities was 25 months and 49 months, respectively.

We follow an overall risk management process where we:

- determine the risk management objectives;
- identify key exposures;
- measure key risks; and
- monitor risk management results.

Our risk management system is a continuous system that is frequently evaluated and updated on an ongoing basis.

Capital Adequacy

Under the Financial Supervisory Service's guidelines on risk-adjusted capital which were introduced in consideration of the standards set by the Bank for International Settlements, all banks in Korea, including us, are required to maintain a capital adequacy ratio (Tier I and Tier II) of at least 8% on a consolidated basis. To the extent that we fail to maintain this ratio, the Korean regulatory authorities may require corrective measures ranging from management improvement recommendations to emergency measures such as disposal of assets.

The current capital adequacy requirements of the Financial Services Commission are derived from a new set of bank capital measures, referred to as Basel III, which the Basel Committee on Banking Supervision initially introduced in 2009 and began phasing in starting from 2013. Commencing in July 2013, the Financial Services Commission promulgated a series of amended regulations implementing Basel III, pursuant to which Korean banks, including us, were required to maintain a minimum ratio of Tier I common equity capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 0.625% on January 1, 2016, with such buffer to increase to 1.25% on January 1, 2017, to 1.875% on January 1, 2018 and to 2.5% on January 1, 2019, as well as a potential counter-cyclical capital buffer of up to 2.5% starting in 2016, which will be determined on a quarterly basis by the Financial Services Commission. Presently, the

Financial Services Commission has set the counter-cyclical capital buffer at 0%. As of December 31, 2018, our capital adequacy ratio, on a consolidated basis, was 13.8%, an increase from 12.9% as of December 31, 2017, which was primarily due to increases in retained earnings and accumulated other comprehensive income and a decrease in total risk-weighted assets.

The following table sets forth our capital base and capital adequacy ratios (on a consolidated basis) reported as of December 31, 2016, 2017 and 2018:

	As of December 31,		
	2016	2017	2018
	(billions of Won, except for percentages)		
Tier I	₩ 11,239	₩ 12,447	₩ 13,203
Capital stock (including capital surplus and capital adjustments).....	10,405	11,686	11,686
Retained Earnings ⁽¹⁾	606	623	828
Accumulated other comprehensive income.....	286	185	724
Others.....	3	2	3
Deductions from Tier I Capital.....	(61)	(49)	(38)
Capital Adjustments.....	—	—	—
Deferred Tax Asset.....	—	—	—
Others.....	(61)	(49)	(38)
Tier II (General Loan Loss Reserves)	1,975	1,678	1,742
Total Capital	13,214	14,126	14,945
Risk Adjusted Assets	122,663	109,501	108,447
Capital Adequacy Ratios			
Tier I common equity.....	9.2%	11.4%	12.2%
Tier I.....	9.2%	11.4%	12.2%
Tier I and Tier II.....	10.8%	12.9%	13.8%

(1) Net amount after deducting regulatory reserve for bad loans.

Source: Internal records

Overseas Operations

We maintain an international presence through 24 overseas representative offices, which are located in New York City, Tokyo, Beijing, São Paulo, Paris, Washington D.C., Shanghai, New Delhi, Dubai, Moscow, Mexico City, Tashkent, Hanoi, Manila, Jakarta, Yangon, Bogota, Istanbul, Dar es Salaam, Maputo, Accra, Phnom Penh, Addis Ababa and Colombo.

We also have three wholly-owned subsidiaries: KEXIM Bank (UK) Ltd. in London, KEXIM (Asia) Ltd. in Hong Kong and KEXIM Vietnam Leasing Co., Ltd. in Ho Chi Minh City. These subsidiaries are engaged in the merchant banking and lease financing businesses, and assist us in raising overseas financing. We also own 85% of P.T. Koexim Mandiri Finance, a subsidiary in Jakarta, which is primarily engaged in the business of lease financing.

The table below sets forth brief details of our subsidiaries as of December 31, 2018:

	Principal Place of Business	Type of Business	Book Value (billions of Won)	Bank's Holding (%)
Kexim Bank (UK) Ltd.	United Kingdom	Commercial Banking	₩ 48	100%
KEXIM (Asia) Ltd.....	Hong Kong	Commercial Banking	49	100
P.T. Koexim Mandiri Finance.....	Indonesia	Leasing and Factoring	25	85
Kexim Vietnam Leasing Co., Ltd.....	Vietnam	Leasing and Lending	10	100

Property

Our head office is located at 38 Eunhaeng-ro, Yeongdeungpo-gu, Seoul 07242, Korea, a 45,715 square meter building on a site of 9,110 square meters and owned by us. In addition to the head office, we own a staff training center located near Seoul on a site of 47,881 square meters and a marine finance center, a 4,423 square meter building, located in Busan on a site of 556 square meters. We also maintain 13 branches in Busan, Gwangju, Daegu, Changwon, Daejeon, Suwon, Incheon, Ulsan, Cheongju, Jeonju, Gumi, Yeosu and Wonju. Our domestic branch offices and overseas representative offices are located in facilities held under long-term leases.

Management and Employees

Management

Our governance and management is the responsibility of our Board of Directors, which has authority to decide important matters relating to our business. The Board of Directors is chaired by our President and is comprised of six members: the President, the Deputy President, two Senior Executive Directors and two Non-standing Senior Executive Directors. The Auditor may attend and state his/her opinion at the meetings of the Board of Directors. The President of Korea appoints our President upon the recommendation of the Minister of Economy and Finance. The Minister of Economy and Finance appoints the Deputy President and all Senior Executive Directors upon the recommendation of our President. The Minister of Economy and Finance appoints the Auditor. All Board members and the Auditor serve for three years and are eligible for re-appointment for successive terms of office.

The members of the Board of Directors are currently as follows:

<u>Name</u>	<u>Age</u>	<u>Board Member Since</u>	<u>Position</u>
Sung-soo Eun	57	September 11, 2017	Chairman and President
Seung-joong Kang	59	January 18, 2018	Deputy President
Deog-yong Shin.....	58	January 18, 2018	Senior Executive Director
Sung-bae Kim.....	64	December 30, 2016	External Director
Gong-pil Choi.....	61	December 30, 2016	External Director
Meong-heon Na.....	63	June 1, 2018	External Director

Our basic policy guidelines for activities are established by the Operations Committee. According to the By-laws, the Operations Committee is composed of officials nominated as follows:

- President of KEXIM;
- official of the Ministry of Economy and Finance, nominated by the Minister of Economy and Finance;
- official of the Ministry of Foreign Affairs, nominated by the Minister of Foreign Affairs;
- official of the Ministry of Trade, Industry & Energy, nominated by the Minister of Trade, Industry & Energy;
- official of the Ministry of Land, Infrastructure and Transport, nominated by the Minister of Land, Infrastructure and Transport;
- official of the Ministry of Oceans and Fisheries, nominated by the Minister of Oceans and Fisheries;
- official of the Financial Services Commission, nominated by the Chairman of the Financial Services Commission;
- executive director of The Bank of Korea, nominated by the Governor of The Bank of Korea;
- executive director of the Korea Federation of Banks, nominated by the Chairman of the Korea Federation of Banks;
- representative of an exporters' association (Korea International Trade Association), nominated by the Minister of Economy and Finance after consultation with the Minister of Trade, Industry & Energy;
- officer of the Korea Trade Insurance Corporation established under the Trade Insurance Act, nominated by the Chairman and President of the Korea Trade Insurance Corporation; and

- up to two persons who have extensive knowledge and experience in international economic cooperation work, recommended by our President and appointed by the Minister of Economy and Finance.

The members of the Operations Committee are currently as follows:

Name	Age	Member Since	Position
Sung-soo Eun	57	September 11, 2017	Chairman and President of KEXIM
Hoe Jeong Kim.....	52	January 11, 2019	Deputy Minister for International Economic Affairs, Ministry of Economy and Finance
Kang-hyeon Yun.....	55	September 22, 2017	Deputy Minister for Economic Affairs, Ministry of Foreign Affairs
Tae Sung Park	55	January 28, 2019	Deputy Minister for International Trade and Investment, Ministry of Trade, Industry & Energy
Seong Hai Lee	52	January 31, 2019	Assistant Minister for Construction Policy Bureau, Ministry of Land, Infrastructure and Transport
Ki-doo Eom.....	52	January 25, 2017	Director of Shipping & Logistics Bureau, Ministry of Oceans and Fisheries
Byeong Doo Sohn.....	54	September 12, 2017	Secretary General, Financial Services Commission
Ho Soon Shin	56	September 26, 2017	Deputy Governor, The Bank of Korea
Jae Moon Hong.....	58	March 7, 2018	Senior Executive Director, Korea Federation of Banks
Jin Hyun Han.....	59	February 27, 2018	Executive Vice Chairman, Korea International Trade Association

Employees

As of December 31, 2018, we had 1,195 employees, among whom 779 employees were members of our labor union. We have never experienced a work stoppage of a serious nature. Every two years, the management and union negotiate and enter into a collective bargaining agreement. The most recent collective bargaining agreement was entered into in September 2018.

Financial Statements and the Auditors

The Minister of Economy and Finance appoints our internal Auditor who is responsible for examining our financial operations and auditing our financial statements and accounting records. The present internal Auditor is Cho, Yong Soon, who was appointed for a three-year term on January 18, 2018.

We prepare our financial statements annually for submission to the Minister of Economy and Finance, accompanied by an opinion of the Auditor. Although we are not legally required to have financial statements audited by external auditors, an independent public accounting firm has audited our separate financial statements since 1983 and consolidated financial statements since 1998. As of the date of this Offering Circular, our independent auditor is KPMG Samjong Accounting Corp., located at 27th Floor, Gangnam Finance Center, 737 Yeoksam-dong, Gangnam-gu, Seoul, Korea which has audited our separate financial statements as of and for the years ended December 31, 2018 and 2017 included in this Offering Circular.

Our separate financial statements and information included in this Offering Circular were prepared under K-IFRS. For a summary of financial statement preparation and significant accounting policies, see “—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 2.” These principles and procedures differ in certain material respects from generally accepted accounting principles in the United States.

K-IFRS 1109, *Financial Instruments*, which is aimed at improving and simplifying the accounting treatment of financial instruments, is effective for annual periods beginning on or after January 1, 2018 and replaces K-IFRS 1039, *Financial Instruments: Recognition and Measurement*. We have applied the new accounting standard, K-IFRS 1109, which requires all financial assets to be classified and measured on the basis of an entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets, in our separate financial statements as of and for the year ended December 31, 2018 included in this Offering Circular. As permitted by the transition rules of K-IFRS 1109, our comparative separate financial statements as of and for the year ended December 31, 2017 included in this Offering Circular have not been restated to retroactively apply K-IFRS 1109 and are not directly comparable to our separate financial statements as of and for the year ended December 31, 2018. For information regarding the impact of the application of K-IFRS 1109 on our separate financial statements, see “—Notes to Separate Financial Statements as of and for the year ended December 31, 2018 and 2017—Notes 2 and 39.”

We recognize interest income on loans and debt securities using the effective interest method. See “—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 3(14).”

We classify a non-derivative financial asset as held for trading if either it is acquired for the purpose of selling it in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. We classify debt securities with fixed or determinable payments and fixed maturities, and which we intend to hold to maturity, as held-to-maturity securities. We classify investments that are categorized as neither trading securities nor held-to-maturity securities as available-for-sale securities. We record our trading and available-for-sale securities at fair value. However, investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost. We record held-to-maturity securities at amortized cost. We recognize impairment losses on securities in current operations when the recoverable amounts are less than the carrying amount of equity securities or amortized cost of debt securities.

We record debenture issuance costs as discounts on debentures and amortize them over the maturity period of the debentures using the effective interest method.

Our financial statements are separate financial statements prepared in accordance with the requirements of K-IFRS 1027 Separate Financial Statements, in which a parent, or an investor with joint control of, or significant influence over, an investee accounts for the investments based on the cost method or valuation methods in accordance with K-IFRS 1039 Financial Instruments.

Since we initially adopted K-IFRS in 2013, our premises and equipment on the statements of financial position as of January 1, 2013 have been measured at their fair value in accordance with IFRS 1 paragraph 30(b), and we have chosen to apply the cost model to the premises and equipment in accordance with IAS 16 paragraph 29.

K-IFRS No. 1116, “Leases”, which was enacted on May 22, 2017, is effective for annual periods beginning on or after January 1, 2019. For further information relating to K-IFRS No. 1116, “Leases”, see “—Notes to Separate Financial Statements as of and for the years ended December 31, 2018 and 2017—Note 3(19).”

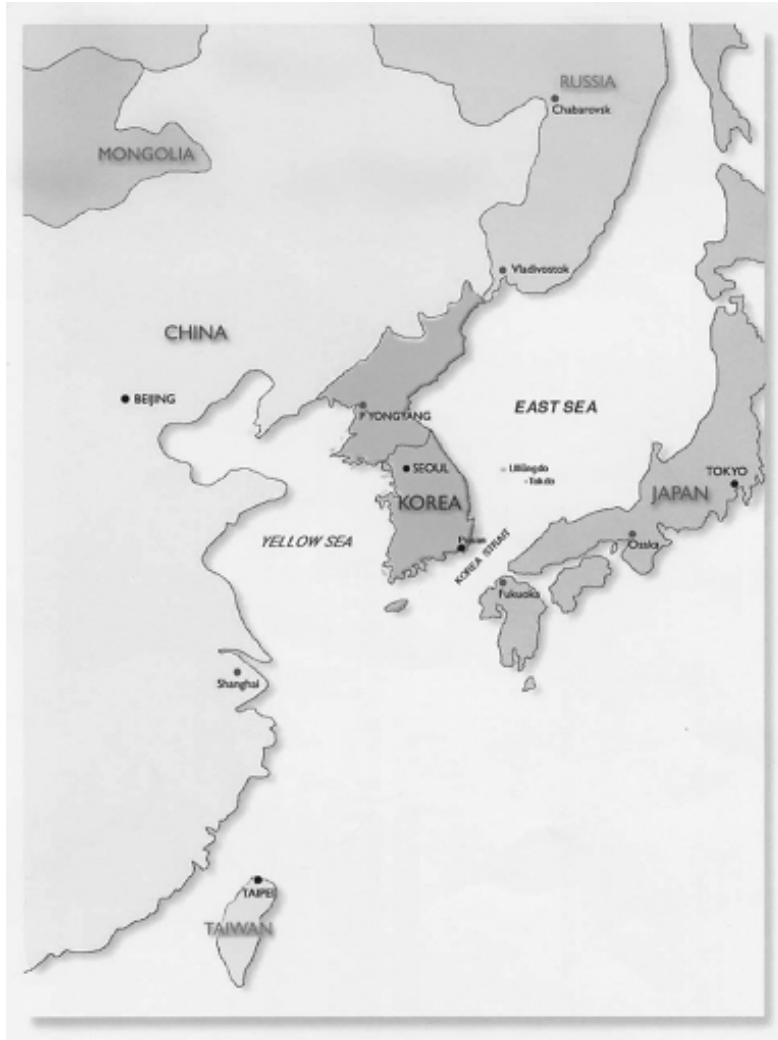
THE REPUBLIC OF KOREA

Land and History

Territory and Population

Located generally south of the 38th parallel on the Korean peninsula, The Republic of Korea covers about 38,000 square miles, approximately one-fourth of which is arable. The Republic has a population of approximately 51 million people. The country's largest city and capital, Seoul, has a population of about 10 million people.

Map of the Republic of Korea



Political History

Dr. Rhee Seungman, who was elected President in each of 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served as President until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister Choi Kyu Hah, who

became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

In late 1980, the country approved, by national referendum, a new Constitution, providing for indirect election of the President by an electoral college and for certain democratic reforms, and shortly thereafter, in early 1981, re-elected President Chun.

Responding to public demonstrations in 1987, the legislature revised the Constitution to provide for direct election of the President. In December 1987, Roh Tae Woo won the Presidency by a narrow plurality, after opposition parties led by Kim Young Sam and Kim Dae Jung failed to unite behind a single candidate. In February 1990, two opposition political parties, including the one led by Kim Young Sam, merged into President Roh's ruling Democratic Liberal Party.

In December 1992, the country elected Kim Young Sam as President. The election of a civilian and former opposition party leader considerably lessened the controversy concerning the legitimacy of the political regime. President Kim's administration reformed the political sector and deregulated and internationalized the Korean economy.

In December 1997, the country elected Kim Dae Jung as President. President Kim's party, the Millennium Democratic Party (formerly known as the National Congress for New Politics), formed a coalition with the United Liberal Democrats led by Kim Jong Pil, with Kim Jong Pil becoming the first prime minister in President Kim's administration. The coalition, which temporarily ended before the election held in April 2000, continued with the appointment of Lee Han Dong of the United Liberal Democrats as the Prime Minister in June 2000. The coalition again ended in September 2001.

In December 2002, the country elected Roh Moo Hyun as President. President Roh and his supporters left the Millennium Democratic Party in 2003 and formed a new party, the Uri Party, in November 2003. On August 15, 2007, 85 members of the National Assembly, previously belonging to the Uri Party, or the Democratic Party, formed the United New Democratic Party (the "UNDP"). The Uri Party merged into the UNDP on August 20, 2007. In February 2008, the UNDP merged back into the Democratic Party. In December 2011, the Democratic Party merged with the Citizens Unity Party to form the Democratic United Party, which changed its name to the Democratic Party in May 2013.

In December 2007, the country elected Lee Myung-Bak as President. He commenced his term on February 25, 2008. On April 9, 2018, the Korean prosecutor's office indicted former President Lee on 16 counts of corruption, including bribery, abuse of power, embezzlement and other irregularities.

In December 2012, the country elected Park Geun-hye as President. She commenced her term on February 25, 2013. On December 9, 2016, the National Assembly voted in favor of impeaching President Park for a number of alleged constitutional and criminal violations, including violation of the Constitution and abuse of power by allowing her confidant to exert influence on state affairs and allowing senior presidential aides to aid in her extortion from companies. President Park was suspended from power immediately, with the prime minister simultaneously taking over the role of acting President. On March 10, 2017, the Constitutional Court unanimously upheld the parliamentary vote to impeach President Park, triggering her immediate dismissal. On April 17, 2017, the Korean prosecutor's office indicted former President Park on charges of bribery, abuse of power and coercion, among others. On August 24, 2018, the Seoul High Court found former President Park guilty on many of the charges, including bribery, abuse of power and coercion, and sentenced her to 25 years in prison and assessed a fine of Won 20 billion.

A special election to elect a new President was held on May 9, 2017 and the country elected Moon Jae-in as President. He commenced his term on May 10, 2017. The Moon administration's key policy priorities include:

- investigating corruption involving high-ranking government officials, anti-corruption and reform of chaebol (Korean conglomerates);
- denuclearization of and establishing peace on the Korean Peninsula and enhancing Korea's core military strength in response to North Korea's nuclear capabilities;
- reducing fine dust emissions, closing old nuclear power plants and reexamining the construction of new nuclear power plants;

- creating new jobs, resolving youth unemployment and enacting laws prohibiting discrimination against non-regular workers;
- creating jobs for senior citizens, increasing basic pension and providing government subsidies for Alzheimer's disease treatment; and
- protecting small business owners and restricting establishment of large-scale stores and multi-complex shopping malls.

Government and Politics

Government and Administrative Structure

Governmental authority in the Republic is centralized and concentrated in a strong Presidency. The President is elected by popular vote and can only serve one term of five years. The President chairs the State Council, which consists of the prime minister, the deputy prime ministers, the respective heads of Government ministries and the ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for elected local officials.

The President can veto new legislation and take emergency measures in cases of natural disaster, serious fiscal or economic crisis, state of war or other similar circumstances. The President must promptly seek the concurrence of the National Assembly for any emergency measures taken and failing to do so automatically invalidates the emergency measures. In the case of martial law, the President may declare martial law without the consent of the National Assembly; provided, however, that the National Assembly may request the President to rescind such martial law.

The National Assembly exercises the country's legislative power. The Constitution and the Election for Public Offices Act provide for the direct election of about 84% of the members of the National Assembly and the distribution of the remaining seats proportionately among parties winning more than 5 seats in the direct election or receiving over 3% of the popular vote. National Assembly members serve four-year terms. The National Assembly enacts laws, ratifies treaties and approves the national budget. The executive branch drafts most legislation and submits it to the National Assembly for approval.

The country's judicial branch comprises the Supreme Court, the Constitutional Court and lower courts of various levels. The President appoints the Chief Justice of the Supreme Court and appoints the other Justices of the Supreme Court upon the recommendation of the Chief Justice. All appointments to the Supreme Court require the consent of the National Assembly. The Chief Justice, with the consent of the conference of Supreme Court Justices, appoints all the other judges in Korea. Supreme Court Justices serve for six years and all other judges serve for ten years. Other than the Chief Justice, justices and judges may be reappointed to successive terms.

The President formally appoints all nine judges of the Constitutional Court, but three judges must be designated by the National Assembly and three by the Chief Justice of the Supreme Court. Constitutional Court judges serve for six years and may be reappointed to successive terms.

Administratively, the Republic comprises eight provinces, one special autonomous province (Jeju), one special city (Seoul), six metropolitan cities (Busan, Daegu, Incheon, Gwangju, Daejeon and Ulsan) and one special autonomous city (Sejong). From 1961 to 1995, the national government controlled the provinces and the President appointed provincial officials. Local autonomy, including the election of provincial officials, was reintroduced in June 1995.

Political Parties

The 20th legislative general election was held on April 13, 2016 and the term of the National Assembly members elected in the 20th legislative general election commenced on May 30, 2016. Currently, there are four major political parties: The Minjoo Party of Korea, or MPK, the Liberty Korea Party, or LKP, the Bareun Future Party, or BFP, and the Party for Democracy and Peace, or PDP.

As of March 31, 2019, the parties control the following number of seats in the National Assembly:

	<u>MPK</u>	<u>LKP</u>	<u>BFP</u>	<u>PDP</u>	<u>Others</u>	<u>Total</u>
Number of seats	128	113	29	14	14	298

Relations with North Korea

Relations between the Republic and North Korea have been tense over most of the Republic’s history. The Korean War began with the invasion of the Republic by communist forces from the north in 1950, which was repelled by the Republic and the United Nations forces led by the United States. Following a military stalemate, an armistice was reached establishing a demilitarized zone monitored by the United Nations in the vicinity of the 38th parallel in 1953.

North Korea maintains a military force estimated at more than a million regular troops, mostly concentrated near the northern side of the demilitarized zone, and 7 million reserves. The Republic’s military forces, composed of approximately 630,000 regular troops and 3 million reserves, maintain a state of military preparedness along the southern side of the demilitarized zone. In addition, the United States has maintained its military presence in the Republic since the signing of the armistice and currently has approximately 28,500 troops stationed in the Republic. The Republic and the United States share a joint command structure over their military forces in Korea. In October 2014, the United States and the Republic agreed to implement a conditions-based approach to the dissolution of their joint command structure at an appropriate future date, which would allow the Republic to assume the command of its own armed forces in the event of war on the Korean peninsula.

The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea’s political leadership and concern regarding its implications for political and economic stability in the region. Kim Jong-il’s third son, Kim Jong-eun, has assumed power as his father’s designated successor.

In addition, there have been heightened security concerns in recent years stemming from North Korea’s nuclear weapons and ballistic missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program and it conducted a series of ballistic missile tests in 2016 and 2017. In response, the United Nations Security Council issued unanimous statements condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures, and in December 2017, unanimously passed a resolution extending existing sanctions that were imposed on North Korea.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on ballistic missiles. In September 2017, North Korea announced that it successfully conducted its sixth nuclear test by detonating a hydrogen bomb designed to be mounted on an intercontinental ballistic missile, which resulted in increased tensions in the region and elicited strong objections worldwide. In response to such tests (as well as North Korea’s long-range ballistic missile program), the United Nations Security Council unanimously passed several rounds of resolutions condemning North Korea’s actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on 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 re-initiated 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.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although bilateral summit meetings were held between Korea and North Korea in April and May 2018 and between the United States and North Korea in June 2018 and February 2019, there can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that such escalation will not have a material adverse impact on the Republic's economy and us. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between the Republic and North Korea break down or further military hostilities occur, could have a material adverse effect on the Republic's economy and us. Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by the Republic.

Foreign Relations and International Organizations

The Republic maintains diplomatic relations with most nations of the world, most importantly with the United States with which it entered into a mutual defense treaty and several economic agreements. The Republic also has important relationships with Japan and China, its largest trading partners together with the United States.

The Republic belongs to a number of supranational organizations, including:

- United Nations;
- the International Monetary Fund, or the IMF;
- the World Bank;
- the Asian Development Bank, or ADB;
- the Multilateral Investment Guarantee Agency;
- the International Finance Corporation;
- the International Development Association;
- the African Development Bank;
- the European Bank for Reconstruction and Development;
- the Bank for International Settlements;
- the World Trade Organization, or WTO;
- the Inter-American Development Bank, or IDB; and
- the Organization for Economic Cooperation and Development, or OECD.

The Economy

The following table sets forth information regarding certain of the Republic's key economic indicators for the periods indicated.

	As of or for the year ended December 31,				
	2014	2015	2016	2017	2018 ⁽⁶⁾
	(billions of dollars and trillions of Won, except percentages)				
GDP Growth (at current prices)	4.0%	5.3%	5.0%	5.4% ⁽⁶⁾	3.0% ⁽⁶⁾
GDP Growth (at chained 2010 year prices)	3.3%	2.8%	2.9%	3.1% ⁽⁶⁾	2.7% ⁽⁶⁾
Inflation	1.3%	0.7%	1.0%	1.9%	1.5%
Unemployment ⁽¹⁾	3.5%	3.6%	3.7%	3.7%	3.8%
Trade Surplus ⁽²⁾	\$ 47.2	\$ 90.3	\$ 89.2	\$ 95.2	\$ 69.7
Foreign Currency Reserves	\$ 363.6	\$ 368.0	\$ 371.1	\$ 389.3	\$ 403.7
External Liabilities ⁽³⁾	\$ 424.3	\$ 396.1	\$ 382.2	\$ 412.0	\$ 440.6 ⁽⁶⁾
Fiscal Balance	₩ 8.5	₩ (0.2)	₩ 16.9	₩ 24.0 ⁽⁶⁾	₩ 31.2 ⁽⁶⁾
Direct Internal Debt of the Government ⁽⁴⁾ (as % of GDP ⁽⁵⁾)	34.6%	37.3%	38.5% ⁽⁶⁾	39.8% ⁽⁶⁾	N/A ⁽⁷⁾
Direct External Debt of the Government ⁽⁴⁾ (as % of GDP ⁽⁵⁾)	0.5%	0.5%	0.4% ⁽⁶⁾	0.5% ⁽⁶⁾	N/A ⁽⁷⁾

(1) Average for year.

(2) Derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.

(3) Calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010.

(4) Does not include guarantees by the Government. See “—Debt—External and Internal Debt of the Government—Guarantees by the Government” for information on outstanding guarantees by the Government.

(5) At chained 2010 year prices.

(6) Preliminary.

(7) Not available.

Source: The Bank of Korea

Worldwide Economic and Financial Difficulties

In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

- the financial difficulties affecting many governments worldwide, in particular in southern Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as the possibility of increases in policy rates by the U.S. Federal Reserve and other central banks;
- political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in the Ukraine and Russia; and
- fluctuations in oil and commodity prices.

In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets.

As a result of adverse global financial and economic conditions, there has been significant volatility in the Korea Composite Stock Index in recent years. See “—The Financial System—Securities Markets”. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the

ability of Korean companies and banks to raise capital. In addition, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won generally increases the cost of imported goods and services and the required amount of the Won revenue for Korean companies to service foreign currency-denominated debt.

In the event that difficult conditions in the global credit markets continue or the global economy deteriorates in the future, the Korean economy could be adversely affected and Korean banks may be forced to fund their operations at a higher cost or may be unable to raise as much funding as they need to support their lending and other activities.

In addition to the global developments, domestic developments that could lead to or contribute to a material adverse effect on the Korean economy include, among other things, the following:

- steadily rising household debt consisting of housing loans and merchandise credit, which increased to approximately ₩1,534.6 trillion as of December 31, 2018 from ₩843.2 trillion as of December 31, 2010, primarily due to increases in mortgage loans and purchases with credit cards;
- a slowdown in consumer spending and depressed consumer sentiment, due in part to national tragedies including the sinking of the Sewol passenger ferry in April 2014, which led to the death of hundreds of passengers, and the outbreak of infectious diseases, such as the outbreak of the Middle East Respiratory Syndrome (“MERS”) in May 2015, which resulted in the death of over 30 people and the quarantine of thousands;
- a substantial increase in the Korean government’s expenditures for pension and social welfare programs, due in part to an aging population (defined as the population of people aged 65 years or older) that accounts for 14.3% of the Republic’s total population as of December 31, 2018, an increase from 7.2% as of December 31, 2000, and is expected to surpass 15.6% in 2020 and 21.1% in 2026, which could lead to a Korean government budget deficit;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- decreases in the market prices of Korean real estate;
- the occurrence of severe health epidemics, including epidemics that affect the livestock industry; and
- deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing controversy between Korea and China regarding the decision to allow the United States to deploy the Terminal High Altitude Area Defense system in Korea).

Gross Domestic Product

GDP measures the market value of all final goods and services produced within a country for a given period and reveals whether a country’s productive output rises or falls over time. Economists present GDP in both current market prices and “real” or “inflation-adjusted” terms. In March 2009, the Republic adopted a method known as the “chain-linked” measure of GDP, replacing the previous fixed-base, or “constant” measure of GDP, to show the real growth of the aggregate economic activity, as recommended by the System of National Accounts 1993. GDP at current market prices values a country’s output using the actual prices of each year, whereas the “chain-linked” measure of GDP is compiled by using “chained indices” linking volume growth between consecutive time periods. In March 2014, the Republic published a revised GDP calculation method by implementing the System of National Accounts 2008 and updating the reference year from 2005 to 2010 to align Korean national accounts statistics with the recommendations of the new international standards for compiling national economic accounts and to maintain comparability with other nations’ accounts. The main components of these revisions include, among other things, (i) recognizing expenditures for research and development and creative activity for the products of entertainment, literary and artistic originals as fixed investment, (ii) incorporating a wide array of new and revised source data such as the economic census, the population and housing census and 2010 benchmark input-output tables, which provide thorough and detailed information on the structure of the Korean economy, (iii) developing supply-use tables, which provide a statistical tool for ensuring consistency among the production, expenditure and income approaches to measuring GDP and (iv) recording merchandise trade transactions based on ownership changes rather than movements of goods across the national border.

The following table sets out the composition of the Republic’s GDP at current market and chained 2010 year prices and the annual average increase in the Republic’s GDP.

Gross Domestic Product

	2014	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾	As % of GDP 2018 ⁽¹⁾
	(billions of Won)					
Gross Domestic Product at Current Market Prices:						
Private	748,200.8	771,239.2	798,728.9	832,234.7	867,042.9	48.6
Government.....	224,724.2	234,766.4	249,166.9	265,347.0	286,730.4	16.1
Gross Capital Formation	435,078.1	452,315.1	480,261.6	537,732.6	537,935.9	30.2
Exports of Goods and Services	747,134.3	709,122.0	694,216.1	745,645.6	784,379.3	44.0
Less Imports of Goods and Services	(669,058.0)	(600,239.3)	(581,662.3)	(652,156.8)	(694,973.9)	(39.0)
Statistical Discrepancy	—	(3,079.4)	1,074.9	1,595.5	1,154.4	0.1
Expenditures on Gross Domestic Product	1,486,079.3	1,564,123.9	1,641,786.0	1,730,398.5	1,782,268.9	100.0
Net Factor Income from the Rest of the World.....	4,684.5	4,259.2	4,422.8	62.9	(1,177.9)	(0.1)
Gross National Income ⁽²⁾	1,490,763.9	1,568,383.1	1,646,208.9	1,730,461.4	1,781,091.0	99.9
Gross Domestic Product at Chained 2010 Year Prices:						
Private	692,236.0	707,492.7	725,362.3	744,284.4	765,417.4	47.9
Government.....	205,869.2	212,021.6	221,514.2	229,100.7	241,919.4	15.1
Gross Capital Formation	430,685.5	462,114.3	488,039.9	537,370.0	527,195.5	33.0
Exports of Goods and Services	804,797.1	803,746.1	824,330.0	840,019.9	875,264.8	54.8
Less Imports of Goods and Services	(706,938.4)	(721,740.4)	(755,861.0)	(808,985.5)	(822,891.8)	(51.5)
Statistical Discrepancy	1,019.1	2,481.2	3,261.9	3,366.9	1,444.6	0.1
Expenditures on Gross Domestic Product ⁽³⁾	1,426,972.4	1,466,788.3	1,509,755.0	1,555,995.3	1,597,514.1	100.0
Net Factor Income from the Rest of the World in the Terms of Trade	4,706.4	4,249.8	4,293.6	261.0	(1,049.0)	(0.1)
Trading Gains and Losses from Changes in the Terms of Trade ...	(14,000.4)	38,787.9	59,905.0	65,729.0	42,198.1	2.6
Gross National Income ⁽⁴⁾	1,417,814.2	1,510,005.6	1,574,137.3	1,622,212.6	1,638,879.4	102.6
Percentage Increase (Decrease) of GDP over Previous Year:						
At Current Prices	4.0	5.3	5.0	5.4	3.0	
At Chained 2010 Year Prices	3.3	2.8	2.9	3.1	2.7	

(1) Preliminary.

(2) GDP plus net factor income from the rest of the world is equal to the Republic's gross national income.

(3) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add up to the total GDP.

(4) Under the "chain-linked" measure of Gross National Income, the components of Gross National Income will not necessarily add up to the total Gross National Income.

Source: The Bank of Korea.

The following table sets out the Republic's GDP by economic sector at current market prices:

**Gross Domestic Product by Economic Sector
(at current market prices)**

	2014	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾	As % of GDP 2018 ⁽¹⁾
	(billions of Won)					
Industrial Sectors:.....	547,231.2	578,352.0	608,403.1	654,616.6	661,339.9	37.1
Agriculture, Forestry and Fisheries	31,560.3	32,612.2	31,647.0	33,935.4	35,348.0	2.0
Mining and Manufacturing	411,030.4	426,228.8	442,502.4	479,927.3	488,053.3	27.4
Mining and Quarrying.....	2,520.2	2,577.1	2,802.1	2,815.2	2,772.1	0.2
Manufacturing	408,510.2	423,651.7	439,700.3	477,112.1	485,281.2	27.2
Electricity, Gas and Water Supply	37,373.8	44,988.9	49,879.4	47,531.0	43,780.6	2.5
Construction.....	67,266.7	74,522.1	84,374.3	93,222.9	94,158.0	5.3
Services:	807,624.1	845,294.8	882,458.9	914,424.9	954,651.7	53.6
Wholesale and Retail Trade, Restaurants and Hotels	152,205.2	156,363.1	164,350.4	168,423.0	173,940.3	9.8
Transportation and Storage.....	50,306.8	56,154.6	59,230.7	56,987.2	54,721.1	3.1
Finance and Insurance.....	75,859.8	78,699.7	81,075.7	85,784.4	94,582.7	5.3
Real Estate and Leasing.....	109,549.0	114,618.7	118,359.9	122,262.5	125,357.3	7.0
Information and Communication	52,510.8	54,257.2	56,710.7	57,581.0	58,265.4	3.3
Business Activities.....	100,936.7	106,944.2	110,894.2	115,417.2	120,751.9	6.8
Public Administration and Defense.....	98,333.5	102,848.3	107,601.0	114,832.9	121,821.4	6.8
Education.....	74,007.8	76,237.2	77,664.4	79,432.7	82,936.4	4.7
Health and Social Work.....	57,129.7	61,980.4	68,100.9	74,356.4	81,116.2	4.6
Cultural and Other Services.....	36,784.7	37,191.4	38,471.0	39,347.6	41,159.0	2.3
Taxes Less Subsidies on Products.....	131,224.0	140,477.2	150,924.2	161,356.9	166,277.4	9.3
Gross Domestic Product at Current Market Prices	1,486,079.3	1,564,123.9	1,641,786.0	1,730,398.5	1,782,268.9	100.0
Net Factor Income from the Rest of the World....	4,684.5	4,259.2	4,422.8	62.9	(1,177.9)	(0.1)
Gross National Income at Current Market Price ..	1,490,763.9	1,568,383.1	1,646,208.9	1,730,461.4	1,781,091.0	99.9

(1) Preliminary.

Source: The Bank of Korea.

The following table sets out the Republic's GDP per capita:

**Gross Domestic Product per capita
(at current market prices)**

	2014	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾
GDP per capita (thousands of Won)	29,284	30,660	32,038	33,635	34,517
GDP per capita (U.S. dollar)	27,805	27,097	27,607	29,744	31,370
Average Exchange Rate (in Won per U.S. dollar).....	1,053.2	1,131.5	1,160.5	1,130.8	1,100.3

(1) Preliminary.

Source: The Bank of Korea.

The following table sets out the Republic's Gross National Income, or GNI, per capita:

**Gross National Income per capita
(at current market prices)**

	2014	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾
GNI per capita (thousands of Won)	29,377	30,744	32,124	33,636	34,494
GNI per capita (U.S. dollar)	27,892	27,171	27,681	29,745	31,349
Average Exchange Rate (in Won per U.S. dollar)	1,053.2	1,131.5	1,160.5	1,130.8	1,100.3

(1) Preliminary.

Source: The Bank of Korea.

The following table sets out the Republic's GDP by economic sector at chained 2010 year prices:

**Gross Domestic Product by Economic Sector
(at chained 2010 year prices)**

	2014	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾	As % of GDP 2018 ⁽¹⁾
	(billions of Won)					
Industrial Sectors:.....	527,016.1	538,722.4	554,601.8	578,753.1	592,775.4	37.1
Agriculture, Forestry and Fisheries	29,378.2	29,251.4	28,441.6	28,530.8	28,946.2	1.8
Mining and Manufacturing.....	413,839.1	421,057.7	430,968.9	449,483.8	465,349.0	29.1
Mining and Quarrying.....	2,344.40	2,314.5	2,357.1	2,221.1	2,081.8	0.1
Manufacturing.....	411,494.7	418,743.2	428,611.8	447,262.7	463,267.2	29.0
Electricity, Gas and Water Supply	27,327.9	28,722.1	29,495.0	30,399.3	31,076.0	1.9
Construction	56,470.9	59,691.2	65,696.3	70,339.2	67,404.2	4.2
Services:.....	764,283.7	786,394.3	806,312.4	823,800.7	847,416.9	53.0
Wholesale and Retail Trade, Restaurants and Hotels	149,150.5	152,013.0	156,323.0	157,472.7	159,604.0	10.0
Transportation and Storage	48,646.9	49,486.3	50,616.8	51,765.3	52,761.1	3.3
Finance and Insurance.....	83,020.5	88,568.7	90,844.7	94,249.9	98,811.1	6.2
Real Estate and Leasing	97,112.9	98,773.8	99,559.1	100,496.5	102,651.8	6.4
Information and Communication	55,164.8	56,532.2	58,282.1	59,743.4	61,362.3	3.8
Business Activities	91,424.0	95,713.9	97,986.2	99,948.1	101,890.5	6.4
Public Administration and Defense.....	87,052.8	88,495.2	90,625.4	93,008.8	96,277.5	6.0
Education	64,865.2	65,158.4	65,234.3	65,574.5	66,970.3	4.2
Health and Social Work	54,740.1	58,653.1	63,157.9	67,738.3	72,806.4	4.6
Cultural and Other Services	33,106.0	32,999.7	33,682.9	33,803.2	34,281.9	2.1
Taxes Less Subsidies on Products.....	136,454.6	142,688.3	149,817.1	154,793.8	160,329.5	10.0
Gross Domestic Product at Chained 2010 Year Prices ⁽²⁾	1,426,972.4	1,466,788.3	1,509,755.0	1,555,995.3	1,597,514.1	100.0

(1) Preliminary.

(2) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add up to the total GDP.

Source: The Bank of Korea.

GDP growth in 2014 was 3.3% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.0%, exports of goods and services increased by 2.0% and gross domestic fixed capital formation increased by 3.4%, which more than offset an increase in imports of goods and services by 1.5%, each compared with 2013.

GDP growth in 2015 was 2.8% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.4% and gross domestic fixed capital formation increased by 5.1%, which more than offset a decrease in exports of goods and services by 0.1% and an increase in imports of goods and services by 2.1%, each compared with 2014.

GDP growth in 2016 was 2.9% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 3.0%, gross domestic fixed capital formation increased by 5.6% and exports of goods and services increased by 2.6%, which more than offset an increase in imports of goods and services by 4.7%, each compared with 2015.

Based on preliminary data, GDP growth in 2017 was 3.1% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.8%, gross domestic fixed capital formation increased by 8.6% and exports of goods and services increased by 1.9%, which more than offset an increase in imports of goods and services by 7.0%, each compared with 2016.

Based on preliminary data, GDP growth in 2018 was 2.7% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 3.5% and exports of goods and services increased by 4.2%, which more than offset a decrease in gross domestic fixed capital formation by 2.2% and an increase in imports of goods and services by 1.7%, each compared with 2017.

Principal Sectors of the Economy

Industrial Sectors

The following table sets out production indices for the principal industrial products of the Republic and their relative contribution to total industrial production:

Industrial Production (2015 = 100)

	Index Weight ⁽¹⁾	2014	2015	2016	2017	2018 ⁽²⁾
All Industries	10,000.0	100.3	100.0	102.2	104.7	106.1
Mining and Manufacturing.....	9,611.6	100.2	100.0	102.3	104.6	105.8
Mining	33.9	98.5	100.0	103.4	100.2	89.4
Petroleum, Crude Petroleum and Natural Gas.....	8.7	120.4	100.0	96.8	86.5	73.4
Metal Ores.....	0.9	126.6	100.0	95.0	84.0	104.8
Non-metallic Minerals	24.3	93.6	100.0	105.2	103.8	93.1
Manufacturing	9,577.7	100.3	100.0	102.3	104.6	105.9
Food Products	434.4	98.2	100.0	102.9	103.2	104.1
Beverage Products	82.4	97.2	100.0	103.6	105.7	105.2
Tobacco Products	43.2	107.9	100.0	113.0	122.4	101.0
Textiles	160.6	106.6	100.0	98.1	95.1	88.7
Wearing Apparel, Clothing Accessories and Fur Articles...	145.2	104.0	100.0	96.3	95.5	93.0
Tanning and Dressing of Leather, Luggage and Footwear..	42.1	105.9	100.0	93.3	82.5	84.6
Wood and Products of Wood and Cork (Except Furniture).....	31.7	96.4	100.0	101.5	106.2	95.9
Pulp, Paper and Paper Products.....	126.8	101.1	100.0	99.4	97.2	97.2
Printing and Reproduction of Recorded Media	50.2	102.7	100.0	100.9	101.3	101.5
Coke, hard-coal and lignite fuel briquettes and Refined Petroleum Products	471.0	94.3	100.0	106.9	113.0	113.7
Chemicals and Chemical Products	847.5	97.8	100.0	105.7	109.4	111.9
Pharmaceuticals, Medicinal Chemicals and Botanical Products.....	144.1	98.1	100.0	109.9	118.6	128.1
Rubber and Plastic Products.....	421.1	100.1	100.0	100.5	99.9	94.9
Non-metallic Minerals	271.7	93.8	100.0	109.2	111.4	107.0
Basic Metals.....	827.6	101.7	100.0	101.7	102.6	99.4
Fabricated Metal Products	557.8	104.6	100.0	102.4	96.7	89.0
Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses.....	1,794.3	98.7	100.0	105.1	112.6	125.3

	Index Weight ⁽¹⁾	2014	2015	2016	2017	2018 ⁽²⁾
Medical, Precision and Optical Instruments, Watches and Clocks	148.1	104.2	100.0	99.9	119.0	136.8
Electrical Equipment	479.5	103.4	100.0	102.8	105.5	105.2
Other Machinery and Equipment	803.6	103.2	100.0	101.4	115.1	111.8
Motor Vehicles, Trailers and Semitrailers	1,076.4	98.7	100.0	97.6	95.0	93.7
Other Transport Equipment.....	506.5	109.9	100.0	88.8	68.2	63.3
Furniture	69.5	94.7	100.0	107.0	110.3	102.3
Other Products.....	42.4	103.8	100.0	104.5	108.2	103.1
Electricity, Gas.....	388.4	100.7	100.0	100.8	106.3	110.2
Total Index	10,000.0	100.3	100.0	102.2	104.7	106.1

- (1) Index weights were established on the basis of an industrial census in 2015 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.
- (2) Preliminary.

Source: The Bank of Korea; Korea National Statistical Office.

Industrial production increased by 0.2% in 2014, primarily due to increased exports. Industrial production decreased by 0.3% in 2015, primarily due to decreased exports. Industrial production increased by 2.2% in 2016, primarily due to increased domestic consumption. Industrial production increased by 2.4% in 2017, primarily due to increased domestic consumption and exports. Based on preliminary data, industrial production increased by 1.3% in 2018, primarily due to increased domestic consumption and exports.

Manufacturing

The manufacturing sector increased production by 0.3% in 2014, primarily due to increased demand for basic metals, machinery and equipment and motor vehicles, trailers and semitrailers. The manufacturing sector decreased production by 0.3% in 2015, primarily due to decreased demand for other transport equipment, fabricated metal products, other machinery and equipment, and basic metals. The manufacturing sector increased production by 2.3% in 2016 and by 2.2% in 2017, primarily due to increased demand for consumer electronics products, electronic components (including semiconductors), communication equipment and chemical products, which more than offset decreased demand for motor vehicles, trailers and semitrailers. Based on preliminary data, the manufacturing sector increased production by 1.2% in 2018, primarily due to increased demand for consumer electronics products and electronic components (including semiconductors).

Automobiles. In 2014, automobile production increased by 0.1% and domestic sales volume recorded an increase of 4.6%, compared with 2013, primarily due to increased domestic demand for recreational vehicles, and export sales volume recorded a decrease of 0.8%, compared with 2013, primarily due to decreased demand for automobiles in Eastern Europe and South America. In 2015, automobile production increased by 0.7% and domestic sales volume recorded an increase of 7.7%, compared with 2014, primarily due to continued increase in domestic demand for recreational vehicles, and export sales volume recorded a decrease of 2.9%, compared with 2014, primarily due to decreased demand for automobiles in China, Russia, Eastern Europe and South America. In 2016, automobile production decreased by 7.2% and export sales volume recorded a decrease of 11.8%, compared with 2015, primarily due to the slowdown of the global economy, and domestic sales volume recorded an increase of 1.0%, compared with 2015, primarily due to the reduction of individual consumption tax on cars. Based on preliminary data, in 2017, automobile production decreased by 2.7%, domestic sales volume recorded a decrease of 2.5% and exports sales volume recorded a decrease of 3.5%, compared with 2016, primarily due to decreased domestic production of automobiles resulting mainly from partial strikes by unionized workers of automobile manufacturers, increased overseas production and decreased exports to the US and China. Based on preliminary data, in 2018, automobile production decreased by 2.1%, domestic sales volume recorded a decrease of 0.5% and exports sales volume recorded a decrease of 3.2%, compared with 2017, primarily due to decreased domestic production of automobiles resulting mainly from partial strikes by unionized workers of automobile manufacturers and the restructuring of GM Korea's production units and decreased exports to countries in South America and Middle East.

Electronics. In 2014, electronics production amounted to ₩329,389 billion, an increase of 1.2% from the previous year, and exports amounted to US\$176.2 billion, an increase of 2.0% from the previous year, primarily due to increases in demand for mobile phones and semiconductors. In 2014, export sales of semiconductor memory chips constituted approximately 10.9% of the Republic's total exports. In 2015, electronics production amounted to ₩316,600 billion, a decrease of 3.9% from the previous year, and exports amounted to US\$172.9 billion, a decrease of 0.6% from the previous year, primarily due to adverse global economic conditions and the expansion of overseas production. In 2015, export sales of semiconductor memory chips constituted approximately 11.9% of the Republic's total exports. In 2016, electronics production amounted to ₩309,016 billion, a decrease of 4.7% from the previous year, and exports amounted to US\$162.5 billion, a decrease of 6.0% from the previous year, primarily due to continued adverse global economic conditions and the expansion of overseas production. In 2016, export sales of semiconductor memory chips constituted approximately 12.6% of the Republic's total exports. In 2017, electronics production amounted to ₩341,274 billion, an increase of 10.4% from the previous year, and exports amounted to US\$197.6 billion, an increase of 21.6% from the previous year, primarily due to increases in demand for semiconductors, organic light-emitting diode, or OLED, display panels and computers. In 2017, export sales of semiconductor memory chips constituted approximately 17.4% of the Republic's total exports. Based on preliminary data, in the first eleven months of 2018, electronics production amounted to ₩310,698 billion, an increase of 0.2% from the corresponding period of 2017, and in 2018, exports amounted to US\$220.3 billion, an increase of 11.5% from the previous year, primarily due to increases in demand for semiconductors and lithium-ion batteries. In 2018, export sales of semiconductor memory chips constituted approximately 21.2% of the Republic's total exports.

Iron and Steel. In 2014, crude steel production totaled 71.5 million tons, an increase of 8.3% from 2013, and domestic sales volume and export sales volume of iron and steel products increased by 7.3% and 10.5%, respectively, primarily due to the recovery of domestic and global demand for crude steel products. In 2015, crude steel production totaled 69.7 million tons, a decrease of 2.6% from 2014, and domestic sales volume of iron and steel products increased by 0.6% but export sales volume of iron and steel products decreased by 2.2%, primarily due to excess supply from China and adverse conditions in the global shipbuilding and construction industries. In 2016, crude steel production totaled 68.6 million tons, a decrease of 1.6% from 2015, and export sales volume of iron and steel products decreased by 1.8%, primarily due to intensified export competition and adverse conditions in the global shipbuilding and construction industries, but domestic sales volume of iron and steel products increased by 2.2%, primarily due to the recovery of the domestic construction industry. In 2017, crude steel production totaled 71.1 million tons, an increase of 3.7% from 2016, and export sales volume of iron and steel products increased by 2.3%, primarily due to an increase in global demand for crude steel products but domestic sales volume of iron and steel products decreased by 1.2%, primarily due to adverse conditions in the domestic shipbuilding and automobile industries. Based on preliminary data, in 2018, crude steel production totaled 72.5 million tons, an increase of 1.9% from 2017, primarily due to the recovery of the domestic shipbuilding industry but export sales volume of iron and steel products decreased by 3.9%, primarily due to restrictions on imports of steel products imposed by the United States, Canada and the European Union.

Shipbuilding. In 2014, the Republic's shipbuilding orders amounted to approximately 13 million compensated gross tons, a decrease of 31.6% compared to 2013, primarily due to a downturn in the domestic and global shipbuilding industry. In 2015, the Republic's shipbuilding orders amounted to approximately 11 million compensated gross tons, a decrease of 15.4% compared to 2014, primarily due to the continued downturn in the domestic and global shipbuilding industry. In 2016, the Republic's shipbuilding orders amounted to approximately 2 million compensated gross tons, a decrease of 81.8% compared to 2015, primarily due to the continued adverse conditions in the domestic and global shipbuilding industry. In 2017, the Republic's shipbuilding orders amounted to approximately 8 million compensated gross tons, an increase of 300% compared to 2016, primarily due to increased demand for LNG carriers, bulk carriers and container carriers. Based on preliminary data, in 2018, the Republic's shipbuilding orders amounted to approximately 13 million compensated gross tons, an increase of 62.5% compared to 2017, primarily due to increased demand for LNG carriers, oil tankers and container carriers.

Agriculture, Forestry and Fisheries

The Government's agricultural policy has traditionally focused on:

- grain production;
- development of irrigation systems;

- land consolidation and reclamation;
- seed improvement;
- mechanization measures to combat drought and flood damage; and
- increasing agricultural incomes.

Recently, however, the Government has increased emphasis on cultivating profitable crops and strengthening international competitiveness as a result of the continued opening of the domestic agricultural market.

In 2013, rice production increased 5.0% from 2012 to 4.2 million tons. In 2014, rice production remained at 4.2 million tons. In 2015, rice production increased 2.4% from 2014 to 4.3 million tons. In 2016, rice production decreased 2.3% from 2015 to 4.2 million tons. In 2017, rice production decreased 5.3% from 2016 to 4.0 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs.

The Government is seeking to develop the fishing industry by encouraging the building of large fishing vessels and modernizing fishing equipment, marketing techniques and distribution outlets.

In 2014, the agriculture, forestry and fisheries industry increased by 3.6% compared to 2013, primarily due to increases in the price of certain livestock items, which led to increases in production and the establishment of new agriculture and fishery companies. In 2015, the agriculture, forestry and fisheries industry decreased by 0.4% compared to 2014, primarily due to unfavorable weather conditions. In 2016, the agriculture, forestry and fisheries industry decreased by 2.8% compared to 2015, primarily due to unfavorable weather conditions and a decrease in fishing catch. Based on preliminary data, in 2017, the agriculture, forestry and fisheries industry increased by 0.3% compared to 2016, primarily due to an increase in aquafarming production. Based on preliminary data, in 2018, the agriculture, forestry and fisheries industry increased by 1.5% compared to 2017, primarily due to an increase in livestock production.

Construction

In 2014, the construction industry increased by 0.8% compared to 2013, primarily due to an increase in the construction of private residential buildings. In 2015, the construction industry increased by 5.7% compared to 2014, primarily due to an increase in the construction of private residential and commercial buildings. In 2016, the construction industry increased by 10.1% compared to 2015, primarily due to an increase in the construction of private residential and commercial buildings. Based on preliminary data, in 2017, the construction industry increased by 7.1% compared to 2016, primarily due to an increase in the construction of residential and commercial buildings. Based on preliminary data, in 2018, the construction industry decreased by 4.2% compared to 2017, primarily due to a decrease in the construction of residential and commercial buildings.

Electricity and Gas

The following table sets out the Republic’s dependence on imports for energy consumption:

Dependence on Imports for Energy Consumption

	Total Primary Energy Supply	Imports	Imports Dependence Ratio
	(millions of tons of oil equivalents⁽¹⁾, except ratios)		
2014.....	282.5	268.9	95.2
2015.....	286.9	272.0	94.8
2016.....	293.8	277.9	94.6
2017.....	302.1	284.0	94.0
2018 ⁽²⁾	307.3	287.3	93.5

(1) Conversion to tons of oil equivalents was calculated based on energy conversion factors under the Energy Act Enforcement Decree as amended in July 2017.

(2) Preliminary.

Source: Korea Energy Economics Institute; Korea National Statistical Office.

Korea has almost no domestic oil or gas production and depends on imported oil and gas to meet its energy requirements. Accordingly, the international prices of oil and gas significantly affect the Korean economy. Any significant long-term increase in the prices of oil and gas will increase inflationary pressures in Korea and adversely affect the Republic's balance of trade.

To reduce its dependence on oil and gas imports, the Government has encouraged energy conservation and energy source diversification emphasizing nuclear energy. The following table sets out the principal primary sources of energy supplied in the Republic, expressed in oil equivalents and as a percentage of total energy consumption.

Primary Energy Supply by Source

	Coal		Petroleum		Nuclear		Others ⁽¹⁾		Total	
	Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%
	(millions of tons of oil equivalents ⁽²⁾ , except percentages)									
2014.....	84,399	29.9	104,702	37.1	33,002	11.7	60,379	21.4	282,481	100.0
2015.....	85,401	29.8	109,094	38.0	34,765	12.1	57,675	20.1	286,936	100.0
2016.....	81,499	27.7	117,605	40.0	34,181	11.6	60,493	20.6	293,778	100.0
2017.....	86,177	28.5	119,400	39.5	31,615	10.5	64,873	21.5	302,065	100.0
2018 ⁽³⁾	88,210	28.7	118,143	38.4	28,437	9.3	72,501	23.6	307,291	100.0

(1) Includes natural gas, hydroelectric power and renewable energy.

(2) Conversion to tons of oil equivalents was calculated based on energy conversion factors under the Energy Act Enforcement Decree as amended in July 2017.

(3) Preliminary.

Source: Korea Energy Economics Institute; The Bank of Korea.

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. As of December 31, 2018, the Republic had 24 nuclear plants with a total estimated nuclear power installed generating capacity of 21,850 megawatts and six nuclear plants under construction. In December 2017, the Government released the "Eighth Basic Plan relating to the Long-Term Supply and Demand of Electricity" which serves as the guideline for stable medium- and long-term supply of electric power. The objectives of the Eighth Basic Plan include, among other things, (i) increasing efforts to address environmental and safety concerns, including reducing greenhouse gas emission and yellow dust, (ii) decreasing the portion of electricity supplied using nuclear and coal energy sources including through suspension of construction of new nuclear power plants, permanent closing of old coal-fired generation units and converting coal-fired generation units into LNG-fired generation units, (iii) increasing the portion of electricity supplied from renewable energy, in particular solar and wind power, and (iv) promoting the replacement of coal with LNG as an energy source by reducing the gap in expenses incurred in using the respective fuel types, for example, by adjusting the consumption tax rates applicable to the respective fuel types. The Government plans to expand infrastructure to supply natural gas to households, pursue a long-term strategy of overseas energy development projects to ensure supply stability, increase clean and renewable energy and provide support for research and development pertaining to green technologies. Since the release of the Eighth Basic Plan, the Government has reiterated its policy to slowly phase out power generation from nuclear and coal energy sources and increase the use of renewable energy sources. The Government plans to establish more detailed guidelines and set specific targets for reducing reliance on nuclear and coal power generation for the next 15 years. To that end, the Government commenced preparation of the Ninth Basic Plan in March 2019 and aims to issue the finalized plan by the end of 2019.

Services Sector

In 2014, the service industry increased by 3.3% compared to 2013 as the health and social work sector increased by 6.8%, the finance and insurance sector increased by 5.6% and the business activities sector increased by 4.8%, each compared with 2013. In 2015, the service industry increased by 2.8% compared to 2014 as the finance and insurance sector increased by 6.7%, the business activities sector increased by 4.7% and the health and social work sector increased

by 7.1%, each compared with 2014. In 2016, the service industry increased by 2.5% compared to 2015 as the health and social work sector increased by 7.7%, the wholesale and retail trade, restaurants and hotels sector increased by 2.8% and the finance and insurance sector increased by 2.6%, each compared with 2015. Based on preliminary data, in 2017, the service industry increased by 2.1% compared to 2016 as the health and social work sector increased by 7.3%, the finance and insurance sector increased by 3.7% and the public administration and defense sector increased by 2.6%, each compared with 2016. Based on preliminary data, in 2018, the service industry increased by 2.8% compared to 2017 as the health and social work sector increased by 7.5%, the finance and insurance sector increased by 4.8% and the public administration and defense sector increased by 3.5%, each compared with 2017.

Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index⁽¹⁾	Increase (Decrease) Over Previous Year	Consumer Price Index⁽¹⁾	Increase (Decrease) Over Previous Year	Wage Index⁽¹⁾⁽²⁾	Increase (Decrease) Over Previous Year	Unemployment Rate⁽¹⁾⁽³⁾
	(2010=100)	(%)	(2015=100)	(%)	(2015=100)	(%)	(%)
2014.....	105.2	(0.5)	99.3	1.3	97.1	4.1	3.5
2015.....	101.0	(4.0)	100.0	0.7	100.0	2.9	3.6
2016.....	99.1	(1.8)	101.0	1.0	104.2	4.2	3.7
2017.....	102.5	3.5	102.9	1.9	106.4	2.1	3.7
2018.....	104.6	2.0	104.5	1.5	N/A ⁽⁴⁾	N/A ⁽⁴⁾	3.8

(1) Average for year.

(2) Nominal wage index of average earnings in manufacturing industry.

(3) Expressed as a percentage of the economically active population.

(4) Not available.

Source: The Bank of Korea; Korea National Statistical Office.

In 2014, the inflation rate remained at 1.3%, primarily due to increases in the prices of electricity, gas, water supply, food products and education, which were offset by lower oil prices. In 2015, the inflation rate decreased to 0.7%, primarily due to lower oil prices. In 2016, the inflation rate increased to 1.0%, primarily due to increases in agricultural and livestock product prices and private service fees, which more than offset a decrease in oil prices. In 2017, the inflation rate increased to 1.9%, primarily due to increases in the prices of agricultural and livestock products and oil. In 2018, the inflation rate decreased to 1.5%, primarily due to a slowdown in the growth rate of agricultural goods and oil prices.

In 2014, the unemployment rate increased to 3.5% from 3.1% in 2013, primarily due to the sluggishness of the domestic economy. In 2015, the unemployment rate increased to 3.6%, primarily due to the continued sluggishness of the domestic economy. In 2016, the unemployment rate increased to 3.7%, primarily due to the continued sluggishness of the domestic economy. In 2017, the unemployment rate remained unchanged at 3.7%. In 2018, the unemployment rate increased to 3.8%, primarily due to the continued sluggishness of the domestic economy.

From 1992 to 2009, the economically active population of the Republic increased by approximately 24.8% to 24.3 million, while the number of employees increased by approximately 23.7% to 23.5 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 61% and 64% over the past decade. Literacy among workers under 50 is almost universal. As of December 31, 2018, the economically active population of the Republic was 27.9 million and the number of employees was 26.8 million.

The following table shows selected employment information by industry and by gender:

	2014	2015	2016	2017	2018
	(all figures in percentages, except as indicated)				
Labor force (in thousands of persons).....	25,897	26,178	26,409	26,725	26,822
Employment by Industry:					
Agriculture, Forestry and Fishing.....	5.6	5.1	4.9	4.8	5.0
Mining and Manufacturing.....	17.3	17.6	17.2	17.2	16.9
S.O.C & Services.....	77.1	77.2	77.9	78.0	78.1
Electricity, Transport, Communication and Finance.....	11.8	11.8	11.8	11.4	11.8
Business, Private & Public Service and Other Services.....	35.3	35.4	36.3	36.4	36.5
Construction.....	7.1	7.0	7.0	7.4	7.6
Wholesale & Retail Trade, Hotels and Restaurants.....	23.0	23.0	22.9	22.8	22.2
Total Employed.....	100.0	100.0	100.0	100.0	100.0
Employment by Gender:					
Male.....	58.0	57.7	57.6	57.5	57.3
Female.....	42.0	42.3	42.4	42.5	42.7
Total Employed.....	100.0	100.0	100.0	100.0	100.0

Source: The Bank of Korea

Pursuant to certain amendments to the Labor Standards Act that became effective on July 1, 2018, the maximum working hours of employees has been and is being reduced from 68 hours per week to 52 hours per week, and the number of special industries that are exempt from restrictions on maximum working hours will be significantly reduced. This new maximum working hours restriction under the amended Labor Standards Act is in effect for workplaces with 300 or more workers from July 1, 2018, and it will be extended to workplaces with not fewer than 50 but fewer than 300 workers from January 1, 2020 and further extended to workplaces with not fewer than 5 but fewer than 50 workers from July 1, 2021.

Approximately 10.7% of the Republic's workers were unionized as of December 31, 2017. Labor unrest in connection with demands by unionized workers for better wages and working conditions and greater job security occur from time to time in the Republic. Some of the significant incidents in recent years include the following:

- In November 2014, unionized workers at Hyundai Heavy Industries went on a series of partial strikes demanding higher wages.
- In April 2015, tens of thousands of members of the Korean Confederation of Trade Unions, which includes teacher and civil servant union groups, went on general strike demanding that the Government scrap its plans to reform the labor market and pension program for public workers.
- In September 2016, unionized subway and railroad workers launched a joint nationwide strike, the first in 22 years, demanding that the Government scrap its proposed merit pay system for subway and railroad workers.
- In October 2016, unionized workers at Hyundai Motor went on full strike, the first in 12 years, demanding higher wages, while unionized workers at Kia Motors Corporation ("Kia Motors") went on partial strike protesting the wage gap between workers at Kia Motors and workers at Hyundai Motor.
- In September 2017, several thousand unionized workers at KBS and MBC, Korea's two largest television and radio broadcasters, went on strike, which lasted several months, to protest against alleged management interference in news coverage and unfair labor practices.
- In 2017, unionized workers at Hyundai Motor went on a series of partial strikes demanding higher wages and bonuses.
- In July 2018, unionized workers at Hyundai Heavy Industries went on full strike demanding higher wages.

Actions such as these by labor unions may hinder implementation of the labor reform measures and disrupt the Government's plans to create a more flexible labor market. Although much effort is being expended to resolve labor

disputes in a peaceful manner, there can be no assurance that further labor unrest will not occur in the future. Continued labor unrest in key industries of the Republic may have an adverse effect on the economy.

In 1997, the Korean Confederation of Trade Unions organized a political alliance, which led to the formation of the Democratic Labor Party in January 2000. The Democratic Labor Party merged with The New People's Participation Party and changed its name to The Unified Progressive Party ("UPP") in December 2011. In October 2012, the UPP split and seven UPP members of the National Assembly and their supporters formed a new party, the Progressive Justice Party, which changed its name to the Justice Party in July 2013. In December 2014, the Constitutional Court ordered the dissolution of the UPP and the removal of the party's five lawmakers from the National Assembly for violating the Republic's Constitution after certain of its members were convicted of trying to instigate an armed rebellion and supporting North Korea. In the legislative general election held on April 13, 2016, the Justice Party won six seats in the National Assembly, and the members-elect began their four-year terms on May 30, 2016. As of December 31, 2018, the Justice Party holds five seats in the National Assembly.

The Financial System

Structure of the Financial Sector

The Republic's financial sector includes the following categories of financial institutions:

- The Bank of Korea;
- banking institutions;
- non-bank financial institutions; and
- other financial entities, including:
 - financial investment companies;
 - credit guarantee institutions;
 - venture capital companies; and
 - miscellaneous others.

To increase transparency in financial transactions and enhance the integrity and efficiency of the financial markets, Korean law requires that financial institutions confirm that their clients use their real names when transacting business. To ease the liquidity crisis, the Government altered the real-name financial transactions system during 1998, to allow the sale or deposit of foreign currencies through domestic financial institutions and the purchase of certain bonds, including Government bonds, without identification. The Government also strengthened confidentiality protection for private financial transactions.

In July 2007, the Korean National Assembly passed the Financial Investment Services and Capital Markets Act or the FSCMA, under which various industry-based capital markets regulatory systems were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements.

Prior to the effective date of the FSCMA, separate laws regulated various types of financial institutions depending on the type of the financial institution (for example, securities companies, futures companies, trust business companies and asset management companies) and subjected financial institutions to different licensing and ongoing regulatory requirements (for example, under the Securities and Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Business Act). By applying one uniform set of rules to financial businesses having the same economic function, the FSCMA attempts to improve and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related business were governed by multiple regulations. To this end, the FSCMA categorizes capital markets-related businesses into six different functions as follows:

- investment dealing (trading and underwriting of financial investment products);

- investment brokerage (brokerage of financial investment products);
- collective investment (establishment of collective investment schemes and the management thereof);
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, “Financial Investment Businesses”).

Accordingly, all financial businesses relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of what type of financial institution it is. For example, under the FSCMA, derivative businesses conducted by securities companies and future companies are subject to the same regulations, at least in principle.

The banking business and the insurance business are not subject to the FSCMA and will continue to be regulated under separate laws; provided, however, that they are subject to the FSCMA if their activities involve any Financial Investment Businesses requiring a license based on the FSCMA.

Banking Industry

The banking industry comprises commercial banks and specialized banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in the Republic since 1967 but provide a relatively small proportion of the country’s banking services. As of December 31, 2018, there were six nationwide banks, six regional banks, two internet banks and 38 foreign banks with branches operating in the Republic.

Specialized banks meet the needs of specific sectors of the economy in accordance with Government policy; they are organized under, or chartered by, special laws. Specialized banks include (i) The Korea Development Bank, (ii) The Export-Import Bank of Korea, (iii) The Industrial Bank of Korea, (iv) SuHyup Bank and (v) NongHyup Bank. The Government has made capital contributions to three of these specialized banks as follows:

- The Korea Development Bank: the Government owns directly all of its paid-in capital and has made capital contributions since its establishment in 1954. Recent examples include the Government’s contributions to its capital of ₩2,055 billion in 2015, ₩308 billion in 2016, ₩395 billion in 2017 and ₩170 billion in 2018. Taking into account these capital contributions, its total paid-in capital was ₩18,108 billion as of December 31, 2018.
- The Export-Import Bank of Korea: the Government owns, directly and indirectly, all of its paid-in capital and has made capital contributions since its establishment in 1976. Recent examples include the Government’s contributions to its capital of ₩1,130 billion in 2015, ₩1,620 billion in 2016 and ₩1,417 billion in 2017. Taking into account these capital contributions, its total paid-in capital was ₩11,815 billion as of December 31, 2018.
- The Industrial Bank of Korea: the Government owned, directly and indirectly, 55.2% of its common shares and all of its preferred shares as of December 31, 2017. The Government had owned all of the issued share capital of The Industrial Bank of Korea until 1994, but the Government’s minimum share ownership requirement was repealed in 1997, and the Government has since periodically adjusted its ownership percentage in the Industrial Bank of Korea through transactions involving the purchase and sale of its common shares. In 2014, the Industrial Bank of Korea issued an aggregate of 3,022,240 new common shares to the Government for ₩36 billion in cash and the Government sold 49,009,880 common shares of the Industrial Bank of Korea for ₩675 billion in cash. In addition, in April 2014, the Industrial Bank of Korea disposed of 26,200,882 of its common shares held as treasury shares through an international offering for ₩294 billion. In 2015, the Industrial Bank of Korea issued an aggregate of 3,184,713 new common shares to the Government for ₩40 billion in cash. In March 2016, the Industrial Bank of Korea issued an aggregate of 3,576,857 new common shares to the Government for ₩40 billion in cash. Taking into account such transactions, the Government’s total paid-in capital was ₩1,674 billion as of December 31, 2018.

The economic difficulties in 1997 and 1998 caused an increase in Korean banks' non-performing assets and a decline in capital adequacy ratios of Korean banks. From 1998 through 2002, the Financial Services Commission amended banking regulations several times to adopt more stringent criteria for non-performing assets that more closely followed international standards.

The following table sets out the total loans (including loans in Won and loans in foreign currencies) and non-performing assets of Korean banks as of the dates indicated.

	Total Loans	Non-Performing Assets⁽¹⁾	Percentage of Total
	(trillions of won)		(percentage)
December 31, 2014.....	1,557.9	24.2	1.6
December 31, 2015.....	1,664.3	30.0	1.8
December 31, 2016.....	1,732.9	24.6	1.4
December 31, 2017.....	1,775.9	21.1	1.2
December 31, 2018 ⁽²⁾	1,872.6	18.2	1.0

(1) Assets classified as substandard or below.

(2) Preliminary.

Source: Financial Supervisory Service.

In 2014, these banks posted an aggregate net profit of ₩6.8 trillion, compared to an aggregate net profit of ₩4.5 trillion in 2013, primarily due to decreased loan loss provisions. In 2015, these banks posted an aggregate net profit of ₩4.4 trillion, compared to an aggregate net profit of ₩6.8 trillion in 2014, primarily due to increased loan loss provisions. In 2016, these banks posted an aggregate net profit of ₩3.0 trillion, compared to an aggregate net profit of ₩4.4 trillion in 2015, primarily due to increased loan loss provisions. In 2017, these banks posted an aggregate net profit of ₩11.2 trillion, compared to an aggregate net profit of ₩3.0 trillion in 2016, primarily due to decreased loan loss provisions and increased net interest income. Based on preliminary data, in 2018, these banks posted an aggregate net profit of ₩13.8 trillion, compared to an aggregate net profit of ₩11.2 trillion in 2017, primarily due to increased net interest income and decreased loan loss provisions, which more than offset a decrease in net non-interest income.

Non-Bank Financial Institutions

Non-bank financial institutions include:

- savings institutions, including trust accounts of banks, mutual savings banks, credit unions, mutual credit facilities, community credit cooperatives and postal savings;
- life insurance institutions; and
- credit card companies.

As of September 30, 2018, 79 mutual savings banks, 26 life insurance institutions, which includes joint venture life insurance institutions and wholly-owned subsidiaries of foreign life insurance companies, and eight credit card companies operated in the Republic.

Money Markets

In the Republic, the money markets consist of the call market and markets for a wide range of other short-term financial instruments, including treasury bills, monetary stabilization bonds, negotiable certificates of deposits, repurchase agreements and commercial paper.

Securities Markets

On January 27, 2005, the Korea Exchange was established pursuant to the now repealed Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had

formerly managed the KOSDAQ. There are three major markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a joint stock company with limited liability, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign financial investment companies.

The Korea Exchange publishes the Korea Composite Stock Price Index every ten seconds, which is an index of all equity securities listed on the Korea Exchange. The Korea Composite Stock Price Index is computed using the aggregate value method, whereby the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

The following table shows the value of the Korea Composite Stock Price Index as of the dates indicated:

December 31, 2014.....	1,915.6
January 30, 2015.....	1,949.3
February 27, 2015.....	1,985.8
March 31, 2015.....	2,041.0
April 30, 2015.....	2,127.2
May 29, 2015.....	2,114.8
June 30, 2015.....	2,074.2
July 31, 2015.....	2,030.2
August 29, 2015.....	1,941.5
September 30, 2015.....	1,962.8
October 30, 2015.....	2,029.5
November 30, 2015.....	1,992.0
December 30, 2015.....	1,960.3
January 29, 2016.....	1,912.1
February 29, 2016.....	1,916.7
March 31, 2016.....	1,995.8
April 29, 2016.....	1,994.2
May 31, 2016.....	1,983.4
June 30, 2016.....	1,970.4
July 29, 2016.....	2,016.2
August 31, 2016.....	2,034.7
September 30, 2016.....	2,043.6
October 31, 2016.....	2,008.2
November 30, 2016.....	1,983.5
December 29, 2016.....	2,026.5
January 31, 2017.....	2,067.6
February 28, 2017.....	2,091.6
March 31, 2017.....	2,160.2
April 28, 2017.....	2,205.4
May 31, 2017.....	2,347.4
June 30, 2017.....	2,391.8
July 31, 2017.....	2,402.7
August 31, 2017.....	2,363.2
September 29, 2017.....	2,394.5
October 31, 2017.....	2,523.4
November 30, 2017.....	2,476.4
December 28, 2017.....	2,467.5
January 31, 2018.....	2,566.5
February 28, 2018.....	2,427.4

March 30, 2018.....	2,445.9
April 30, 2018	2,515.4
May 31, 2018	2,423.0
June 29, 2018	2,326.1
July 31, 2018	2,326.1
August 31, 2018	2,295.3
September 28, 2018	2,322.9
October 31, 2018	2,343.1
November 30, 2018	2,029.7
December 31, 2018.....	2,096.9
January 31, 2019.....	2,041.0
February 28, 2019.....	2,204.9
March 29, 2019.....	2,140.7
April 30, 2019	2,203.6

As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, there was a significant overall decline in the stock prices of Korean companies during the fourth quarter of 2008 and first half of 2009 and the index has fluctuated since then. The index was 2,168.0 on May 8, 2019.

Supervision System

The Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and all other financial sector regulatory bodies merged in January 1999 to form the Financial Services Commission. The Financial Services Commission acts as the executive body over the Financial Supervisory Service. The Financial Services Commission reports to, but operates independently of, the Prime Minister’s office.

The Ministry of Economy and Finance focuses on financial policy and foreign currency regulations. The Bank of Korea manages monetary policy focusing on price stabilization.

Deposit Insurance System

The Republic’s deposit insurance system insures amounts on deposit with banks, non-bank financial institutions, securities companies and life insurance companies.

Since January 2001, deposits at any single financial institution are insured only up to ₩50 million per person regardless of the amount deposited.

The Government excluded certain deposits, such as repurchase agreements, from the insurance scheme, expanded the definition of unsound financial institutions to which the insurance scheme would apply and gradually increased the insurance premiums payable by insured financial institutions.

Monetary Policy

The Bank of Korea

The Bank of Korea was established in 1950 as Korea’s central bank and the country’s sole currency issuing bank. A seven-member Monetary Policy Committee, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies.

Inflation targeting is the basic system of operation for Korean monetary policy. The consumer price index is used as The Bank of Korea’s target indicator. To achieve its established inflation target, the Monetary Policy Committee of The Bank of Korea determines and announces the “Bank of Korea Base Rate,” the reference rate applied in transactions such as repurchase agreements between The Bank of Korea and its financial institution counterparts. The Bank of Korea uses open market operations as its primary instrument to keep the call rate in line with the Monetary Policy Committee’s target rate. In addition, The Bank of Korea is able to establish policies regarding its lending to banks in Korea and their reserve requirements.

Interest Rates

On October 9, 2008, The Bank of Korea cut its policy rate to 5.0% from 5.25%, and continued to lower it further to 4.25% on October 27, 2008, 4.0% on November 7, 2008, 3.0% on December 11, 2008, 2.5% on January 9, 2009 and 2.0% on February 12, 2009, in order to address financial market instability and to help combat the slowdown of the domestic economy. On July 9, 2010, The Bank of Korea raised the policy rate to 2.25% from 2.0%, which was further raised to 2.5% on November 16, 2010, in response to signs of inflationary pressures and the continued growth of domestic economy. On January 13, 2011, The Bank of Korea raised the policy rate to 2.75%, which was further increased to 3.0% on March 10, 2011 and to 3.25% on June 10, 2011, in response to inflationary pressures driven mainly by rises in the prices of petroleum products and farm products. The Bank of Korea lowered its policy rate to 3.0% from 3.25% on July 12, 2012, which was further lowered to 2.75% on October 11, 2012, 2.5% on May 9, 2013, 2.25% on August 14, 2014, 2.0% on October 15, 2014, 1.75% on March 12, 2015, 1.5% on June 11, 2015 and 1.25% on June 9, 2016, in order to address the sluggishness of the global and domestic economy. On November 30, 2017, The Bank of Korea raised its policy rate to 1.5% from 1.25%, which was further raised to 1.75% on November 30, 2018, in response to signs of inflationary pressures and the continued growth of the global and domestic economy.

With the deregulation of interest rates on banks' demand deposits on February 2, 2004, The Bank of Korea completed the interest rate deregulation based upon the "Four-Stage Interest Rate Liberalization Plan" announced in 1991. The prohibition on the payment of interest on ordinary checking accounts was, however, maintained.

Money Supply

The following table shows the volume of the Republic's money supply:

	December 31,				
	2014	2015	2016	2017	2018
			(billions of Won)		
Money Supply (M1) ⁽¹⁾	585,822.6	708,452.9	795,531.1	849,862.4	865,851.8
Quasi-money ⁽²⁾	1,491,411.4	1,538,922.1	1,611,928.0	1,680,491.2	1,834,510.6
Money Supply (M2) ⁽³⁾	2,077,234.0	2,247,375.0	2,407,459.1	2,530,353.6	2,700,362.4
Percentage Increase Over Previous Year.....	8.1%	8.2%	7.1%	5.1%	6.7%

(1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.

(2) Includes time and installment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.

(3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: The Bank of Korea.

Exchange Controls

Authorized foreign exchange banks, as registered with the Ministry of Economy and Finance, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require a report to either the Ministry of Economy and Finance, The Bank of Korea or authorized foreign exchange banks, as applicable, for issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free Won accounts which may be opened by non-residents at Korean foreign exchange banks. The Won funds deposited into the free Won accounts may be converted into foreign currencies and remitted outside Korea without any governmental approval. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade

regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

In September 1998, the National Assembly passed the Foreign Exchange Transactions Act, which became effective in April 1999 and has subsequently been amended numerous times. In principle, most currency and capital transactions, including, among others, the following transactions, have been liberalized:

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimize the adverse effects from further opening of the Korean capital markets, the Ministry of Economy and Finance is authorized to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

The Government has also embarked on a second set of liberalization initiatives starting in January 2001, under which ceilings on international payments for Korean residents have been eliminated, including overseas travel expenses, overseas inheritance remittances and emigration expenses. Overseas deposits, trusts, acquisitions of foreign securities and other foreign capital transactions made by residents and the making of deposits in Korean currency by non-residents have also been liberalized. In line with the foregoing liberalization, measures will also be adopted to curb illegal foreign exchange transactions and to stabilize the foreign exchange market.

Effective as of January 1, 2006, the Government liberalized the regulations governing "capital transactions." The regulations provide that no regulatory approvals are required for any capital transactions. The capital transactions previously subject to approval requirements are now subject only to reporting requirements.

In January 2010, the Financial Supervisory Services released *FX Derivative Transactions Risk Management Guideline* to prevent over-hedging of foreign exchange risk by corporate investors. According to the guideline as amended in July 2010, if a corporate investor, other than a financial institution or a public enterprise, wishes to enter into a foreign exchange forward, option or swap agreement with a bank, the bank is required to verify whether the corporate investor's assets, liabilities or contracts face foreign exchange risks that could be mitigated by a foreign exchange forward, option or swap agreement. In addition, the bank is required to ensure that the corporate investor's risk hedge ratio, which is the ratio of the aggregate notional amount to the aggregate amount of risk, does not exceed 100%.

Foreign Exchange

The following table shows the exchange rate between the Won and the U.S. Dollar (in Won per U.S. Dollar) as announced by the Seoul Money Brokerage Services, Ltd. as of the dates indicated:

	Won/U.S. Dollar Exchange Rate
December 31, 2014.....	1,099.2
January 30, 2015.....	1,090.8
February 27, 2015.....	1,099.2
March 31, 2015.....	1,105.0
April 30, 2015	1,068.1
May 29, 2015	1,108.0
June 30, 2015	1,124.1
July 31, 2015	1,166.3
August 31, 2015	1,176.3
September 30, 2015	1,194.5
October 30, 2015	1,142.3
November 30, 2015	1,150.4

	Won/U.S. Dollar Exchange Rate
December 31, 2015.....	1,172.0
January 29, 2016.....	1,208.4
February 29, 2016.....	1,235.4
March 31, 2016.....	1,153.5
April 29, 2016.....	1,143.9
May 31, 2016.....	1,190.6
June 30, 2016.....	1,164.7
July 31, 2016.....	1,125.7
August 31, 2016.....	1,118.5
September 30, 2016.....	1,096.3
October 31, 2016.....	1,145.2
November 30, 2016.....	1,168.5
December 30, 2016.....	1,208.5
January 31, 2017.....	1,157.8
February 28, 2017.....	1,132.1
March 31, 2017.....	1,116.1
April 28, 2017.....	1,130.1
May 31, 2017.....	1,123.9
June 30, 2017.....	1,139.6
July 31, 2017.....	1,119.1
August 31, 2017.....	1,122.8
September 29, 2017.....	1,146.7
October 31, 2017.....	1,125.0
November 30, 2017.....	1,082.4
December 29, 2017.....	1,071.4
January 31, 2018.....	1,071.5
February 28, 2018.....	1,071.0
March 30, 2018.....	1,066.5
April 30, 2018.....	1,076.2
May 31, 2018.....	1,081.3
June 29, 2018.....	1,121.7
July 31, 2018.....	1,116.7
August 31, 2018.....	1,108.8
September 28, 2018.....	1,112.7
October 31, 2018.....	1,140.6
November 30, 2018.....	1,121.8
December 31, 2018.....	1,118.1
January 31, 2019.....	1,117.2
February 28, 2019.....	1,117.8
March 29, 2019.....	1,137.8
April 30, 2019.....	1,158.2

During the period from January 2, 2008 through April 16, 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by foreign investors of their investments in the Korean stock market. The exchange rate between the Won and the U.S. Dollar has fluctuated since then. The market average exchange rate was ₩1,169.8 to US\$1.00 on May 8, 2019.

Balance of Payments and Foreign Trade

Balance of Payments

Balance of payments figures measure the relative flow of goods, services and capital into and out of the country as represented in the current balance and the capital balance. The current balance tracks a country's trade in goods and services and transfer payments and measures whether a country is living within its income from trading and investments. The capital balance covers all transactions involving the transfer of capital into and out of the country, including loans and investments. The overall balance represents the sum of the current and capital balances. An overall balance surplus indicates a net inflow of foreign currencies, thereby increasing demand for and strengthening the local currency. An overall balance deficit indicates a net outflow of foreign currencies, thereby decreasing demand for and weakening the local currency. The financial account mirrors the overall balance. If the overall balance is positive, the surplus, which represents the nation's savings, finances the overall deficit of the country's trading partners. Accordingly, the financial account will indicate cash outflows equal to the overall surplus. If, however, the overall balance is negative, the nation has an international deficit which must be financed. Accordingly, the financial account will indicate cash inflows equal to the overall deficit.

The following table sets out certain information with respect to the Republic's balance of payments:

Classification	Balance of Payments ⁽¹⁾				
	2014	2015	2016	2017	2018 ⁽⁴⁾
	(millions of dollars)				
Current Account	83,029.6	105,118.6	97,923.7	75,230.9	76,408.5
Goods.....	86,145.0	120,275.0	116,461.7	113,592.9	111,866.6
Exports ⁽²⁾	613,396.5	543,082.5	511,926.1	580,310.2	625,437.4
Imports ⁽²⁾	527,251.5	422,807.5	395,464.4	466,717.3	513,570.8
Services.....	(3,290.1)	(14,625.8)	(17,338.4)	(36,734.1)	(29,737.1)
Income	5,159.4	4,454.6	4,567.1	5,336.9	2,777.7
Current Transfers.....	(4,984.7)	(4,985.2)	(5,766.7)	(6,964.8)	(8,498.7)
Capital and Financial Account.....	86,340.5	102,724.3	99,765.1	84,398.5	70,678.2
Capital Account.....	(8.9)	(60.2)	(46.2)	(26.8)	188.9
Financial Account ⁽³⁾	86,349.4	102,784.5	99,811.3	84,425.3	70,489.3
Net Errors and Omissions	3,328.7	(2,273.9)	1,933.8	9,221.2	(6,108.1)

(1) Figures are prepared based on the sixth edition of Balance of Payment Manual, or BPM6, published by International Monetary Fund in December 2010 and implemented by the Government in December 2013. In December 2018, The Bank of Korea revised the Republic's balance of payments information to capture new economic activities and reflect the changes in raw data.

(2) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.

(3) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.

(4) Preliminary.

Source: The Bank of Korea.

The current account surplus in 2017 decreased to US\$75.2 billion from the current account surplus of US\$97.9 billion in 2016, primarily due to an increase in deficit from the service account. Based on preliminary data, the Republic recorded a current account surplus of approximately US\$76.4 billion in 2018. The current account surplus in 2018 increased from the current account surplus of US\$75.2 billion in 2017, primarily due to a decrease in deficit from the service account which more than offset decreases in surpluses from the current transfers account and the goods account.

Foreign Direct Investment

Since 1960, the Government has adopted a broad range of related laws, administrative rules and regulations, providing a framework for the conduct and regulation of foreign investment activities. In September 1998, the Government promulgated the Foreign Investment Promotion Act, or the FIPA, which replaced previous foreign direct

investment related laws, rules and regulations, to promote inbound foreign investments by providing incentives to, and facilitating investment activities in the Republic by, foreign nationals. The FIPA prescribes, among others, procedural requirements for inbound foreign investments, incentives for foreign investments such as tax reductions, and requirements relating to designation and development of foreign investment target regions. The Government believes that providing a stable and receptive environment for foreign direct investment will accelerate the inflow of foreign capital, technology and management techniques.

The following table sets forth information regarding annual foreign direct investment in the Republic for the periods indicated.

Foreign Direct Investment

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(billions of dollars)				
Contracted and Reported Investment					
Greenfield Investment ⁽¹⁾	11.0	14.1	15.0	15.7	20.0
Merger & Acquisition	8.0	6.8	6.3	7.2	6.9
Total.....	<u>19.0</u>	<u>20.9</u>	<u>21.3</u>	<u>22.9</u>	<u>26.9</u>
Actual Investment.....	<u>12.2</u>	<u>16.6</u>	<u>10.8</u>	<u>13.6</u>	<u>17.0⁽²⁾</u>

(1) Includes building new factories and operational facilities.

(2) Preliminary.

Source: Ministry of Trade, Industry and Energy

In 2017, the contracted and reported amount of foreign direct investment in the Republic increased to US\$22.9 billion from US\$21.3 billion in 2016, primarily due to an increase in foreign investment in the manufacturing sector to US\$7.2 billion in 2017 from US\$5.0 billion in 2016, which more than offset a decrease in foreign investment in the electricity, gas and construction sector to US\$0.3 billion in 2017 from US\$0.7 billion in 2016.

In 2018, the contracted and reported amount of foreign direct investment in the Republic increased to US\$26.9 billion from US\$22.9 billion in 2017, primarily due to an increase in foreign investment in the manufacturing sector to US\$10.0 billion in 2018 from US\$7.2 billion in 2017.

The following table sets forth information regarding the source of foreign direct investment by region and country for the periods indicated:

Foreign Direct Investment by Region and Country

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(billions of dollars)				
North America					
U.S.A.	3.6	5.5	3.9	4.7	5.9
Others.....	1.4	2.9	1.4	1.6	1.9
	<u>5.0</u>	<u>8.4</u>	<u>5.3</u>	<u>6.3</u>	<u>7.8</u>
Asia					
Japan	2.5	1.7	1.2	1.8	1.3
Hong Kong.....	1.1	1.5	2.1	1.8	1.5
Singapore	1.7	2.5	2.3	1.8	1.5
China.....	1.2	2.0	2.0	0.8	2.7
Others.....	0.3	0.7	0.5	2.0	2.4
	<u>6.8</u>	<u>8.4</u>	<u>8.1</u>	<u>8.2</u>	<u>9.4</u>
European Union					
Malta.....	0.4	0.7	4.1	1.1	2.6

	2014	2015	2016	2017	2018
	(billions of dollars)				
Netherlands	2.4	0.5	1.5	1.7	1.4
England	0.4	0.3	0.4	2.2	1.2
Germany.....	0.2	0.5	0.3	0.7	0.5
France	0.2	0.1	0.2	0.3	0.7
Luxembourg	1.9	0.2	0.2	0.2	0.2
Others.....	1.2	0.4	0.8	1.1	2.4
	6.7	2.7	7.5	7.3	9.0
Others regions and countries	0.5	1.4	0.4	1.1	0.6
Total.....	19.0	20.9	21.3	22.9	26.9

Source: Ministry of Trade, Industry and Energy

Trade Balance

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus while if imports exceed exports the country has a deficit. A deficit, indicating that a country's receipts from abroad fall short of its payments to foreigners, must be financed, rendering the country a debtor nation. A surplus, indicating that a country's receipts exceed its payments to foreigners, allows the country to finance its trading partners' net deficit to the extent of the surplus, rendering the country a creditor nation.

The following table summarizes the Republic's trade balance for the periods indicated:

Trade Balance

	Exports ⁽¹⁾	As % of GDP ⁽²⁾	Imports ⁽³⁾	As % of GDP ⁽²⁾	Balance of Trade	Exports as % of Imports
	(billions of dollars, except percentages)					
2014	572.7	40.6%	525.5	37.2%	47.2	109.0
2015	526.8	38.1%	436.5	31.6%	90.3	120.7
2016	495.4	35.0%	406.2	28.7%	89.2	122.0
2017	573.7	37.5%	478.5	31.3%	95.2	119.9
2018 ⁽⁴⁾	604.9	37.3%	535.2	33.0%	69.7	113.0

(1) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.

(2) At current market prices.

(3) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.

(4) Preliminary.

Source: The Bank of Korea; Korea Customs Service.

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP and, accordingly, the international economic environment is of crucial importance to the Republic's economy.

The following tables give information regarding the Republic's exports and imports by major commodity groups:

Exports by Major Commodity Groups (C.I.F.)⁽¹⁾

	2014	As % of 2014 Total	2015	As % of 2015 Total	2016	As % of 2016 Total	2017	As % of 2017 Total	2018	As % of 2018 Total
(billions of dollars, except percentages)										
Foods & Consumer Goods	7.0	1.2	6.8	1.3	7.4	1.5	7.8	1.4	7.9	1.3
Raw Materials and Fuels	59.2	10.3	39.5	7.5	33.0	6.7	43.1	7.5	55.1	9.1
Petroleum & Derivatives	51.2	8.9	32.4	6.1	26.8	5.4	35.4	6.2	47.0	7.8
Others	8.0	1.4	7.1	1.3	6.2	1.3	7.7	1.3	8.1	1.3
Light Industrial Products	38.6	6.7	35.4	6.7	35.4	7.1	36.0	6.3	35.8	5.9
Heavy & Chemical Industrial Products	467.9	81.7	445.1	84.5	419.7	84.7	486.8	84.9	506.1	83.7
Electronic & Electronic Products	174.4	30.5	170.5	32.4	159.4	32.2	192.0	33.5	214.8	35.5
Chemicals & Chemical Products	65.6	11.5	55.9	10.6	55.3	11.2	65.7	11.5	74.0	12.2
Metal Goods	47.5	8.3	41.4	7.9	39.9	8.1	46.9	8.2	48.1	8.0
Machinery & Precision Equipment	57.9	10.1	57.3	10.9	55.2	11.1	63.3	11.0	69.4	11.5
Transport Equipment	116.5	20.3	112.8	21.4	101.0	20.4	108.8	19.0	87.4	14.4
Passenger Cars	44.8	7.8	41.7	7.9	37.5	7.6	38.8	6.8	38.2	6.3
Ship & Boat	38.7	6.8	38.8	7.4	33.5	6.8	41.4	7.2	20.7	3.4
Others	33.0	5.8	32.3	6.1	30.0	6.1	28.6	5.0	28.4	4.7
Others	6.0	1.0	7.2	1.4	8.9	1.8	10.1	1.8	12.5	2.1
Total	<u>572.7</u>	<u>100.0</u>	<u>526.8</u>	<u>100.0</u>	<u>495.4</u>	<u>100.0</u>	<u>573.7</u>	<u>100.0</u>	<u>604.9</u>	<u>100.0</u>

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.

(2) Preliminary

Source: The Bank of Korea; Korea Customs Service.

Imports by Major Commodity Groups (C.I.F.)⁽¹⁾

	2014	As % of 2014 Total	2015	As % of 2015 Total	2016	As % of 2016 Total	2017	As % of 2017 Total	2018	As % of 2018 Total
(billions of dollars, except percentages)										
Industrial Materials and Fuels	311.2	59.2	219.0	50.2	191.0	47.0	233.1	48.7	279.0	52.1
Crude Petroleum	94.9	18.1	55.1	12.6	44.3	10.9	59.6	12.5	80.4	15.0
Mineral	24.6	4.7	17.6	4.0	15.5	3.8	20.3	4.2	22.0	4.1
Chemicals	43.9	8.4	39.6	9.1	39.1	9.6	44.0	9.2	50.0	9.3
Iron & Steel Products	27.0	5.1	21.2	4.9	18.9	4.7	20.3	4.2	19.7	3.7
Non-ferrous Metal	12.8	2.4	11.6	2.7	10.7	2.6	12.1	2.5	12.8	2.4
Others	108.0	20.5	74.0	16.9	62.5	15.4	76.8	16.1	94.1	17.6
Capital Goods	149.0	28.3	150.8	34.5	147.8	36.4	171.8	35.9	174.6	32.6
Machinery & Precision Equipment	50.8	9.7	49.1	11.2	47.8	11.8	63.1	13.2	60.5	11.3
Electric & Electronic Machines	84.5	16.1	87.5	20.0	84.9	20.9	95.8	20.0	100.4	18.8
Transport Equipment	11.6	2.2	12.4	2.8	13.0	3.2	10.8	2.3	11.5	2.1
Others	2.1	0.4	1.9	0.4	2.1	0.5	2.1	0.4	2.2	0.4

	2014	As % of 2014 Total	2015	As % of 2015 Total	2016	As % of 2016 Total	2017	As % of 2017 Total	2018	As % of 2018 Total
	(billions of dollars, except percentages)									
Consumer Goods	65.3	12.4	66.7	15.3	67.4	16.6	73.6	15.4	81.6	15.2
Cereals	7.9	1.5	6.9	1.6	6.2	1.5	6.0	1.3	6.8	1.3
Goods for Direct Consumption.....	16.7	3.2	17.1	3.9	17.8	4.4	19.7	4.1	22.3	4.2
Consumer Durable Goods	24.7	4.7	26.6	6.1	27.0	6.6	30.0	6.3	32.2	6.0
Consumer Nondurable Goods ..	16.0	3.0	16.0	3.7	16.4	4.0	17.9	3.7	20.3	3.8
Total.....	<u>525.5</u>	<u>100.0</u>	<u>436.5</u>	<u>100.0</u>	<u>406.2</u>	<u>100.0</u>	<u>478.5</u>	<u>100.0</u>	<u>535.2</u>	<u>100.0</u>

- (1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.
- (2) Preliminary.

Source: The Bank of Korea; Korea Customs Service.

In 2014, the Republic recorded a trade surplus of US\$47.2 billion. Exports increased by 2.3% to US\$572.7 billion in 2014 from US\$559.6 billion in 2013, primarily due to increased demand for semiconductors, wireless communication devices, iron and steel from the United States, the EU and the Southeast Asian nations. Imports increased by 1.9% to US\$525.5 billion in 2014 from US\$515.6 billion in 2013, primarily due to increased imports of cars, components for wireless communication devices and beef.

In 2015, the Republic recorded a trade surplus of US\$90.3 billion in 2015. Exports decreased by 8.0% to US\$526.8 billion in 2015 from US\$572.7 billion in 2014, primarily due to adverse global economic conditions. Imports decreased by 16.9% to US\$436.5 billion in 2015 from US\$525.5 billion in 2014, primarily due to a decrease in oil prices, which also decreased unit prices of major raw materials.

In 2016, the Republic recorded a trade surplus of US\$89.2 billion in 2016. Exports decreased by 6.0% to US\$495.4 billion in 2016 from US\$526.8 billion in 2015, primarily due to the continued slowdown of the global economy. Imports decreased by 6.9% to US\$406.2 billion in 2016 from US\$436.5 billion in 2015, primarily due to a continued decrease in oil prices, which also led to decreased unit prices of other major raw materials.

In 2017, the Republic recorded a trade surplus of US\$95.2 billion. Exports increased by 15.8% to US\$573.7 billion in 2017 from US\$495.4 billion in 2016, primarily due to increased demand for semiconductors and steel products. Imports increased by 17.8% to US\$478.5 billion in 2017 from US\$406.2 billion in 2016, primarily due to an increase in oil prices, which also led to increased unit prices of other major raw materials, and increased imports of machinery, precision equipment and electronic machines.

Based on preliminary data, the Republic recorded a trade surplus of US\$69.7 billion in 2018. Exports increased by 5.4% to US\$604.9 billion in 2018 from US\$573.7 billion in 2017, primarily due to increased demand for semiconductors and petroleum products. Imports increased by 11.8% to US\$535.2 billion in 2018 from US\$478.5 billion in 2017, primarily due to an increase in oil prices, which also led to increased unit prices of other major raw materials.

The following table sets forth the Republic's exports trading partners:

Exports

	2014	As % of 2014 Total	2015	As % of 2015 Total	2016	As % of 2016 Total	2017	As % of 2017 Total	2018	As % of 2018 Total
	(millions of dollars, except percentages)									
China.....	145,287.7	25.4	137,123.9	26.0	124,432.9	25.1	142,120.0	24.8	162,125.1	26.8
United States	70,284.9	12.3	69,832.1	13.3	66,462.3	13.4	68,609.7	12.0	72,719.9	12.0
Japan	32,183.8	5.6	25,576.5	4.9	24,355.0	4.9	26,816.1	4.7	30,528.6	5.0

	2014	As % of 2014 Total	2015	As % of 2015 Total	2016	As % of 2016 Total	2017	As % of 2017 Total	2018	As % of 2018 Total
	(millions of dollars, except percentages)									
Hong Kong.....	27,256.4	4.8	30,418.2	5.8	32,782.4	6.6	39,112.3	6.8	45,996.4	7.6
Singapore	23,749.9	4.1	15,011.2	2.8	12,458.9	2.5	11,651.9	2.0	11,782.2	1.9
Vietnam.....	22,351.7	3.9	27,770.8	5.3	32,630.5	6.6	47,753.8	8.3	48,622.1	8.0
Taiwan	15,077.4	2.6	12,004.3	2.3	12,220.5	2.5	14,898.4	2.6	20,783.5	3.4
India.....	12,782.5	2.2	12,029.6	2.3	11,596.3	2.3	15,055.5	2.6	15,606.2	2.6
Indonesia.....	11,360.7	2.0	7,872.4	1.5	6,608.5	1.3	8,403.7	1.5	8,833.2	1.5
Mexico	10,846.0	1.9	10,891.9	2.1	9,720.8	2.0	10,932.6	1.9	11,458.2	1.9
Australia.....	10,282.5	1.8	10,830.6	2.1	7,500.7	1.5	19,861.6	3.5	9,610.4	1.6
Russia.....	10,129.2	1.8	4,685.7	0.9	4,768.8	1.0	6,906.6	1.2	7,320.9	1.2
Germany.....	7,570.9	1.3	6,220.2	1.2	6,443.0	1.3	8,483.8	1.5	9,372.7	1.5
Others ⁽¹⁾	173,501.0	30.3	156,489.1	29.7	143,445.3	29.0	153,088.4	26.7	150,100.2	24.8
Total.....	572,664.6	100.0	526,756.5	100.0	495,425.9	100.0	573,694.4	100.0	604,859.7	100.0

(1) Preliminary

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service.

The following table sets forth the Republic's imports trading partners:

Imports

	2014	As % of 2014 Total	2015	As % of 2015 Total	2016	As % of 2016 Total	2017	As % of 2017 Total	2018	As % of 2018 Total
	(millions of dollars, except percentages)									
China.....	90,082.2	17.1	90,250.3	20.7	86,980.1	19.9	97,860.1	20.5	106,488.6	19.9
Japan	53,768.3	10.2	45,853.8	10.5	47,466.6	10.9	55,124.7	11.5	54,603.7	10.2
United States	45,283.3	8.6	44,024.4	10.1	43,215.9	9.9	50,749.4	10.6	58,868.3	11.0
Saudi Arabia.....	36,694.5	7.0	19,561.5	4.5	15,741.7	3.6	19,590.5	4.1	26,335.8	4.9
Qatar	25,723.1	4.9	16,474.8	3.8	10,081.3	2.3	11,267.1	2.4	16,293.6	3.0
Australia.....	20,413.0	3.9	16,437.8	3.8	15,175.9	3.5	19,159.7	4.0	20,718.6	3.9
Germany.....	21,298.8	4.0	20,956.5	4.8	18,917.0	4.3	19,748.7	4.1	20,854.0	3.9
Kuwait.....	16,892.0	3.2	8,973.4	2.1	7,262.3	1.7	9,594.0	2.0	12,794.3	2.4
Taiwan	15,689.8	3.0	16,653.9	3.8	16,403.1	3.8	18,073.0	3.8	16,738.4	3.1
United Arab Emirates.....	16,194.3	3.1	8,614.7	2.0	6,941.1	1.6	9,557.1	2.0	9,287.4	1.7
Indonesia.....	12,266.3	2.3	8,850.4	2.0	8,285.3	1.9	9,571.0	2.0	11,161.2	2.1
Malaysia.....	11,097.9	2.1	8,609.4	2.0	7,507.8	1.7	8,714.7	1.8	10,205.7	1.9
Others ⁽¹⁾	160,111.0	30.5	131,238.1	30.1	122,214.8	34.9	149,468.3	31.2	170,852.9	31.9
Total.....	525,514.5	100.0	436,499.0	100.0	406,192.9	100.0	478,478.3	100.0	535,202.4	100.0

(1) Preliminary

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service.

In the past, the outbreak of severe health epidemics in Korea and various parts of the world increased uncertainty about prospects for international trade and economic growth for affected countries, as well as world economic prospects in general. In response to these outbreaks, the Government issued advisories on disease prevention and conducted special monitoring. In May 2015, an outbreak of Middle East Respiratory Syndrome, or MERS, resulted in the death of over 30

people and the quarantine of thousands. The Government continues to cooperate with regional and international efforts to develop and implement additional measures to contain and prevent MERS and other diseases. Another outbreak of MERS or similar incidents in the future, however, may have an adverse effect on Korean and world economies and on international trade.

In recent years, the value of the Won relative to the U.S. dollar and Japanese Yen has fluctuated widely. An appreciation of the Won against the U.S. dollar and Japanese Yen increases the Won value of the Republic's export sales and diminishes the price-competitiveness of export goods in foreign markets in U.S. dollar and Japanese Yen terms, respectively. However, it also decreases the cost of imported raw materials in Won terms and the cost in Won of servicing the Republic's U.S. dollar and Japanese Yen denominated debt. In general, when the Won appreciates, export dependent sectors of the Korean economy, including automobiles, electronics and shipbuilding, suffer from the resulting pressure on the price-competitiveness of export goods, which may lead to reduced profit margins and loss in market share, more than offsetting a decrease in the cost of imported raw materials. If the export dependent sectors of the Korean economy suffer reduced profit margins or a net loss, it could result in a material adverse effect on the Korean economy.

Since the Government announced its plans to pursue free trade agreements, or FTAs, in 2003, the Republic has entered into FTAs with key trading partners. The Republic has had bilateral FTAs in effect with Chile since 2004, Singapore since 2006, India since 2010, Peru since 2011, the United States since 2012, Turkey since 2013, Australia since 2014, Canada, China, New Zealand and Vietnam since 2015 and Colombia since July 2016. In March 2017, the Republic signed a regional FTA with each of Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua. The Republic is currently in negotiations with a number of other key trading partners. In addition, the Republic has had regional FTAs in effect with the European Free Trade Association since 2006, the Association of Southeast Asian Nations since 2009 and the European Union since 2011 and is currently negotiating additional regional FTAs, including one with China and Japan. The Republic and the United States have recently completed revisions to their bilateral FTA, which became effective in January 2019.

Non-Commodities Trade Balance

The Republic had non-commodities trade deficits of US\$4.5 billion in 2014, US\$16.3 billion in 2015, US\$19.7 billion in 2016 and US\$38.4 billion in 2017. Based on preliminary data, the Republic had a non-commodities trade deficit of US\$35.5 billion in 2018.

Foreign Currency Reserves

The foreign currency reserves are external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs and for other related purposes. The following table shows the Republic's total official foreign currency reserves:

	Total Official Reserves				
	December 31,				
	2014	2015	2016	2017	2018
	<small>(millions of dollars)</small>				
Gold	\$ 4,794.7	\$ 4,794.8	\$ 4,794.8	\$ 4,794.8	\$ 4,794.8
Foreign Exchange ⁽¹⁾	353,600.5	358,513.8	361,701.4	379,476.6	393,332.5
Total Gold and Foreign Exchange	358,395.2	363,308.6	366,496.2	384,271.3	398,127.2
Reserve Position at IMF.....	1,917.1	1,411.8	1,727.5	1,621.1	2,140.4
Special Drawing Rights.....	3,280.5	3,241.4	2,878.0	3,374.3	3,426.6
Total Official Reserves	<u>\$ 363,592.7</u>	<u>\$ 367,961.9</u>	<u>\$ 371,101.6</u>	<u>\$ 389,266.7</u>	<u>\$ 403,694.3</u>

(1) More than 95% of the Republic's foreign currency reserves are comprised of convertible foreign currencies.

Source: The Bank of Korea; International Monetary Fund

The Government's foreign currency reserves increased to US\$262.2 billion as of December 31, 2007 from US\$8.9 billion as of December 31, 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to US\$201.2 billion as of December 31, 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions. The Government's foreign currency reserves increased to US\$363.6 billion as of December 31, 2014, US\$368.0 billion as of December 31, 2015, US\$371.1 billion as of December 31, 2016, US\$389.3 billion as of December 31, 2017 and US\$403.7 billion as of December 31, 2018, primarily due to continued trade surpluses and capital inflows. The amount of the Government's foreign currency reserve was US\$405.3 billion as of March 31, 2019.

Government Finance

The Ministry of Economy and Finance prepares the Government budget and administers the Government's finances.

The Government's fiscal year commences on January 1. The Government must submit the budget, which is drafted by the Minister of Economy and Finance and approved by the President of the Republic, to the National Assembly not later than 90 days prior to the start of the fiscal year and may submit supplementary budgets revising the original budget at any time during the fiscal year.

2017 budgeted revenues increased by 5.8% to ₩391.2 trillion from ₩369.9 trillion in 2016, led by an increase in budgeted tax revenues (including revenues from social security contributions, taxes on goods and services and taxes on income, profits and capital gains). 2017 budgeted expenditures and net lending increased by 2.9% to ₩378.2 trillion from ₩367.4 trillion in 2016, led by increases in budgeted expenditures on welfare services for senior citizens, children, unemployed people and temporary workers, military services, infrastructure and community development. The 2017 budget anticipated a ₩13.0 billion budget surplus.

2018 budgeted revenues increased by 6.4% to ₩416.1 trillion from ₩391.2 trillion in 2017, led by an increase in budgeted tax revenues (including revenues from social security contributions, taxes on goods and services and taxes on income, profits and capital gains). 2018 budgeted expenditures and net lending increased by 5.2% to ₩397.7 trillion from ₩378.2 trillion in 2017, led by increases in budgeted expenditures on the agriculture, forestry and fisheries industry, welfare services for senior citizens, children, unemployed people and temporary workers, health and medical services, education services and military services. The 2018 budget anticipated a ₩18.4 billion budget surplus.

2019 budgeted revenues increased by 7.3% to ₩446.4 trillion from ₩416.1 trillion in 2018, led by an increase in budgeted tax revenues (including taxes on income, profits and capital gains). 2019 budgeted expenditures and net lending increased by 10.6% to ₩439.9 trillion from ₩397.7 trillion in 2018, led by increases in budgeted expenditures on economic growth (including job creation and research and development), child care and education, welfare services for senior citizens, children, disabled people, unemployed people and temporary workers and military services. The 2019 budget anticipated a ₩6.5 billion budget surplus.

The following table shows consolidated Government revenues and expenditures:

Consolidated Central Government Revenues and Expenditures

	Actual					Budget		
	2014	2015	2016	2017	2018 ⁽¹⁾	2017	2018	2019
	(billions of Won)							
Total Revenues.....	320,895	339,186	371,264	403,839	438,262	391,175	416,085	446,398
Current Revenues.....	318,185	335,911	367,888	400,659	435,558	387,376	413,304	443,271
Total Tax Revenues.....	255,313	270,974	299,451	325,845	358,424	313,086	337,402	364,539
Taxes on income, profits and capital gains.....	95,976	105,751	120,612	134,242	155,399	126,847	135,942	159,618
Social security contributions.....	49,793	53,089	56,889	60,460	64,854	62,010	69,273	69,747

	Actual					Budget		
	2014	2015	2016	2017	2018 ⁽¹⁾	2017	2018	2019
	(billions of Won)							
Tax on property	9,054	11,113	11,112	12,945	15,473	11,459	11,931	14,611
Taxes on goods and services	79,055	79,442	89,221	95,535	99,056	90,282	97,390	97,263
Taxes on international trade and transaction	8,721	8,495	8,045	8,529	8,815	8,991	9,418	9,056
Other tax	12,715	13,084	13,571	14,133	14,828	13,498	13,450	14,244
Non-Tax Revenues	62,872	64,936	68,437	74,814	77,134	74,290	75,902	78,732
Operating surpluses of departmental enterprise sales and property income	23,112	22,129	24,489	27,692	28,616	26,981	27,154	28,692
Administration fees & charges and non-industrial sales	7,997	8,664	8,469	9,067	9,004	8,978	9,460	9,940
Fines and forfeits	19,556	20,777	22,266	23,769	24,455	22,879	23,140	23,726
Contributions to government employee pension fund	9,915	10,929	11,289	12,311	13,206	12,370	13,200	6,476
Current revenue of non-financial public enterprises	2,292	2,437	1,924	1,974	1,853	3,082	2,947	2,929
Capital Revenues	2,710	3,276	3,376	3,180	2,703	3,800	2,781	3,127
Total Expenditures and Net Lending	312,394	339,351	354,354	379,809	407,099	378,196	397,739	439,868
Total Expenditures	311,507	330,537	342,612	363,671	389,610	367,705	388,134	425,270
Current Expenditures	280,466	296,216	309,981	332,719	360,176	336,209	358,912	394,567
Expenditure on goods and service	59,616	63,160	65,145	67,536	71,459	71,542	75,281	80,219
Interest payment	14,057	14,056	13,964	13,976	14,287	14,486	14,334	14,362
Subsidies and other current transfers	203,649	216,189	228,349	248,513	272,080	246,987	265,631	295,970
Current expenditure of non-financial public enterprises	3,143	2,810	2,524	2,694	2,350	3,193	3,666	4,016
Capital Expenditures	31,041	34,322	32,631	30,952	29,434	31,496	29,222	30,704
Net Lending	888	8,814	11,741	16,138	17,489	10,490	9,605	14,597

(1) Preliminary.

Source: Ministry of Economy and Finance; The Bank of Korea; Korea National Statistical Office

The consolidated Government account consists of a General Account, Special Accounts (including a non-financial public enterprise special account) and Public Funds. The Government segregates the accounts of certain functions of the Government into Special Accounts and Public Funds for more effective administration and fiscal control. The Special Accounts and Public Funds relate to business type activities, such as economic development, road and railway construction and maintenance, monopolies, and communications developments and the administration of loans received from official international financial organizations and foreign governments.

Revenues derive mainly from national taxes and non-tax revenues. Taxes in Korea can be roughly classified into the following types:

- income tax and capital gains tax,
- property tax,
- value-added tax,
- customs duty tax, and

- other taxes.

Income tax and capital gains tax are imposed on income derived from labor, business operation and ownership of assets and profits derived from capital appreciation. Income tax and capital gains tax, depending on the type of taxpayer, can be further classified into corporate income tax and individual income tax. Property tax is imposed on exchange or ownership of property and includes inheritance tax and gift tax. Value-added tax is imposed on value added to goods and services. Customs duty tax is imposed on imported goods. Other taxes include tax on certain securities transactions and a stamp tax for certain documents.

Expenditures include general administration, national defense, community service, education, health, social security, certain annuities and pensions and local finance, which involves the transfer of tax revenues to local governments.

For 2014, the Republic recorded total revenues of ₩320.9 trillion and total expenditures and net lending of ₩312.4 trillion. The Republic had a fiscal surplus of ₩8.5 trillion in 2014.

For 2015, the Republic recorded total revenues of ₩339.2 trillion and total expenditures and net lending of ₩339.4 trillion. The Republic had a fiscal deficit of ₩0.2 trillion in 2015.

For 2016, the Republic recorded total revenues of ₩371.3 trillion and total expenditures and net lending of ₩354.4 trillion. The Republic had a fiscal surplus of ₩16.9 trillion in 2016.

For 2017, the Republic recorded total revenues of ₩403.8 trillion and total expenditures and net lending of ₩379.8 trillion. The Republic had a fiscal surplus of ₩24.0 trillion in 2017.

Based on preliminary data, the Republic recorded total revenues of ₩438.3 trillion and total expenditures and net lending of ₩407.1 trillion in 2018. The Republic had a fiscal surplus of ₩31.2 trillion in 2018.

Debt

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2016 amounted to approximately ₩616.1 trillion, an increase of 5.7% over the previous year. The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2017 amounted to approximately ₩648.5 trillion, an increase of 5.3% over the previous year. The Ministry of Economy and Finance administers the national debt of the Republic.

External and Internal Debt of the Government

The following table sets out, by currency and the equivalent amount in U.S. dollars, the estimated outstanding direct external debt of the Government as of December 31, 2017:

Direct External Debt of the Government

	Amount in Original Currency	Equivalent Amount in U.S. Dollars ⁽¹⁾
	(millions)	
US\$	US\$ 4,900.0	US\$ 4,900.0
Chinese Yuan (CNY)	CNY 3,000.0	458.2
Euro (EUR).....	EUR 1,125.0	1,343.2
Total		US\$ 6,701.4

(1) Amounts expressed in currencies other than US\$ are converted to US\$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2017.

The following table summarizes, as of December 31 of the years indicated, the outstanding direct internal debt of the Republic:

Direct Internal Debt of the Government

	<u>(billions of Won)</u>
2013	453,674.0
2014	493,584.9
2015	547,625.6
2016	584,785.0
2017	619,971.9

The following table sets out all guarantees by the Government of indebtedness of others:

Guarantees by the Government

	<u>December 31,</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>(billions of Won)</i>				
Domestic	32,978.5	29,158.4	26,393.8	24,241.6	21,130.5
External ⁽¹⁾	—	—	—	—	—
Total.....	<u>32,978.5</u>	<u>29,158.4</u>	<u>26,393.8</u>	<u>24,241.6</u>	<u>21,130.5</u>

(1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on December 31 of each year.

External Liabilities

The following tables set out certain information regarding the Republic's external liabilities calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013. Under BPM6, in particular, prepayments received in connection with the construction of ships are excluded from the external liabilities.

	<u>December 31,</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018⁽¹⁾</u>
	<i>(billions of dollars)</i>				
Long-term Liabilities	307.9	291.7	277.4	296.1	314.0
General Government.....	65.2	62.8	64.5	78.0	83.5
Monetary Authorities.....	25.9	20.1	10.8	14.5	15.2
Banks.....	104.0	103.1	93.8	91.7	100.3
Other Sectors.....	112.9	105.7	108.2	111.8	115.1
Short-term Liabilities	116.4	104.3	104.8	116.0	126.6
General Government.....	1.8	2.3	2.5	2.0	1.0
Monetary Authorities.....	12.2	12.0	6.9	8.1	12.8
Banks.....	79.9	74.8	78.4	85.5	90.3
Other Sectors.....	22.5	15.2	17.0	20.4	22.5
Total External Liabilities.....	<u>424.3</u>	<u>396.1</u>	<u>382.2</u>	<u>412.0</u>	<u>440.6</u>

(1) Preliminary

Debt Record

The Government has always paid when due the full amount of principal of, interest on, and amortization of sinking fund requirements of, all of its indebtedness.

TAXATION

United States Federal Income Taxation Considerations

The following is a summary of certain United States federal income tax considerations that may be relevant to a beneficial owner of a Note that is a citizen or resident of the United States or a domestic corporation or that otherwise is subject to United States federal income taxation on a net income basis in respect of the Note (a “**United States holder**”). This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change. This summary deals only with United States holders that will hold Notes as capital assets, and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, nonresident alien individuals who are present in the United States for 183 days or more in a taxable year, entities taxed as partnerships or the partners therein, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Notes as a position in a “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction or persons that have a “functional currency” other than the U.S. dollar. This summary does not address the Medicare tax on certain investment income or the alternative minimum tax. Any special United States federal income tax considerations relevant to a particular issue of Notes, including any Zero Coupon Notes, will be provided in the applicable Pricing Supplement. Because Bearer Notes cannot be offered or sold in connection with their initial distribution to U.S. citizens or residents (or to other persons located in the United States), this summary does not discuss special tax considerations relevant to the ownership and disposal of Bearer Notes by United States holders.

Investors should consult their own tax advisers in determining the tax consequences to them of holding Notes, including the application to their particular situation of the United States federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

United States holders that use an accrual method of accounting for tax purposes (“**accrual method holders**”) generally are required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements (the “**book/tax conformity rule**”). The application of the book/tax conformity rule thus may require the accrual of income earlier than would be the case under the general tax rules described below. It is not clear to what types of income the book/tax conformity rule applies, or, in some cases, how the rule is applied if it is applicable. Accrual method holders should consult with their tax advisors regarding the potential applicability of the book/tax conformity rule to their particular situation.

Payments of Interest

Payments of “**qualified stated interest**” (as defined below under “Original Issue Discount”) on a Note, but excluding any pre-issuance accrued interest, will be taxable to a United States holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the United States holder’s method of tax accounting). If such payments of interest are made with respect to a Note denominated in a single currency other than the U.S. dollar (a “Foreign Currency Note”), the amount of interest income realized by a United States holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt regardless of whether the payment in fact is converted into U.S. dollars. An accrual method holder will accrue interest income on the Note in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the accrual method holder’s taxable year), or, at the accrual method holder’s election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. An accrual method holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the “**IRS**”). An accrual method holder will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Amounts attributable to pre-issuance accrued interest will generally not be includable in income, except to the extent of foreign currency gain or loss attributable to any changes in exchange rates during the period between the date the United States holder acquired the

Note and the first Interest Payment Date. This foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Note.

Purchase, Sale and Retirement of Notes

A United States holder's tax basis in a Note generally will equal the cost of such Note to such holder, increased by any amounts includible in income by the holder as original issue discount and market discount and reduced by any amortized premium (each as described below) and any payments other than payments of qualified stated interest (as defined below under "Original Issue Discount") made on such Note. In the case of a Foreign Currency Note, the cost of such Note to a United States holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis United States holder (and, if it so elects, an accrual method holder) will determine the U.S. dollar value of the cost of such Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a United States holder's tax basis in a Note in respect of original issue discount, market discount and premium denominated in a Specified Currency will be determined in the manner described under "Original Issue Discount" and "Premium and Market Discount" below. The conversion of U.S. dollars to a Specified Currency and the immediate use of the Specified Currency to purchase a Foreign Currency Note generally will not result in taxable gain or loss for a United States holder.

Upon the sale, exchange or retirement of a Note, a United States holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the United States holder's tax basis in such Note. If a United States holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Note, the amount realized will be the U.S. dollar value of the Specified Currency received calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis United States holder, and if it so elects, an accrual method holder will determine the U.S. dollar value of the amount realized by translating such amount at the spot rate on the settlement date of the sale. The election available to accrual method holders in respect of the purchase and sale of Foreign Currency Notes traded on an established securities market, discussed above, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, gain or loss recognized by a United States holder generally will be long-term capital gain or loss if the United States holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

Gain or loss recognized by a United States holder on the sale, exchange or retirement of a Foreign Currency Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Note. This foreign currency gain or loss will not be treated as an adjustment to interest income received on the Notes.

Any gain or loss recognized by a United States holder on the sale, exchange, redemption or retirement of a Note generally will be treated as United States source income. Consequently, United States holders may not be able to claim a credit for any Korean tax imposed upon the sale, exchange, redemption or retirement of a Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. In addition, taxes are only eligible for the foreign tax credit if they are compulsory. United States holders who may be eligible for an exemption from Korean taxation in respect of any gain realized on a disposition or sale of Notes due to an applicable treaty or other exemption, as described below under "Taxation—Korean Taxation," should consult their own tax advisers with respect to their eligibility for benefits under such applicable tax treaty or other exemption and, if they are not eligible, their ability to credit any Korean tax withheld upon sale of Notes against their United States federal income tax liability.

Original Issue Discount

United States holders of Original Issue Discount Notes (as defined below) generally will be subject to the special tax accounting rules for obligations issued with original issue discount (“**OID**”) provided by the Internal Revenue Code of 1986, as amended, and certain regulations promulgated thereunder (the “**OID Regulations**”). United States holders of such Notes should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for United States federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

If the Issuer issues Notes at a discount from their stated redemption price at maturity, and such discount is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the Notes and the number of full years to their maturity (the “*de minimis* Threshold”), the Notes will be “**Original Issue Discount Notes**.” The difference between the issue price and the stated redemption price at maturity of the Notes will be the OID. The “issue price” of the Notes will be the first price at which a substantial amount of the Notes are sold to the public (*i.e.*, excluding sales of Notes to underwriters, placement agents, wholesalers, or similar persons). The “stated redemption price at maturity” will include all payments under the Notes other than payments of qualified stated interest (as defined below).

In general, each United States holder of an Original Issue Discount Note, regardless of whether such holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the “daily portions” of OID on the Note for all days during the taxable year that the United States holder owns the Note. The daily portions of OID on an Original Issue Discount Note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Note, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Note allocable to each accrual period is determined by (a) multiplying the “adjusted issue price” (as defined below) of the Original Issue Discount Note at the beginning of the accrual period by the yield to maturity of such Original Issue Discount Note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period. The yield to maturity of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. The “**adjusted issue price**” of an Original Issue Discount Note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Note in all prior accrual periods. The term “**qualified stated interest**” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an Original Issue Discount Note at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices. In the case of an Original Issue Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will generally be determined for these purposes as though the Original Issue Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index.) As a result of this “constant yield” method of including OID in income, the amounts includible in income by a United States holder in respect of an Original Issue Discount Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

A United States holder generally may make an irrevocable election to include in its income its entire return on a Note (*i.e.*, the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount paid by such United States holder for such Note) under the constant-yield method described above. For Notes purchased at a premium or bearing market discount in the hands of the United States holder, the United States holder making such election will also be deemed to have made the election (discussed below in “—Premium and Market Discount”) to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Note that is also a Foreign Currency Note, a United States holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a United States holder’s taxable year) or, at the United States holder’s

election (as described above under “—Payments of Interest”), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. Because exchange rates may fluctuate, a United States holder of an Original Issue Discount Note that is also a Foreign Currency Note may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Note denominated in U.S. dollars. All payments on an Original Issue Discount Note (other than payments of qualified stated interest) will generally be viewed first as payments of previously accrued OID (to the extent thereof), with payments attributed first to the earliest-accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Note), a United States holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

If a Note provides for a scheduled accrual period that is longer than one year (for example, as a result of a long initial period on a Note with interest is generally paid on an annual basis), then stated interest on the Note will not qualify as “qualified stated interest” under the OID Regulations. As a result, the Note would be an Original Issue Discount Note. In that event, among other things, a cash-method United States holder will be required to accrue stated interest on the Note under the rules for OID described above, and all United States holders will be required to accrue OID that would otherwise fall under the *de minimis* threshold.

A subsequent United States holder of an Original Issue Discount Note that purchases the Note at a cost less than its remaining redemption amount (as defined below), or an initial United States holder that purchases an Original Issue Discount Note at a price other than the Note’s issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the United States holder acquires the Original Issue Discount Note at a price greater than its adjusted issue price, such holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The “**remaining redemption amount**” for a Note is the total of all future payments to be made on the Note other than payments of qualified stated interest.

Floating Rate Notes generally will be treated as “variable rate debt instruments” under the OID Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as “qualified stated interest” and such a Note will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Note does not qualify as a “variable rate debt instrument,” such Note will be subject to special rules (the “**Contingent Payment Regulations**”) that govern the tax treatment of debt obligations that provide for contingent payments (“**Contingent Debt Obligations**”). The timing, amount and character of income from a Note subject to the Contingent Payment Regulations may differ significantly from the timing, amount and character of income that would otherwise apply. Purchasers of Notes subject to the Contingent Payment Regulations should consult their own tax advisers with respect to the tax consequences of holding such Notes.

Certain of the Notes may be subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Pricing Supplement. Notes containing such features, in particular Original Issue Discount Notes, may be subject to special rules that differ from the general rules discussed above. Purchasers of Notes with such features should carefully examine the applicable Pricing Supplement and should consult their own tax advisers with respect to such Notes since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the purchased Notes.

The book/tax conformity rule, discussed above under “United States Federal Income Taxation Considerations,” applies to OID in some cases, and therefore an accrual method holder may be required to include OID on Original Issue Discount Notes in a more accelerated manner than described above if the holder does so for financial accounting purposes. It is uncertain what adjustments, if any, should be made in later accrual periods when taxable income exceeds income reflected on the accrual method holder’s financial statements to reflect the accelerated accrual of income in earlier periods. In addition, it is possible, although less likely, that an accrual method holder may be required to include OID that would otherwise fall under the *de minimis* threshold in gross income as such OID accrues on the holder’s financial statements. The application of the book-tax conformity rule to OID, including OID that would otherwise fall under the *de minimis* threshold, is uncertain, and accrual method taxpayers should consult with their tax advisers on how the rule may apply to their investment in the Notes.

Premium and Market Discount

A United States holder of a Note that purchases the Note at a cost greater than its remaining redemption amount (as defined in the fourth preceding paragraph) will be considered to have purchased the Note at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the United States holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A United States holder that elects to amortize such premium must reduce its tax basis in a Note by the amount of the premium amortized during its holding period. Original Issue Discount Notes purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Note, a United States holder should calculate the amortization of such premium in the Specified Currency. Amortization deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the United States holder for such interest payments. Exchange gain or loss will be realized with respect to amortized bond premium on such a Note based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Note and the exchange rate on the date on which the United States holder acquired the Note. With respect to a United States holder that does not elect to amortize bond premium, the amount of bond premium will be included in the United States holder's tax basis when the Note matures or is disposed of by the United States holder. Therefore, a United States holder that does not elect to amortize such premium generally will be required to treat the premium as capital loss when the Note matures or is disposed of.

If a United States holder of a Note purchases the Note at a price that is lower than its remaining redemption amount, or in the case of an Original Issue Discount Note, its adjusted issue price, by at least 0.25 per cent. of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Note will be considered to have "market discount" in the hands of such United States holder. In such case, gain realized by the United States holder on the disposition of the Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Note while held by such United States holder. In addition, the United States holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Note. In general terms, market discount on a Note will be treated as accruing ratably over the term of such Note, or, at the election of the holder, under a constant yield method. Market discount on a Foreign Currency Note will be accrued by a United States holder in the Specified Currency. The amount includible in income by a United States holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Note is disposed of by the United States holder.

A United States holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realized on a sale of a Note as ordinary income. If a United States holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the United States holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Notes

The rules set forth above will also generally apply to Notes having maturities of not more than one year ("**Short-Term Notes**"), but with certain modifications.

First, the OID Regulations treat *none* of the interest on a Short-Term Note as qualified stated interest. Thus, all Short-Term Notes will be Original Issue Discount Notes. OID will be treated as accruing on a Short-Term Note ratably, or at the election of a United States holder, under a constant yield method.

Second, a United States holder of a Short-Term Note that uses the cash method of tax accounting and is not a bank, securities dealer, regulated investment company or common trust fund, and does not identify the Short-Term Note as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a United States holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such Note until the Maturity of the Note or its earlier disposition in a taxable transaction. In addition,

such a United States holder will be required to treat any gain realized on a sale, exchange or retirement of the Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to the Note during the period the United States holder held the Note. Notwithstanding the foregoing, a cash-basis United States holder of a Short-Term Note may elect to accrue OID into income on a current basis or to accrue the “acquisition discount” on the Note under the rules described below. If the United States holder elects to accrue OID or acquisition discount, the limitation on the deductibility of interest described above will not apply.

Accrual method holders and certain cash-basis United States holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Note in income on a current basis. Alternatively, a United States holder of a Short-Term Note can elect to accrue the “acquisition discount,” if any, with respect to the Note on a current basis. If such an election is made, the OID rules will not apply to the Note. Acquisition discount is the excess of the Short-Term Note’s stated redemption price at maturity (i.e., all amounts payable on the Short-Term Note) over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the United States holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Indexed Notes and Other Notes Providing for Contingent Payments

The Contingent Payment Regulations, which govern the tax treatment of Contingent Debt Obligations, generally require accrual of interest income on a constant-yield basis in respect of such obligations at a yield determined at the time of their issuance, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to United States holders of any contingent debt obligations will be provided in the applicable Pricing Supplement.

Information Reporting and Backup Withholding

Information Returns are required to be filed with the IRS with respect to payments made to, and the proceeds of dispositions of Notes effected by, certain United States taxpayers. In addition, certain United States taxpayers may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the person from whom they receive payments. Persons holding Notes who are not United States taxpayers may be required to comply with applicable certification procedures to establish that they are not United States taxpayers in order to avoid the application of such information reporting requirements and backup withholding tax. The amount of any backup withholding from a payment to a United States or non-United States taxpayer will be allowed as a credit against the taxpayer’s U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS.

Specified Foreign Financial Assets

Certain United States holders that own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include Notes) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. United States Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Persons considering the purchase of Notes are encouraged to consult with their own tax advisers regarding the possible application of these rules to their investment in Notes, including the application of the rules to their particular circumstances.

Foreign Currency Notes and Reportable Transactions

A United States holder that participates in a “reportable transaction” will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A United States holder may be required to treat a foreign currency exchange loss relating to a Foreign Currency Note as a reportable transaction if the loss exceeds \$50,000 in a single taxable year if the United States holder is an individual or trust, or higher amounts for other United States holders. In the event the acquisition, ownership or disposition of a Foreign Currency Note constitutes participation in a “reportable transaction” for purposes of these rules, a United States holder will be required to disclose its investment to the IRS, currently on Form 8886. Persons considering the purchaser of Notes should consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of Foreign Currency Notes.

Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.

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

Income Tax and Corporation Tax on Interest

Interest on the Notes paid to Non-Residents 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**”) subject to the discussion below applicable to the Notes, so far as the Notes are “foreign currency denominated bonds issued outside Korea” under the STTCL. In this regard, the Korean tax authority issued a ruling on 1st September, 1990 to the effect that “Notes Issuance Facility, USCP, Euro CP and Banker’s Acceptance, etc.” are not treated as “foreign currency denominated bonds.”

If not exempt under STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Notes, for a Non-Resident without a permanent establishment in Korea, is currently 14 per cent. In addition, a tax surcharge, called a local income tax is imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

Capital Gains Tax

The 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 a Non-Resident (other than to its permanent establishment in Korea). In addition, capital gains earned by a Non-Resident without a permanent establishment from the transfer outside Korea of the Notes are currently exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance under the STTCL.

In the absence of an applicable tax treaty or any other special tax laws eliminating the capital gains tax, the applicable rate of tax is the lower of 11 per cent. (including local income tax) of the gross realization proceeds (the “**Gross Realization Proceeds**”) and (subject to the production of satisfactory evidence of the acquisition cost and the certain direct transfer cost of the relevant Notes) 22 per cent. (including local income tax) of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and the certain direct transfer cost (including taxes, dues and brokerage commissions paid in direct connection with the acquisition and transfer of the Notes). There is no provision under the relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of securities of 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 no later than the tenth day of the month following the month in which the sale of the relevant Notes occurred. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty or in the absence of the seller producing satisfactory

evidence of his acquisition cost and the transfer cost in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11 per cent. (including local income tax) of the Gross Realization Proceeds.

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 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 from 10 per cent. to 50 per cent. according to the value of the relevant property and the identity of the parties involved.

Under the Korean inheritance and gift tax laws, any Notes are deemed located in Korea irrespective of where they are physically located or by whom they are owned, however, holders of any Notes will not be deemed to be resident, domiciled or carrying on business by reason only of holding such Notes.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Noteholders or the Couponholders in connection with the issue of the Notes. A securities transaction tax will not be imposed on the transfer of Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with over 80 countries including *inter alia* Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, the People's Republic of China, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America whereunder the rate of withholding tax on interest is reduced, generally to between 5 per cent. and 15 per cent. including local income tax, and the tax on capital gains is often eliminated.

Each Non-Resident Noteholder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer a certificate as to his tax residence. In the absence of sufficient proof, the Issuer must undertake to withhold taxes in accordance with the above discussion.

In addition, subject to certain exceptions, in order to receive the benefit of a tax exemption available under any applicable tax treaty, you may also be required to submit to the payer of such Korean source income an application for tax exemption under a tax treaty, together with a certificate as to your country of tax residence. Subject to certain exceptions, the Korean tax laws also require an overseas investment vehicle (which is defined as an organization established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing or otherwise investing in proprietary targets and then distributes the outcome of such management to investors) to obtain the application for tax exemption from the beneficial owners together with a certificate of tax residence of the beneficial owner and submit a report of overseas investment vehicle to the payer, together with a detailed statement on the beneficial owner of the income and the obtained application for exemption from the beneficial owner. The payer of such Korean source income, in turn, will be 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. Furthermore, the Corporation Income Tax Law (the "CITL") and Individual Income Tax Law (the "IITL") require the beneficial owner to submit an application for entitlement to a preferential tax rate together with evidence of tax residence (including a certificate of tax residence of the beneficial owner issued by a competent authority of the country of tax residence of the beneficial owner) to a withholding obligor paying Korean source income in order to benefit from the available reduced tax rate pursuant to the relevant tax treaty. Subject to certain exceptions, the CITL and IITL also require an overseas investment vehicle to obtain the application for entitlement to a preferential tax rate together with evidence of tax residence (including a certificate of tax residence of the beneficial owner issued by a competent authority of the country of tax residence of the beneficial owner) from the beneficial owners and submit a report of overseas investment vehicle to the withholding obligor, together with a detailed statement on the beneficial owner of the income.

If there is no change in the contents of application for a tax exemption or preferential tax rate, such application is not required to be submitted again within 3 years thereafter. And if the beneficial owner was unable to receive the benefit of a tax exemption or preferential tax rate due to his or her failure to timely submit such application, the beneficial owner

may still receive tax treaty benefits by claiming tax refund with evidentiary documents to the relevant tax office within five years of the last day of the month during which the payment of such income occurred.

At present, Korea has not entered into any tax treaties regarding its inheritance or gift tax.

The Proposed Financial Transaction Tax

On 14 February 2013, the European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transaction tax (“**FTT**”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the “**Participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, impose a tax at not less than 0.1%, generally determined by reference to the amount of consideration paid on certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt. The mechanism by which the tax would be applied and collected is not yet known, but if the proposed directive or any similar tax is adopted, transactions in the Notes would be subject to higher costs, and the liquidity of the market for the Notes may be diminished.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The Commission’s Proposal remains subject to negotiation between the Participating Member States (excluding Estonia) and the scope of such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the Participating Member States (in addition to Estonia which already withdrew) may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUMMARY OF DEALER AGREEMENT

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 13 May 2016 between the Issuer and the Dealers for the whole Programme (the “**Dealer Agreement**”), the Notes will be offered on a continuous basis by the Issuer to the Dealers for the whole Programme. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Dealers for the whole Programme. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally, or severally, underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer such commission for each issue of Notes under the Programme as may be agreed between themselves. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment and maintenance of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

SUBSCRIPTION AND SALE

United States of America

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 certain transactions exempt from, or not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the respective meanings given to them by Regulation S under the Securities Act.

The Dealer Agreement provides that the Dealers may directly or through their respective agents or affiliates which are U.S. registered broker-dealers arrange for resales of Notes in registered form in the United States to qualified institutional buyers in reliance on Rule 144A.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until the expiration of 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons (other than a sale pursuant to Rule 144A), and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until the expiration of 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act (if available).

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Offering Circular Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) if the pricing supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means 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 the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out below.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

France

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (a) no prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the Notes that has been approved by the *Autorité des marchés financiers* or by the competent authority of another State that is a contracting party to the Agreement on the European Economic Area and notified to the *Autorité des marchés financiers*;
- (b) no Notes have been offered or sold nor will be offered or sold, directly or indirectly, to the public in France; and

- (c) the prospectus or any other offering material relating to the Notes have not been distributed or caused to be distributed and will not be distributed or caused to be distributed to the public in France; such offers, sales and distributions have been and shall only be made in France to persons licensed to provide the investment service of portfolio management for the account of third parties and/or qualified investors (*investisseurs qualifiés*) in each case investing for their own account, all as defined in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D.744-1, D. 754-1 and D. 764-1 of the *Code monétaire et financier*.

The direct or indirect distribution to the public in France of any so acquired Notes may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the *Code monétaire et financier* and applicable regulations thereunder.

The Netherlands

In addition and without prejudice to the EEA restrictions above, Zero Coupon Notes in bearer form on which interest does not become due and payable during their term but only at maturity and other Notes in bearer form that qualify as savings certificates (*spaarbewijzen*) within the meaning of the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may be transferred or accepted only through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. and with due observance of the Dutch Savings Certificates Act and its implementing regulations, provided that no such mediation is required in respect of (i) the initial issue of such Notes to the first holders thereof, (ii) any transfer and delivery by natural persons who do not act in the conduct of a profession or trade, and (iii) the issue and trading of such Notes, if such Notes are physically issued outside the Netherlands and not distributed in the Netherlands in the course of primary trading or immediately thereafter; in addition (i) certain identification requirements in relation to the issue and transfer of, and payment on, such Notes have to be complied with, (ii) any reference in publications concerning such Notes to the words "to bearer" is prohibited, (iii) so long as such Notes are not listed at Euronext Amsterdam N.V., each transaction involving a transfer of such Notes must be recorded in a transaction note, containing, at least, the name and address of the counterparty to the transaction, the nature of the transaction, and a description of the amount, registration number(s), and type of the Notes concerned, and (iv) the requirement described under (iii) must be printed on such Notes.

Switzerland

Each Dealer has represented and agreed that each issue of Notes denominated in Swiss Francs will be made in compliance with the guidelines of the Swiss National Bank in force from time to time regarding issues of Swiss Franc denominated debt securities.

Korea

Each Dealer has represented and agreed that Notes subscribed by it will be subscribed by it as principal and that it will not, directly or indirectly, offer, sell or deliver any Notes in the Republic of Korea or to any resident of the Republic of Korea or to others for re-offering or re-sale, directly or indirectly, in the Republic of Korea or to any resident of the Republic of Korea except as otherwise permitted by applicable Korean laws and regulations. Each Dealer has undertaken that it will ensure that each securities dealer to whom it sells Notes will agree that it is purchasing such Notes as principal and that it will not re-offer or re-sell any Notes, directly or indirectly, in the Republic of Korea or to any resident of the Republic of Korea except as aforesaid.

Japan

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) no Notes have been and will be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the "**Financial Instruments and Exchange Law**"); and (ii) it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in

compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (a) it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong ("**CO**") or which do not constitute an offer to the public within the meaning of the CO; 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 in 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 (i) only to persons outside Hong Kong or (ii) only to "professional investors" as defined in the SFO and any rules made thereunder.

Singapore

Each Dealer 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 Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"). Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, 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), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; 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.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Pricing Supplement, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and the relevant Dealer or any affiliate of the relevant Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that relevant Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this Offering Circular.

Other Relationships

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuer and their respective affiliates in the future. The Dealers or certain of their respective affiliates may, subject to the selling restrictions described above, purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

GENERAL INFORMATION

1 The Issuer has obtained all necessary consents, approvals and authorisations in Korea in connection with the establishment and update of the Programme. The establishment of the Programme was authorised by a resolution of the Board of Executive Directors of the Issuer passed on 19 September 1997.

2. Approval in-principle has been received from the Singapore Stock Exchange in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange.

3. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2018 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2018.

4. Except as disclosed in Note 36 of the notes to the Issuer's separate financial statements as of and for the years ended 31 December 2018 and 2017, neither the Issuer nor any of its subsidiaries is involved in any legal or arbitration proceedings that may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Group or of the Issuer nor is the Issuer aware that any such proceedings are pending or threatened.

5. Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

6. Notes have been accepted for clearance through Euroclear, Clearstream and DTC. The Common Code, the International Securities Identification Number (ISIN) and the CUSIP (if any) for each Series of Notes and an identification number for any other clearing system as shall have accepted the relevant Notes for clearance will be set out in the relevant Pricing Supplement. The Legal Entity Identifier (LEI) of the Issuer is 549300APVP4R32PI3Y06.

7. For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified office of the Fiscal Agent:

- (a) the Agency Agreement (which includes the form of the Global Notes, the Global Certificates, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
- (b) the Dealer Agreement;
- (c) the Deed of Covenant;
- (d) the KEXIM Act, the KEXIM Decree and the Articles of Incorporation of the Issuer;
- (e) the most recent publicly available audited separate financial statements of the Issuer beginning with such financial statements for the years ended 31 December 2018 and 2017;
- (f) any Pricing Supplement relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system (in the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Noteholders);

- (g) the current listing particulars in relation to the Programme, together with any amendments; and
- (h) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Offering Circular.

8. Copies of the latest annual report and audited non-consolidated accounts of the Issuer may be obtained, and copies of the Agency Agreement and the Deed of Covenant will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding. The Issuer does not publish interim financial statements.

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditors' Report.....	A-1
Separate Statements of Financial Position as of 31 December 2018 and 2017	A-3
Separate Statements of Comprehensive Income (Loss) for the years ended 31 December 2018 and 2017	A-4
Separate Statements of Changes in Stockholders' Equity for the years ended 31 December 2018 and 2017	A-5
Separate Statements of Cash Flows for the years ended 31 December 2018 and 2017	A-6
Notes to Separate Financial Statements.....	A-8

Independent Auditors' Report

The Board of Directors and Stockholder
The Export-Import Bank of Korea:

Opinion

We have audited the accompanying separate financial statements of the Export-Import Bank of Korea (the "Bank"), which comprise the separate statement of financial position as of December 31, 2018 and 2017, the separate statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2018 and 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as of December 31, 2018 and 2017, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with K-IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the separate financial statements 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 Bank'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 separate 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 audit.

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

KPMG Samjong Accounting Corp.
Seoul, Korea
March 29, 2019

This report is effective as of March 29, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	Korean won	
	December 31, 2018 ^(*1)	December 31, 2017
	(In millions)	
ASSETS:		
Cash and due from financial institutions (Notes 4, 5 and 7)	₩ 3,682,863	₩ 2,091,920
Financial assets at fair value through profit or loss ("FVTPL") (K-IFRS 1039) (Notes 4, 5, 8 and 20)	-	1,616,973
Financial assets at fair value through profit or loss ("FVTPL") (Notes 4, 5, 8 and 20)	2,298,223	-
Hedging derivative assets (Notes 4, 5 and 20)	75,743	228,121
Loans at amortized cost (Notes 4, 5, 10 and 37)	70,199,721	68,223,320
Financial investments (Notes 4, 5 and 9)	8,844,756	6,781,955
Investments in associates and subsidiaries (Note 11)	2,511,497	2,598,607
Tangible assets, net (Note 12)	266,102	268,465
Intangible assets, net (Note 13)	38,454	47,622
Deferred tax assets (Note 34)	902,252	1,126,199
Retirement benefit assets, net (Note 18)	-	12,227
Other assets (Notes 4, 5, 14 and 37)	979,628	950,531
	₩ 89,799,239	₩ 83,945,940
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Financial liabilities at FVTPL (Notes 4, 5 and 20)	₩ 905,901	₩ 911,778
Hedging derivative liabilities (Notes 4, 5 and 20)	1,628,303	1,058,196
Borrowings (Notes 4, 5 and 15)	4,893,478	6,013,457
Debentures (Notes 4, 5 and 16)	65,942,970	60,685,098
Provisions (Note 17)	751,882	675,118
Retirement benefit liabilities, net (Note 18)	6,350	-
Other liabilities (Notes 4, 5, 19 and 37)	2,187,742	2,088,950
	76,316,626	71,432,597
 STOCKHOLDERS' EQUITY:		
Capital stock (Note 21)	11,814,963	11,814,963
Additional paid-in capital	-	-
Capital adjustments	(129,339)	(129,339)
Other components of equity (Notes 20 and 22)	680,329	119,739
Retained earnings (Note 23)		
(Regulatory reserve for loan losses as of December 31, 2018 and 2017: ₩302,248 million and ₩206,330 million)	1,116,660	707,980
	13,482,613	12,513,343
	₩ 89,799,239	₩ 83,945,940

(*1) The separate statement of financial position as of December 31, 2018 was prepared in accordance with K-IFRS No.1109. However, the comparative separate statement of financial position as of December 31, 2017 was not retrospectively restated.

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won	
	2018 ^(*1)	2017
	(In millions)	
OPERATING INCOME:		
Net interest income (Notes 24 and 37):		
Interest income	₩ 2,951,416	₩ 2,683,728
Interest expenses	(1,968,269)	(1,603,753)
	983,147	1,079,975
Net commission income (Notes 25 and 37):		
Commission income	323,614	401,102
Commission expenses	(8,348)	(9,373)
	315,266	391,729
Dividend income (Note 26)		
Loss (gain) on financial assets at FVTPL (K-IFRS 1039) (Note 27)	-	263,982
Loss (gain) on financial assets at FVTPL (Note 27)	(7,626)	-
Loss (gain) on hedging derivative assets (Notes 20 and 28)	(755,066)	1,208,274
Loss (gain) on financial investments (Note 29)	(5,043)	16,143
Gain (loss) on foreign exchange transaction	599,891	(1,528,844)
Other net operating income (loss) (Note 30)	204,813	54,270
Impairment loss on credit (Note 31)	(422,737)	(1,080,828)
General and administrative expenses (Note 32)	(207,827)	(210,715)
	741,528	229,338
NON-OPERATING INCOME (EXPENSES) (Note 33):		
Net gain on investments in associates and subsidiaries	1,526	9,670
Net other non-operating income (expenses)	10,040	(10,156)
	11,566	(486)
INCOME BEFORE INCOME TAX	753,094	228,852
INCOME TAX EXPENSES (Note 34)	156,055	56,058
NET INCOME	597,039	172,794
(Adjusted income after reserve for bad loans for the years ended December 31, 2018 and 2017: ₩725,015 million and ₩595,796 million) (Note 23)		
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD (Note 22)		
Items not reclassified subsequently to profit or loss:		
Loss on disposal of financial assets at FVOCI	(9,606)	-
Remeasurements of net defined benefit liability	(9,566)	(3,207)
Income tax effect	4,640	776
Items that are or may be reclassified subsequently to profit or loss:		
Loss on valuation on available-for-sale ("AFS") securities	-	(179,477)
Gain on valuation of financial assets at FVOCI	1,062,901	-
Cash flow hedging gains or losses	(954)	(467)
Income tax effect	(256,991)	22,097
	790,424	(160,278)
TOTAL COMPREHENSIVE INCOME	₩1,387,463	₩ 12,516

(*1) The separate statement of comprehensive income for the year ended December 31, 2018 was prepared in accordance with K-IFRS No.1109. However, the comparative separate statement of comprehensive income for the year ended December 31, 2017 was not retrospectively restated.

See accompanying notes to separate financial statements

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Capital stock	Additional paid-in capital	Other components of equity				Retained earnings	Total
			Valuation on FVOCI financial instruments	Valuation of cash-flow hedge	Remeasurement, net of defined benefit assets	Gain or loss on disposal of FVOCI financial instruments		
(Korean won in millions)								
January 1, 2017	₩ 10,398,055	₩ 6,723	₩ 259,564	₩ 854	₩ 19,599	₩ -	₩ 535,186	₩ 11,219,981
Paid-in capital increase	1,416,908	(136,062)	-	-	-	-	-	1,280,846
Total comprehensive Income								12,516
Net income	-	-	-	-	-	-	172,794	172,794
Other comprehensive income:								(160,278)
Loss on valuation of AFS securities, net of tax	-	-	(157,579)	-	-	-	-	(157,579)
Loss on valuation of cash flow hedge, net of tax	-	-	-	(268)	-	-	-	(268)
Remeasurement elements of defined benefit plans, net of tax	-	-	-	-	(2,431)	-	-	(2,431)
December 31, 2017	₩ 11,814,963	₩ (129,339)	₩ 101,985	₩ 586	₩ 17,168	₩ -	₩ 707,980	₩ 12,513,343
January 1, 2018	₩ 11,814,963	₩ (129,339)	₩ 101,985	₩ 586	₩ 17,168	₩ -	₩ 707,980	₩ 12,513,343
Adjustments on initial application of K-IFRS No.1109 (Note 39)	-	-	(216,017)	-	-	(13,817)	(128,763)	(358,597)
January 1, 2018 (restated)	11,814,963	(129,339)	(114,032)	586	17,168	(13,817)	579,216	12,154,746
Payment of dividends	-	-	-	-	-	-	(59,596)	(59,596)
Total comprehensive Income								1,387,463
Net income							597,039	597,039
Other comprehensive income:								790,424
Gain on valuation of FVOCI financial instruments, net of tax	-	-	805,679	-	-	-	-	805,679
Loss on valuation of cash flow hedge, net of tax	-	-	-	(723)	-	-	-	(723)
Remeasurement elements of defined benefit plans, net of tax	-	-	-	-	(7,251)	-	-	(7,251)
Loss on disposal of FVOCI financial instruments, net of tax	-	-	-	-	-	(7,281)	-	(7,281)
December 31, 2018 ^(*)	₩ 11,814,963	₩ (129,339)	₩ 691,647	₩ (137)	₩ 9,917	₩ (21,098)	₩ 1,116,660	₩ 13,482,613

(*1) The separate statement of changes in stockholders' equity for the year ended December 31, 2018 was prepared in accordance with K-IFRS No.1109. However, the comparative separate statement of changes in stockholders' equity for the year ended December 31, 2017 was not retrospectively restated.

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won			
	2018 ^(*)		2017	
	(In millions)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩	597,039	₩	172,794
Adjustments to reconcile net income to net cash used in operating activities:				
Income tax expense		156,055		56,058
Interest income		(2,951,416)		(2,683,728)
Interest expenses		1,968,269		1,603,753
Dividend income		(36,710)		(35,352)
Dividend received from subsidiaries and associates		(4,883)		(9,905)
Loss on financial assets at FVTPL		4,807		-
Loss on financial assets at FVOCI		5,364		-
Loss on financial assets held for trading		-		808
Loss on AFS financial assets		-		4,722
Transfer to derivatives' credit risk provision		61,404		41,204
Loss on redemption of debentures		-		2,455
Loss on foreign exchange transactions		796,800		1,986,736
Impairment loss on credit		422,737		1,080,828
Impairment loss of investments in subsidiaries and associates		-		236
Loss on investments in subsidiaries and associates		3,356		-
Loss on fair value hedged items		200,634		184,212
Depreciation and amortization		20,058		18,159
Loss on disposals of tangible, intangible and other assets		5		24
Impairment loss on tangible, intangible and other assets		-		217
Loss on valuation of derivative assets		1,483,283		1,054,473
Retirement benefits		9,047		9,098
Provision for others		-		1,344
Gain on financial assets at FVTPL		(13,130)		-
Gain on financial assets at FVOCI		(321)		-
Gain on financial assets held for trading		-		(5,046)
Gain on AFS financial assets		-		(20,865)
Reversal of derivatives' credit risk provision		(42,217)		(9,525)
Gain on foreign exchange transactions		(1,395,173)		(492,192)
Gain on fair value hedged items		(430,152)		(277,508)
Gain on valuation of derivative assets		(542,259)		(1,802,086)
Gain on disposals of tangible assets, intangible assets and other assets		(141)		(60)
Reversal of impairment loss on tangible, intangible and other assets		-		(50)
Changes in operating assets and liabilities:				
Due from financial institutions		(1,304,270)		1,032,475
Financial assets and liabilities at FVTPL(K-IFRS 1039)		-		481,539
Financial assets and liabilities at FVTPL		(592,657)		-
Hedging derivative net assets		(154,432)		(733,261)
Loans at amortized cost		(1,086,911)		(1,854,328)
Other assets		(8,019)		(27,447)
Provisions		(16,741)		(910,287)
Payment of retirement benefits		(35)		(26,624)
Other liabilities		(283,530)		93,906
Other provisions		-		(1,724)

(Continued)

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won	
	2018 ^(*1)	2017
	(In millions)	
Payment (Refund) of income tax	₩ (18,272)	₩ (4,660)
Interest received	2,703,902	2,304,960
Interest paid	(1,718,725)	(1,395,738)
Dividend received	41,593	45,257
Net cash used in operating activities	<u>(2,125,641)</u>	<u>(115,128)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of investment instruments	829,035	-
Disposal of AFS and HTM financial assets	-	912,204
Disposals of investment instruments in subsidiaries and associates	1,025	44
Disposals of tangible assets	42	101
Disposals of intangible assets	380	536
Acquisitions of investment instruments	(902,061)	-
Acquisitions of AFS and HTM financial assets	-	(973,564)
Acquisitions of investment instruments in subsidiaries and associates	(48,365)	(365,283)
Acquisitions of tangible assets	(5,897)	(4,314)
Acquisitions of intangible assets	(2,916)	(14,965)
Net cash used in investing activities	<u>(128,757)</u>	<u>(445,241)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in call money	68	316
Proceeds from borrowings	4,568,261	4,915,469
Proceeds from debentures	23,295,958	24,094,658
Repayment of borrowings	(5,990,207)	(7,655,267)
Repayment of debentures	(19,146,697)	(20,809,262)
Expense related to issuance of capital	-	(6,810)
Payment of dividends	(59,596)	-
Decrease in deposits	(2)	-
Net cash provided by financing activities	<u>2,667,785</u>	<u>539,104</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	413,387	(21,265)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	815,994	1,354,694
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS IN FOREIGN CURRENCIES	(209,314)	(517,435)
CASH AND CASH EQUIVALENTS, END OF THE PERIOD (Note 7, 35)	<u>₩ 1,020,067</u>	<u>₩ 815,994</u>

(*1) The separate statement of cash flows for year ended December 31, 2018 was prepared in accordance with K-IFRS No.1109. However, the comparative separate statement of cash flows for the year ended December 31, 2017 was not retrospectively restated.

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. GENERAL:

(1) Summary of The Export-Import Bank of Korea

The Export-Import Bank of Korea (the “Bank” or the “Company”) was established in 1976 as a special financial institution under The Export-Import Bank of Korea Act (the “EXIM Bank Act”) to grant financial facilities for overseas trade (i.e., export and import), investments and resources development activities. As of December 31, 2018, the Bank operates ten domestic branches, three domestic offices, four overseas subsidiaries and twenty-four overseas offices.

The Bank’s authorized capital is ₩15,000,000 million, and through numerous capital increases since the establishment, its paid-in capital is ₩11,814,963 million as of December 31, 2018. The Government of the Republic of Korea (the “Government”), the Bank of Korea (“BOK”), and the Korea Development Bank hold 66.27%, 9.86%, and 23.87%, respectively, of the ownership of the Bank as of December 31, 2018.

The Bank, as a trustee of the Government, has managed the Economic Development Cooperation Fund (“EDCF”) since June 1987 and the Inter-Korean Cooperation Fund (“IKCF”) since March 1991. These funds are accounted for separately and are not included in the Bank’s separate financial statements. The Bank receives fees from the Government for the trustee services.

(2) Summary of subsidiaries and associates

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

(December 31, 2018)

Subsidiaries	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
	United Kingdom						
KEXIM Bank UK Limited	Kingdom	GBP	20 mil.	Finance	20,000,000	100.00	Dec. 31, 2018
KEXIM Vietnam Leasing Co.(*1)	Vietnam	USD	13 mil.	Finance	-	100.00	Dec. 31, 2018
PT.KOEXIM Mandiri Finance	Indonesia	IDR	52,000 mil.	Finance	442	85.00	Dec. 31, 2018
KEXIM Asia Limited	Hong Kong	USD	30 mil.	Finance	30,000,000	100.00	Dec. 31, 2018

(*1) This entity does not issue share certificates.

(December 31, 2017)

Subsidiaries	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
	United Kingdom						
KEXIM Bank UK Limited	Kingdom	GBP	20 mil.	Finance	20,000,000	100.00	Dec. 31, 2017
KEXIM Vietnam Leasing Co.(*1)	Vietnam	USD	13 mil.	Finance	-	100.00	Dec. 31, 2017
PT.KOEXIM Mandiri Finance	Indonesia	IDR	52,000 mil.	Finance	442	85.00	Dec. 31, 2017
KEXIM Asia Limited	Hong Kong	USD	30 mil.	Finance	30,000,000	100.00	Dec. 31, 2017

(*1) This entity does not issue share certificates.

2) Associates of the Bank as of December 31, 2018 and 2017, are as follows :

(December 31, 2018)

Associates	Location	Capital stock	Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
Korea Asset Management Corporation	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2018
Credit Guarantee and Investment Fund	Philippines	USD 859 mil.	Financial service	100,000,000	11.64	Sep. 30, 2018
SUNG Dong Shipbuilding & Marine Engineering Co., Ltd.	Korea	KRW 1,391,693 mil.	Shipbuilding	113,075,200	81.25	Dec. 31, 2018
DAESUN Shipbuilding & Engineering Co., Ltd.	Korea	KRW 6,262 mil.	Shipbuilding	1,040,000	83.03	Dec. 31, 2018
KTB Newlake Global Healthcare PEF	Korea	KRW 35,180 mil.	Financial service	879,500,000	25.00	Dec. 31, 2018
KBS-KDB Private Equity Fund	Korea	KRW 29,713 mil.	Financial service	6,031,875,000	20.30	Dec. 31, 2018
Korea Shipping and Maritime Transportation	Korea	KRW 25,000 mil.	Financial service	2,000,000	40.00	Dec. 31, 2018
Korea Aerospace Industries. Ltd.	Korea	KRW 487,376 mil.	Manufacturing	25,745,964	26.41	Dec. 31, 2018

(December 31, 2017)

Associates	Location	Capital stock	Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
Korea Asset Management Corporation	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2017
Credit Guarantee and Investment Fund	Philippines	USD 700 mil.	Financial service	100,000,000	14.29	Sep. 30, 2017
Korea Marine Guarantee Incorporated Company	Korea	KRW 322,357 mil.	Financial service	26,999,999	41.88	Dec. 31, 2017
SUNG Dong Shipbuilding & Marine Engineering Co., Ltd.	Korea	KRW 1,319,693 mil.	Shipbuilding	113,075,200	81.25	Sep. 30, 2017
DAESUN Shipbuilding & Engineering Co., Ltd.	Korea	KRW 7,730 mil.	Shipbuilding	1,040,000	67.30	Sep. 30, 2017
KTB Newlake Global Healthcare PEF	Korea	KRW 10,280 mil.	Financial service	257,000,000	25.00	Dec. 31, 2017
KBS-KDB Private Equity Fund	Korea	KRW 11,361 mil.	Financial service	2,366,875,000	20.83	Dec. 31, 2017
Korea Shipping and Maritime Transportation	Korea	KRW 22,625 mil.	Financial service	1,810,000	40.00	Dec. 31, 2017
Korea Aerospace Industries. Ltd.	Korea	KRW 487,376 mil.	Manufacturing	25,745,964	26.41	Dec. 31, 2017

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of Financial Statement Presentation

The Bank's separate financial statements are prepared under K-IFRS.

(2) Basis of measurement

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

- Derivative financial instruments measured at fair value
- Financial assets measured at fair value through profit or loss
- Financial instruments measured at fair value through profit or loss (K-IFRS 1039)
- Financial instruments measured at fair value through other comprehensive income
- Financial liabilities designated as hedged items in a fair value hedge accounting of which changes in fair value attributable to the hedged risk are recognized in profit or loss
- Liabilities for defined benefit plans, which are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets

(3) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the currency of the primary economic environment in which the Bank operates.

(4) Significant Estimates and Judgments

The preparation of separate financial statements requires the application of accounting policies and certain critical accounting estimates and assumptions may have a significant impact on assets (liabilities) and income (expenses). The management's estimate may differ from the actual outcome if the management's estimate and assumption based on its best judgment at the reporting date are different from an actual environment.

Estimates and assumptions are continually evaluated and the change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

Uncertainty in estimates and assumptions with significant risk that will result in material adjustment are as follows:

1) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Financial instruments that are not actively traded in the market and with less transparent market price, will have less objective fair value and will require judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks.

As described in the significant accounting policies 'Recognition and Measurement of Financial Instruments' diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model to internally developed valuation model that incorporates various types of assumptions and variables.

2) Provision of credit losses (allowances for loan losses, provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments)

The Bank recognizes credit loss allowance for expected credit losses on debt instruments, loans and receivables that are measured at amortized cost, loan commitments and financial guarantee contracts in accordance with K-IFRS No. 1109 '*Financial Instruments*.' The allowance is determined by techniques, assumptions and input variables used by the Bank to measure expected future cash flows of individual financial instruments and to measure expected credit losses in a collective manner.

3) Defined benefit obligation

The present value of defined benefit obligations is measured by the independent actuaries using projected unit credit method. It is determined by actuarial assumptions and variables such as future increases in salaries, rate of retirement, discount rate and others.

4) Income taxes

The Bank has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is determined.

5) Hedging relationship

The Group expects a high hedge effectiveness throughout the hedging period in designating the hedging relationship and it is probable that the hedged transaction will be highly probable in the cash flow hedge.

(5) Changes in Accounting Policies

The Bank has adopted the same accounting policies for the year ended December 31, 2018, except for the application of the first amendment standard, effective from January 1, 2018, as explained below.

1) K-IFRS No. 1115, '*Revenue from Contracts with Customers*'

Effective January 1, 2018 the Bank has applied K-IFRS No. 1115, '*Revenue from Contracts with Customers*', which replaces existing revenue recognition guidance, including K-IFRS No. 1018, '*Revenue*', K-IFRS No. 1011, '*Construction Contracts*', K-IFRS No. 2031, '*Revenue-Barter Transactions Involving Advertising Services*', K-IFRS No. 2113, '*Customer Loyalty Programmes*', K-IFRS No. 2115, '*Agreement for the Construction of Real Estate*', and K-IFRS No. 2118, '*Transfers of Assets from Customers*.'

K-IFRS No. 1018 and other standards outlined revenue recognition for different types of transactions such as sales of goods and services, interest income, loyalty programs, dividend income and construction contracts; however, according to K-IFRS No.1115, all types of contracts recognize revenue through five-step revenue recognition model (① 'Identifying the contract' → ② 'Identifying performance obligations' → ③ 'Determining the transaction price' → ④ 'Allocating the transaction price to performance obligations' → ⑤ 'Recognizing the revenue by satisfying performance obligations').

The effect of applying K-IFRS 1115 on the financial statements is not significant.

2) K-IFRS No.1109, 'Financial Instruments'

The Bank has applied K-IFRS No. 1109 'Financial Instruments', which was published on September 25, 2015, from the year starting on January 1, 2018. K-IFRS No. 1109 replaced K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement.'

The main characteristics of K-IFRS No. 1109 are: classification and measurement of financial instruments based on characteristics of contractual cash flows and business model, impairment model based on expected credit losses, the expansion of the types of qualifying hedging instruments and hedged items, and changes in hedge effectiveness tests, etc.

In principle, K-IFRS No. 1109 should be applied retrospectively. However, there are exemptions for restating the comparative information with respect to classification, measurement of financial instruments, and impairment. In addition, for hedge accounting, the new standard will be applied prospectively except for certain cases such as accounting for the time value of options.

As permitted by the transition requirements of K-IFRS 1109, comparative periods have not been restated.

The effects of the first application of K-IFRS No.1109 on equity items, the reconciliation of the carrying amount of financial assets and financial liabilities, and the adjustment of loss provisions under K-IFRS No.1039 are included in note 39.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

(1) General

The significant accounting policies applied in the preparation of these separate financial statements after transition to K-IFRS are set out below.

(2) Foreign Currency

1) Foreign currency transactions

In preparing the separate financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded by applying the rates of exchange at the dates of the transactions.

At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. 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 are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are recognized in profit or loss.

2) Foreign operations

The results and financial position of all foreign operations, whose functional currency differs from the Bank's presentation currency, are translated into the Bank's presentation currency using the following procedures;

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position. Income and expenses for statement of comprehensive income presented are translated at average exchange rates for the period.

Any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Bank reattributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Bank reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

(3) Cash and cash equivalents

Cash and cash equivalents include cash on hand, foreign currency, and highly liquid short term investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(4) Non-derivative Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market concerned) is recognized on the trade date

A financial asset is measured initially at its fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition of the financial asset. Transaction costs on the financial assets at FVTPL that are directly attributable to the acquisition are recognized in profit or loss as incurred.

1) Financial assets designated at FVTPL

Financial assets can be irrevocably designated as measured at FVTPL despite of classification standards stated below, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

2) *Equity instruments*

For the equity instruments that are not held for trading, at initial recognition, the Bank may make an irrevocable election to present subsequent changes in fair value in other comprehensive income. Equity instruments that are not classified as financial assets at Fair Value through Other Comprehensive Income ("FVOCI") are classified as financial assets at FVTPL.

The Bank subsequently measures all equity investments at fair value. Valuation gains or losses of the equity instruments that are classified as financial assets at FVOCI previously recognized as other comprehensive income is not reclassified as profit or loss on derecognition. The Bank recognizes dividends in profit or loss when the Bank's right to receive payments of the dividend is established.

Valuation gains or losses due to changes in fair value of the financial assets at FVTPL are recognized as gains or losses on financial assets at FVTPL. Impairment loss (reversal) on equity instruments at FVOCI is not recognized separately.

3) *Debt instruments*

Subsequent measurement of debt instruments depends on the Bank's business model in which the asset is managed and the contractual cash flow characteristics of the asset. Debt instruments are classified as financial assets at amortized cost, at FVOCI, or at FVTPL. Debt instruments are reclassified only when the Bank's business model changes.

① Financial assets at amortized cost

Assets that are held within a business model whose objective is to hold assets to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Impairment losses, and gains or losses on derecognition of the financial assets at amortized cost are recognized in profit or loss. Interest income on the effective interest method is included in the 'Interest income' in the separate statement of comprehensive income.

② Financial assets at FVOCI

Assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Other than impairment losses, interest income amortized using effective interest method and foreign exchange differences, gains or losses of the financial assets at FVOCI are recognized as other comprehensive income in equity. On derecognition, gains or losses accumulated in other comprehensive income are reclassified to profit or loss. The interest income on the effective interest method is included in the 'Interest income' in the separate statement of comprehensive income. Foreign exchange differences and impairment losses are included in the 'Net foreign currency transaction gain' and 'Impairment loss on financial assets' in the separate statement of comprehensive income, respectively.

③ Financial assets at FVTPL

Debt securities other than financial assets at amortized costs or FVOCI are classified at FVTPL. Unless hedge accounting is applied, gains or losses from financial assets at FVTPL are recognized as profit or loss and are included in 'Net gain on financial assets at fair value through profit or loss' in the separate statement of comprehensive income.

4) Embedded derivatives

Financial assets with embedded derivatives are classified regarding the entire hybrid contract, and the embedded derivatives are not separately recognized. The entire hybrid contract is considered when it is determined whether the contractual cash flows represent solely payments of principal and interest.

5) Derecognition of financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability. If the Bank retains substantially all the risks and rewards of ownership of the transferred financial assets, the Bank continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

6) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Bank currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(5) Derivative Financial Instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below

1) Hedge accounting

The Bank holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Bank designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

① *Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the separate statement of comprehensive income.

The Bank discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria. Any adjustment arising from G/L on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

② *Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

③ *Net investment hedge*

The portion of the change in fair value of a financial instrument designated as a hedging instrument that meets the requirements for hedge accounting for a net investment in a foreign operation is recognized in other comprehensive income and the ineffective portion of the hedge is recognized in profit or loss. The portion recognized as other comprehensive income that is effective as a hedge is recognized in the statement of comprehensive income as a result of reclassification adjustments in accordance with K-IFRS No. 1021, "Effect of Changes in Foreign Exchange Rates" at the time of disposing of its overseas operations or disposing of a portion of its overseas operations. To profit or loss.

2) Other derivative financial instruments

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

3) Unobservable valuation differences at initial recognition

Any difference between the fair value of over the counter derivatives at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss but is recognized on a straight-line basis over the life of the instrument or immediately when the fair value becomes observable.

(6) Impairment: Financial assets and contract assets

The Bank measures expected credit loss and recognizes loss allowance at the end of the reporting period for financial assets measured at amortized cost and fair value through other comprehensive income with the exception of financial asset measured at fair value through profit or loss.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The Group measures expected credit losses by reflecting reasonable and supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions.

The Bank uses the following three measurement techniques in accordance with Korean IFRS:

- General approach: for financial assets and off-balance-sheet unused credit line that are not applied below two approaches
- Credit-impaired approach: for purchased or originated credit-impaired financial assets

Different measurement approaches are applied depending on significant increase in credit risk. 12 month expected credit losses is recognized when credit risk has not significantly increased since initial recognition. A loss allowance at an amount equal to lifetime expected credit losses is recognized when credit risk has significantly increased since initial recognition. Lifetime is presumed to be a period to the contractual maturity date of a financial asset (the expected life of the financial asset).

One or more of the following items is deemed significant increase in credit risk. 30 days past due presumption is applicable for all consolidated subsidiaries, and other standards are selectively applied considering applicability of each subsidiary with its specific indicators. When the contractual cash flows of a financial asset are renegotiated or otherwise modified, the Group determines whether the credit risk has increased significantly since initial recognition using the following information.

- more than 30 days past due;
- decline in credit rating at period end by more than certain notches as compared to that at initial recognition;
- the soundness of the assets is under precautionary from the grade table by Korean Financial Supervisory service

The Bank generally deems one or more of the following items credit-impaired:

- no less than 90 days past due;
- legal proceedings related to collection;
- a borrower that has received a credit-warning from Korea Credit Information Services
- corporate borrowers that are considered impaired (internally rating S, D, or F);
- a borrower with the external auditor's opinion that is qualified or disclaimer;
- refinancing; and
- debt restructuring.

1) Forward-looking information

The Bank uses forward-looking information, when it measures expected credit losses.

The Bank assumes the risk component has a certain correlation with the business cycle, and calculates the expected credit loss by reflecting the forward-looking information with macroeconomic variables on the measurement inputs.

2) Measuring expected credit losses on financial assets at amortized cost

The amount of the loss on financial assets at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The Group estimates expected future cash flows for financial assets that are individually significant (individual assessment of impairment).

For financial assets that are not individually significant, the Group collectively estimates expected credit loss by grouping loans with homogeneous credit risk profile (collective assessment of impairment).

① Individual assessment of impairment

Individual assessment of impairment losses are calculated using management's best estimate on present value of expected future cash flows. The Group uses all the available information including operating cash flow of the borrower and net realizable value of any collateral held.

② Collective assessment of impairment

Collective assessment of loss allowance involves historical loss experience along with incorporation of forward-looking information. Such process incorporates factors such as type of collateral, product and borrowers, credit rating, size of portfolio and recovery period and applies 'probability of default'(PD) on a group of assets and 'loss given default'(LGD) by type of recovery method. Also, the expected credit loss model involves certain assumption to determine input based on loss experience and forward-looking information. These models and assumptions are periodically reviewed to reduce gap between loss estimate and actual loss experience.

Lifetime expected credit loss as at the end of the reporting period is calculated by product based on the carrying amount net of expected repayment, PD for each period and LGD adjusted by change in carrying amount.

3) Measuring expected credit losses on financial assets at fair value through other comprehensive income

Measuring method of expected credit losses on financial assets at fair value through other comprehensive income is equal to the method of financial assets at amortized cost, except for loss allowances that are recognized as other comprehensive income. Amounts recognized in other comprehensive income for sale or repayment of financial assets at fair value through other comprehensive income are reclassified to profit or loss.

(7) Tangible assets

1) Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at their cost and subsequently carried at their cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred. If part of an item of an asset has a useful life different from that of the entire asset, it is recognized as a separate asset.

2) Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Bank. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method is straight-line and estimated useful lives of the assets are as follows.

<u>Property and equipment</u>	<u>Estimated useful lives</u>
Buildings and structures	10–60 years
Vehicles	4 years
Tools, furniture and fixtures	4–20 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

(8) Intangible assets

Intangible assets are measured initially at cost and subsequently carried at its cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method with no residual value over their estimated useful economic life since the assets are available for use.

<u>Intangible assets</u>	<u>Estimated useful lives</u>
Software	5 years
System development costs	5 years

The amortization period and the amortization method for intangible assets with a definite useful life are reviewed at least at each financial year-end. The useful life of an intangible asset that is not being amortized is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If there is any change, it is accounted for as a change in an accounting estimate.

(9) Impairment of non-financial assets

The Bank assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for deferred tax assets, assets arising from employee benefits and non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Bank tests goodwill acquired in a business combination, an intangible asset with an indefinite useful life and an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and such impairment loss is recognized immediately in profit or loss.

(10) Financial liabilities at FVTPL

Financial liabilities at FVTPL include contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS No. 1103 applies, short-term financial liabilities and financial liabilities recognized as financial liabilities at FVTPL initially. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Otherwise, the transaction cost is recognized in current profit or loss.

(11) Provisions

A provision is recognized if the Bank has a present obligation (legal or constructive) as a result of the past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision, and where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit card and unused credit line of consumer and corporate loans are recognized using valuation model that applies the credit conversion factor, default rates, and loss given default. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

(12) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (the Bank) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value and are amortized over the life of the contract. After initial recognition, financial guarantee contracts are measured at the greater of:

- The amount determined in accordance with K-IFRS No.1109, '*Financial Instruments*' and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS No.1115, '*Revenue from Contracts with Customers*'

(13) Equity and Reserve

Equity and Reserve are any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities

(14) Interest income and expenses

Interest income and expenses are recognized using the effective interest method. Effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(15) Fee and commission income

The Bank recognizes financial service fee in accordance with the accounting standard of the financial instrument related to the fees earned.

1) Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost.

However, fees relating to the creation or acquisition of a financial asset at FVTPL are recognized as revenue immediately

2) Fees earned as services are provided

Such fees are recognized as revenue as the services are provided.

3) Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

(16) Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at FVTPL and financial investment is recognized in profit or loss as part of dividend income in the separate statements of comprehensive income.

(17) Employee compensation and benefits

1) Defined contribution plans

When employees render service related to defined contribution plans, contributions related to employees services are recognized in current profit or loss without contributions included in cost of assets. Contributions which are supposed to be paid are recognized in accrued expenses after deducting any amount already paid. Also, if contributions already paid exceed contributions which would be paid at the end of period, the amount of excess is recognized in prepaid expenses.

2) Defined benefit plans

The Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits are recognized in current profit and loss when employees render the related service. Short-term employee benefits are not discounted.

(18) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. The difference between the taxable profit and accounting profit may arise when income or expenses are included in accounting profit in one period, but is included in taxable profit in a different period, and if there is revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Bank offsets current income tax assets and current income tax liabilities if, and only if, the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2) Deferred tax

Deferred tax is recognized, using the asset-liability method, on temporary differences arising between the tax base amount of assets and liabilities and their carrying amount in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred tax liabilities which the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(19) New standards and interpretations not yet adopted

The following new standards and amendments to existing standards have been published and are mandatory for the Bank to adopt for annual periods beginning on or after January 1, 2018, and the Bank has not early adopted them.

1) Amendments to K-IFRS No.1116 – *Leases*

K-IFRS No. 1116, "Leases", which was enacted on May 22, 2017, is effective for annual periods beginning on or after January 1, 2019, but may be applied early.

The Standard is based on current Korean IFRS 1017 "Leases", K-IFRS 2104, "Determining whether an arrangement contains a lease", K-IFRS No. 2015 "Operating lease: Incentive" It will replace Interpretation No. 2027, "Evaluating the substances of transactions involving the legal form of a lease".

At the date of commitment, the Bank determines whether the contract is a lease or whether the contract includes a lease, and identifies whether the contract includes a lease or a lease in accordance with this standard. The lessee and lessor must account for each lease element of the lease as a lease, separate from the non-lease element in an agreement that includes a lease or lease.

The lessee is required to recognize an asset that represents the right to use the underlying asset and a liability that represents the obligation to pay the lease payments. However, in the case of short-term lease and small asset lease, the lessee is not required to separate the non-lease component from the lease component in accordance with the simplified method, and can apply the method of accounting for each lease component and related non-lease component as one lease component.

The accounting treatment of lessor is not significantly different from the accounting treatment of the current K-IFRS 1017.

① Accounting treatment as a lessee

- Application method of K-IFRS 1116 "Lease"

The lessee recognizes the cumulative effect of applying the retrospective application (full retroactive method) to each past reporting period presented in accordance with K-IFRS No. 1008, "Accounting Policies, Changes in Accounting Estimates and Errors " (Cumulative Effect Batch Reconciliation Action).

The Bank plans to apply CAS Statement No. 1116 for the first time by applying cumulative effect and cumulative temporary adjustment measures as of January 1, 2019. Accordingly, the cumulative effect of applying K-IFRS No. 1116 is adjusted in the retained earnings (or, where appropriate, other components of equity) at the date of initial application and the comparative financial statements are not going to be restated.

- Financial effect of K-IFRS No. 1116 "Lease"

The Bank is on the process of estimating the impact applying K-IFRS 1116 to the financial statements, and it is not practically available to provide the reasonable estimation of its effect before the completion. In order to estimate, the Bank has gathered lease payments, and other information, and analyzing them.

② Accounting treatment as a lessor

- Application method and financial impact of K-IFRS 1116 "Lease"

As a lessor, the Bank has specifically assessed the effect of accounting for the identification of lease contracts, separation of lease components on the financial statements in accordance with K-IFRS No. 1116. There is no impact on finance lease payment receivables as of January 1, 2019.

2) Amendment of K-IFRS No.1109 “Financial instruments”

Financial assets that are redeemable with reimbursable financial assets are remeasured to be measured at amortized cost. When the financial liabilities measured at amortized cost are changed but not eliminated, the effect of the change should be recognized in profit or loss. These amendments will be effective from the fiscal year beginning on or after January 1, 2019 and are subject to early adoption.

3) Amendment of K-IFRS No.1019 “Employee benefits”

If the change in the defined benefit plan results in the revision, reduction or settlement of the plan, the assumptions used in remeasurement of the net defined benefit obligation (asset) to estimate the current service cost and net interest for the remaining period of the period after the adjustments in the plan . In addition, the decrease in excess of the amount of unrecognized actuarial gain or loss is reflected in profit or loss as a part of past service cost or settlement profit or loss. The amendments are applied prospectively to the amendment, reduction, and settlement of systems that have occurred since the fiscal year beginning on or after January 1, 2019.

4) Establishment of K-IFRS No.2123 “Uncertainty over income tax treatments”

The interpretation is applied to the recognition and measurement of deferred tax and deferred income tax if there is uncertainty about whether or not the tax treatment applied by the entity will be recognized by the taxing authority. Guidance on accounting units of uncertainty in taxation and circumstances requiring reevaluation Includes. The interpretation is effective from January 1, 2019, and it can choose between retroactively reclassifying comparative financial statements or reflect the effect of the change on the basis of the first year of adoption.

5) K-IFRS No.1012 “Income taxes”

If most of the necessary activities to enable us to use (or sell) our qualifying assets has been completed, it will include the funds borrowed for specific purposes in ordinary borrowings to acquire those assets. This amendment applies to borrowing costs incurred subsequent to the first year of the application of the amendment and may be applied early in the financial year beginning after January 1, 2019.

4. RISK MANAGEMENT:

4-1. Summary

(1) Overview of Risk Management Policy

The financial risks that the Bank is exposed to are credit risk, market risk, liquidity risk, operational risk, interest risk, credit concentration risk, strategy/reputational risk, outsourcing risk, settlement risk and others. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Bank's key risks.

The Bank's risk management system focuses on increasing transparency, developing risk management environment and preemptive response to risks due to rapid changes in financial environment to support the Bank's long-term strategy and business decision efficiently.

The note regarding financial risk management provides information about the risks that the Bank is exposed to, the objective, policies and process for managing the risk, the methods used to measure the risk and capital adequacy. Additional quantitative information is disclosed throughout the separate financial statements.

(2) Risk Management Group

1) Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the board of directors and determines the Bank's target risk appetite, approves significant risk matters and reviews the level of risks that the Bank is exposed to and the appropriateness of the Bank's risk management operations as an ultimate decision-making authority.

2) Risk Management Council

The Risk Management Council is a consultative group that reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Bank's risk management.

3) Risk Management Practices Committee

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work process relating to risk management plan, including targeted Bank for International Settlements ("BIS") ratio, risk management strategy, risk measurement, risk analysis, economic capital limit and others.

4-2. Credit risk

(1) Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For the risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

(2) Credit Risk Management

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent the excessive risk concentration to specific industry and specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk.

(3) Maximum exposure to credit risk

The Bank's maximum exposure of financial instruments to credit risk as of December 31, 2018 and 2017, is as follows (Korean won in millions):

	Dec. 31, 2018	Dec. 31, 2017
Cash and due from financial institutions	₩ 3,682,863	₩ 2,091,920
Financial assets at FVTPL (K-IFRS 1039)	-	891,360
Financial assets at FVTPL(*1)	904,273	-
Hedging derivative assets	75,743	228,121
Loans at amortized cost (*2)	71,741,225	71,486,133
Financial investments(*3)	1,059,067	1,000,995
Other financial assets	1,135,012	1,102,062
Acceptances and guarantee contracts	40,010,549	42,808,774
Commitments (*4)	17,619,116	19,737,788
	<u>₩ 136,227,848</u>	<u>₩ 139,347,153</u>

(*1) Financial assets at FVTPL exclude debt securities related to marketable securities and paid-in capital.

(*2) Loans at amortized cost exclude loans valuation adjustment related to fair value hedging, allowances for loan losses.

(*3) Allowances for loan losses for debt securities at amortized cost is excluded.

(*4) Commitments exclude commitments on purchase of beneficiary certificates which are included in other commitments in Note 36.

(4) Credit risk of loans

The Bank maintains allowances for loan losses associated with credit risk on loans to manage its credit risk. The Bank writes off on non-profitable loans, non-recoverable loans, loans classified as estimated loss by asset quality category, loans requested to be written off by Financial Supervisory Service (“FSS”) and others upon approval of Loan Management Committee.

Loans are categorized as follows (Korean won in millions):

(December 31, 2018)

	12 month expected credit losses	Lifetime expected credit losses	Credit- impaired financial assets	Total
Collective assessment:				
Best	₩ 18,155,827	₩ 9,489	₩ 5,596	₩18,170,912
Outstanding	24,374,636	-	40,000	24,414,636
Good	25,155,018	1,458,851	49,921	26,663,790
Below normal	3,200	434,356	60,554	498,110
Subtotal	<u>67,688,681</u>	<u>1,902,696</u>	<u>156,071</u>	<u>69,747,448</u>
Individual assessment:				
Best	-	-	513,941	513,941
Outstanding	-	-	-	-
Good	-	-	29,370	29,370
Below normal	-	720,631	1,108,766	1,829,397
Subtotal	<u>-</u>	<u>720,631</u>	<u>1,652,077</u>	<u>2,372,708</u>
	<u>67,688,681</u>	<u>2,623,327</u>	<u>1,808,148</u>	<u>72,120,156</u>
Net deferred origination fees and costs				(378,931)
Total				<u>₩71,741,225</u>

(December 31, 2017)

	Individual assessment	Collective assessment	Total	Ratio (%)
Loans:				
Normal				
Not past due	₩ 2,123,302	₩ 66,023,655	₩ 68,146,957	94.79
Past due	-	30	30	0.01
Impaired	3,610,399	126,860	3,737,259	5.20
Subtotal	<u>5,733,701</u>	<u>66,150,545</u>	<u>71,884,246</u>	<u>100.00</u>
Net deferred origination fees and costs:				
Normal				
Not past due	(37)	(396,944)	(396,981)	99.72
Past due	-	-	-	-
Impaired	(1,138)	6	(1,132)	0.28
Subtotal	<u>(1,175)</u>	<u>(396,938)</u>	<u>(398,113)</u>	<u>100.00</u>
Carrying amounts before deducting allowances:				
Normal				
Not past due	2,123,265	65,626,711	67,749,976	94.77
Past due	-	30	30	0.01
Impaired	3,609,261	126,866	3,736,127	5.22
Subtotal	<u>5,732,526</u>	<u>65,753,607</u>	<u>71,486,133</u>	<u>100.00</u>
Allowances:				
Normal				
Not past due	(368,644)	(254,029)	(622,673)	18.94
Percentage (%)	17.36	0.39	0.92	
Past due	-	(22)	(22)	0.01
Percentage (%)	-	73.33	73.33	
Impaired	(2,601,057)	(63,243)	(2,664,300)	81.05
Percentage (%)	72.07	49.85	71.31	
Subtotal	<u>(2,969,701)</u>	<u>(317,294)</u>	<u>(3,286,995)</u>	<u>100.00</u>
Percentage (%)	51.80	0.48	4.60	
Carrying amounts:				
Normal				
Not past due	1,754,621	65,372,682	67,127,303	98.43
Past due	-	8	8	0.01
Impaired	1,008,204	63,623	1,071,827	1.56
Total	<u>₩ 2,762,825</u>	<u>₩ 65,436,313</u>	<u>₩ 68,199,138</u>	<u>100.00</u>

The above carrying amounts exclude loan valuation adjustment related to fair value hedging amounting to ₩12,801 million and ₩24,182 million as of December 31, 2018 and 2017, respectively.

1) Credit quality of loans that are neither past due nor impaired

Credit quality of loans that are neither past due nor impaired as of December 31, 2017, are as follows (Korean won in millions):

(December 31, 2017)

Criteria	Loans					Ratio (%)	Deferred loan origination fees and costs		Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Allowances				
Best	₩ 2,802,177	₩ 9,769,413	₩ 2,121,958	₩ 14,693,548	21.56	₩ (62,402)	₩ (9,752)	₩14,621,394	
Outstanding	4,451,381	29,153,655	1,696,223	35,301,259	51.80	(318,151)	(72,261)	34,910,847	
Good	6,485,730	7,888,486	1,226,780	15,600,996	22.90	(13,665)	(144,840)	15,442,491	
Below normal	1,763,682	787,472	-	2,551,154	3.74	(2,763)	(395,820)	2,152,571	
	₩ 15,502,970	₩47,599,026	₩ 5,044,961	₩ 68,146,957	100.00	₩ (396,981)	₩ (622,673)	₩67,127,303	

2) Aging analysis of loans that are past due but not impaired

Aging analysis of loans that are past due but not impaired as of December 31, 2017, are as follows (Korean won in millions):

(December 31, 2017)

	Loans					Ratio (%)	Deferred loan origination fees and costs		Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Allowances				
Within one months	₩ 30	₩ -	₩ -	₩ 30	100.00	₩ -	₩ (22)	₩ 8	
Within two months	-	-	-	-	-	-	-	-	
Within three months	-	-	-	-	-	-	-	-	
Over three months	-	-	-	-	-	-	-	-	
	₩ 30	₩ -	₩ -	₩ 30	100.00	₩ -	₩ (22)	₩ 8	

3) Loans assessed for impairment on individual basis

Loans assessed for impairment on individual basis by country and industry of the Bank's counterparties, as of December 31, 2017, are as follows (Korean won in millions):

(December 31, 2017)

	Loans			Allowance			Allowance ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩ 3,449,650	₩ 35,365	₩ 3,485,015	₩(2,484,785)	₩ (35,365)	₩ (2,520,150)	72.03	100.00	72.31
Transportation	-	17,218	17,218	-	-	-	-	-	-
Construction	1,187	-	1,187	(1,187)	-	(1,187)	100.00	-	100.00
Public Sector & Others	-	105,841	105,841	-	(79,720)	(79,720)	-	75.32	75.32
	₩ 3,450,837	₩ 158,424	₩ 3,609,261	₩(2,485,972)	₩ (115,085)	₩ (2,601,057)	72.04	72.64	72.07

(5) Credit quality of securities (debt securities)

1) Securities (debt securities) exposed to credit risk as of December 31, 2018 are as follows (Korean won in millions):

(December 31, 2018)

	12 month expected credit losses	Lifetime expected credit losses	Credit- impaired financial assets	Total
Grade1	₩ 1,059,067	₩ -	₩ -	₩ 1,059,067
Grade2	-	-	-	-
Grade3	-	-	-	-
Grade4	-	-	-	-
Grade5	-	-	-	-
Total	<u>₩ 1,059,067</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 1,059,067</u>

Securities (debt securities) exposed to credit risk as of December 31, 2017 are as follows (Korean won in millions):

(December 31, 2017)

Securities that are neither past due nor impaired ₩ 1,039,660

1) Credit quality of securities (debt securities) that are neither past due nor impaired as December 31, 2017, are as follows (Korean won in millions):

(December 31, 2017)

	Credit quality(*1)					Total
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	
Financial assets at FVTPL	₩ 38,665	₩ -	₩ -	₩ -	₩ -	₩ 38,665
AFS financial assets	911,518	-	-	-	-	911,518
HTM financial assets	89,477	-	-	-	-	89,477
	<u>₩ 1,039,660</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩1,039,660</u>

(*1) Credit quality is classified based on internal credit quality grade as below:

	Credit rating
Grade 1	AAA ~ BBB
Grade 2	BBB- ~ BB
Grade 3	BB- ~ B
Grade 4	B- ~ C
Grade 5	D

(6) Concentration of credit risk

The amounts disclosed below exclude loan valuation adjustment related to fair value hedging amounting to ₩12,801 million and ₩24,182 million as of December 31, 2018 and 2017, respectively.

1) Loans by country where the credit risk belongs to as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(Dec. 31, 2018)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩16,809,808	₩ 7,440,799	₩ 912,802	₩25,163,409	34.89	₩ (9,220)	₩ (864,719)
China	-	2,242,295	293,791	2,536,086	3.52	(3,243)	(26,273)
Saudi Arabia	-	3,673,671	38,316	3,711,987	5.15	(45,036)	(7,300)
India	-	2,746,143	47,920	2,794,063	3.87	(16,061)	(3,218)
Indonesia	17,000	3,222,120	9,893	3,249,013	4.51	(61,170)	(12,972)
Uzbekistan	-	671,116	73,789	744,905	1.03	(5,758)	(20,125)
Vietnam	-	4,054,789	32,980	4,087,769	5.67	(30,540)	(21,282)
Australia	-	2,075,514	6,777	2,082,291	2.89	(17,989)	(2,652)
Philippines	-	194,474	-	194,474	0.27	(150)	(937)
Qatar	-	776,784	253	777,037	1.08	(2,766)	(3,834)
Singapore	-	574,537	69,753	644,290	0.89	(2,410)	(1,442)
Oman	-	847,722	3,169	850,891	1.18	(10,259)	(3,917)
Hong Kong	-	733,779	420,672	1,154,451	1.60	(318)	(10,895)
The United Arab Emirates	-	3,574,767	8,527	3,583,294	4.97	(24,914)	(1,274)
Others	9,800	3,331,782	1,293,738	4,635,320	6.43	(61,722)	(47,791)
Subtotal	16,836,608	36,160,292	3,212,380	56,209,280	77.95	(291,556)	(1,028,631)
Europe:							
Russia	-	331,567	-	331,567	0.46	(3)	(994)
United Kingdom	-	1,335,664	-	1,335,664	1.85	(7,272)	(123,812)
France	-	175,039	50,046	225,085	0.31	(1,661)	(274)
Netherlands	-	48,608	14,992	63,600	0.09	-	(779)
Malta	-	1,186	-	1,186	0.01	-	-
Greece	-	846,343	-	846,343	1.17	(4,485)	(686)
Turkey	-	851,069	330	851,399	1.18	(15,254)	(27,158)
Germany	-	274,923	6,819	281,742	0.39	(387)	(883)
Ukraine	-	82,862	-	82,862	0.11	(1,290)	-
Cyprus	-	-	-	-	-	-	-
Hungary	-	16,948	934	17,882	0.02	(7)	(372)
Others	-	1,496,521	95,770	1,592,291	2.20	(10,422)	(6,206)
Subtotal	-	5,460,730	168,891	5,629,621	7.79	(40,781)	(161,164)
America:							
Panama	-	786,755	-	786,755	1.09	(2,286)	(3,441)
United States	-	2,680,095	23,938	2,704,033	3.75	(6,185)	(30,348)
The British Virgin Islands	-	25,509	-	25,509	0.04	(172)	(19)
Mexico	-	755,131	-	755,131	1.05	(5,292)	(2,140)
Bermuda	-	242,300	-	242,300	0.34	(1,358)	(225)
Brazil	-	1,927,500	-	1,927,500	2.67	(4,973)	(7,514)
Others	-	1,307,331	8,779	1,316,110	1.82	(5,267)	(57,208)
Subtotal	-	7,724,621	32,717	7,757,338	10.76	(25,533)	(100,895)
Africa:							
Marshall Islands	-	757,849	-	757,849	1.05	(4,496)	(2,216)
Liberia	-	11,461	-	11,461	0.02	(139)	(15)
Madagascar	-	387,885	-	387,885	0.54	(1,550)	(128,883)
Others	-	1,358,414	8,308	1,366,722	1.90	(14,876)	(132,500)
Subtotal	-	2,515,609	8,308	2,523,917	3.50	(21,061)	(263,614)
Total	₩ 16,836,608	₩51,861,252	₩ 3,422,296	₩72,120,156	100.00	₩ (378,931)	₩ (1,554,304)

(December 31, 2017)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩ 18,939,007	₩ 5,315,232	₩ 604,003	₩ 24,858,242	34.58	₩ (6,410)	₩ (2,995,149)
China	-	1,833,920	311,601	2,145,521	2.98	(366)	(37,646)
Saudi Arabia	-	3,795,685	24,637	3,820,322	5.31	(52,670)	(8,303)
India	-	2,743,764	26,628	2,770,392	3.85	(22,580)	(4,003)
Indonesia	17,000	3,234,658	8,326	3,259,984	4.54	(70,546)	(10,627)
Uzbekistan	-	669,111	155,895	825,006	1.15	(6,263)	(4,770)
Vietnam	-	3,250,478	16,027	3,266,505	4.54	(22,466)	(20,972)
Australia	-	2,170,414	836	2,171,250	3.02	(19,996)	(4,234)
Philippines	-	245,572	-	245,572	0.34	(50)	(10,126)
Qatar	-	678,507	-	678,507	0.94	(2,832)	(2,302)
Singapore	-	163,068	75,507	238,575	0.33	(851)	(318)
Oman	-	975,651	10,707	986,358	1.37	(11,643)	(3,121)
Hong Kong	-	999,457	387,148	1,386,605	1.93	(2,383)	(2,491)
The United Arab Emirates	-	2,921,077	4,863	2,925,940	4.08	(27,197)	(6,928)
Others	-	2,296,222	3,168,744	5,464,966	7.61	(53,012)	(16,618)
Subtotal	18,956,007	31,292,816	4,794,922	55,043,745	76.57	(299,265)	(3,127,608)
Europe:							
Russia	-	362,699	-	362,699	0.50	(15)	(1,208)
United Kingdom	-	444,050	66,542	510,592	0.71	(1,469)	(433)
France	-	144,968	3,062	148,030	0.21	(2,188)	(83)
Netherlands	-	2,642	12,918	15,560	0.02	-	(44)
Malta	-	125,602	-	125,602	0.17	(1,211)	-
Greece	-	237,504	-	237,504	0.33	(1,327)	(114)
Turkey	-	659,824	2,802	662,626	0.92	(9,059)	(1,999)
Germany	-	281,095	402	281,497	0.39	(478)	(709)
Ukraine	-	119,102	-	119,102	0.17	(3,000)	(91)
Cyprus	-	232,689	-	232,689	0.32	(2,354)	-
Hungary	-	145,347	-	145,347	0.20	(1,095)	(5,433)
Others	-	568,424	99,041	667,465	0.94	(3,692)	(2,097)
Subtotal	-	3,323,946	184,767	3,508,713	4.88	(25,888)	(12,211)
America:							
Panama	-	1,215,278	-	1,215,278	1.69	(3,273)	(6,440)
United States	-	2,540,975	72,629	2,613,604	3.64	(7,733)	(80,463)
The British Virgin Islands	-	219,215	-	219,215	0.30	(2,363)	(47)
Mexico	-	834,136	-	834,136	1.16	(6,167)	(2,194)
Bermuda	-	819,398	-	819,398	1.14	(7,173)	(16,533)
Brazil	-	2,097,645	-	2,097,645	2.92	(5,589)	(4,117)
Others	-	1,426,809	3,299	1,430,108	1.99	(5,843)	(23,511)
Subtotal	-	9,153,456	75,928	9,229,384	12.84	(38,141)	(133,305)
Africa:							
Marshall Islands	-	1,903,658	-	1,903,658	2.65	(11,349)	(8,025)
Liberia	-	444,802	-	444,802	0.62	(3,344)	(666)
Madagascar	-	371,684	-	371,684	0.52	(1,832)	(1,200)
Others	-	1,382,260	-	1,382,260	1.92	(18,294)	(3,980)
Subtotal	-	4,102,404	-	4,102,404	5.71	(34,819)	(13,871)
Total	₩ 18,956,007	₩ 47,872,622	₩ 5,055,617	₩ 71,884,246	100.00	₩ (398,113)	₩ (3,286,995)

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

(December 31, 2018)

	Loans					Ratio (%)	Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total				
Manufacturing	₩ 11,044,184	₩ 23,492,659	₩ 212,289	₩ 34,749,132	48.18	₩ (161,406)	₩ (1,252,691)	
Transportation	501,180	6,694,646	-	7,195,826	9.98	(36,927)	(64,916)	
Financial institutions	4,139,230	6,802,713	3,154,565	14,096,508	19.55	(4,827)	(21,520)	
Wholesale and retail	562,053	1,214,089	46,664	1,822,806	2.53	(3,088)	(20,891)	
Real estate	-	115,179	-	115,179	0.16	(1,771)	(783)	
Construction	317,442	499,756	-	817,198	1.13	(8,461)	(6,912)	
Public sector and others	272,519	13,042,210	8,778	13,323,507	18.47	(162,451)	(186,591)	
Total	₩ 16,836,608	₩ 51,861,252	₩ 3,422,296	₩ 72,120,156	100.00	₩ (378,931)	₩ (1,554,304)	

(December 31, 2017)

	Loans					Ratio (%)	Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total				
Manufacturing	₩ 14,316,259	₩ 21,739,146	₩ 264,633	₩ 36,320,038	50.53	₩ (163,359)	₩ (3,090,742)	
Transportation	273,905	6,663,808	-	6,937,713	9.65	(39,566)	(27,784)	
Financial institutions	2,477,740	4,929,310	4,762,571	12,169,621	16.93	(5,451)	(17,960)	
Wholesale and retail	691,117	1,212,952	25,590	1,929,659	2.68	(3,447)	(8,444)	
Real estate	9,000	318,201	-	327,201	0.46	(1,917)	(801)	
Construction	752,442	599,986	447	1,352,875	1.88	(588)	(9,790)	
Public sector and others	435,545	12,409,218	2,376	12,847,139	17.87	(183,785)	(131,474)	
Total	₩ 18,956,008	₩ 47,872,621	₩ 5,055,617	₩ 71,884,246	100.00	₩ (398,113)	₩ (3,286,995)	

3) Concentration of credit risk of financial assets at FVTPL and securities (debt securities) by industry as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

	<u>Amount</u>	<u>Ratio (%)</u>
Financial Assets at FVTPL		
Government and government sponsored institutions	₩ -	-
Banking and insurance	45,272	67.83
Others	21,469	32.17
Subtotal	<u>66,741</u>	<u>100.00</u>
Financial Assets at FVOCI		
Government and government sponsored institutions	102,096	12.11
Banking and insurance	709,109	84.10
Others	32,013	3.79
Subtotal	<u>843,218</u>	<u>100.00</u>
Financial Assets at amortized cost		
Government and government sponsored institutions	4,476	2.07
Banking and insurance	187,419	86.83
Others	23,954	11.10
Subtotal	<u>215,849</u>	<u>100.00</u>
Total	<u>₩1,125,808</u>	

(December 31, 2017)

	<u>Amount</u>	<u>Ratio (%)</u>
Financial Assets at FVTPL		
Government and government sponsored institutions	₩ -	-
Banking and insurance	12,729	32.92
Others	25,936	67.08
Subtotal	<u>38,665</u>	<u>100.00</u>
AFS financial assets		
Government and government sponsored institutions	165,117	18.11
Banking and insurance	370,859	40.69
Others	375,542	41.20
Subtotal	<u>911,518</u>	<u>100.00</u>
HTM financial assets		
Government and government sponsored institutions	5,356	5.98
Banking and insurance	61,076	68.26
Others	23,045	25.76
Subtotal	<u>89,477</u>	<u>100.00</u>
Total	<u>₩1,039,660</u>	

- 4) Concentration of credit risk of financial assets at FVTPL and securities (debt securities) by country as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

		Dec. 31, 2018	
		Amount	Ratio (%)
Financial assets at FVTPL			
	Korea	₩ 16,960	25.41
	Others	49,781	74.59
	Subtotal	<u>66,741</u>	<u>100.00</u>
Financial Assets at FVOCI			
	Korea	224,580	26.63
	Others	618,638	73.37
	Subtotal	<u>843,218</u>	<u>100.00</u>
Financial Assets at amortized cost			
	Korea	84,613	39.20
	Others	131,236	60.80
	Subtotal	<u>215,849</u>	<u>100.00</u>
	Total	<u>₩ 1,125,808</u>	

(December 31, 2017)

		Dec. 31, 2017	
		Amount	Ratio (%)
Financial assets at FVTPL			
	United States	₩ 24,895	64.39
	Others	13,770	35.61
	Subtotal	<u>38,665</u>	<u>100.00</u>
AFS financial assets			
	Korea	323,725	35.51
	United States	427,449	46.89
	Others	160,344	17.60
	Subtotal	<u>911,518</u>	<u>100.00</u>
HTM financial assets			
	Korea	28,616	31.98
	China	27,912	31.19
	Others	32,949	36.83
	Subtotal	<u>89,477</u>	<u>100.00</u>
	Total	<u>₩ 1,039,660</u>	

- 5) Credit enhancement and its financial effect as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

	Loans(*1)	Acceptances and guarantees	Unused loan commitments	Total	Ratio (%)
Maximum exposure to credit risk	₩ 71,741,224	₩ 40,010,549	₩ 17,619,116	₩ 129,370,889	100.00
Credit enhancement:					
Deposits and savings	91,577	40,833	7,003	139,413	0.11
Export guarantee insurance	-	717,364	7,223	724,587	0.56
Guarantee	4,666,963	1,935,334	1,565,600	8,167,897	6.31
Securities	145,978	378,069	12,400	536,447	0.41
Real estate	1,886,139	1,200,486	23,193	3,109,818	2.40
Ships	869,933	244,822	-	1,114,755	0.86
Others	1,297,273	-	12,099	1,309,372	1.02
Subtotal	8,957,863	4,516,908	1,627,518	15,102,289	11.67
Exposure to credit risk after deducting credit enhancement	₩ 62,783,361	₩ 35,493,641	₩ 15,991,598	₩ 114,268,600	88.33

(*1) Loans exclude loans valuation adjustment related to fair value hedging.

(December 31, 2017)

	Loans(*1)	Acceptances and guarantees	Unused loan commitments	Total	Ratio (%)
Maximum exposure to credit risk	₩ 71,486,133	₩ 42,808,774	₩ 19,737,788	₩ 134,032,695	100.00
Credit enhancement:					
Deposits and savings	93,112	93,168	7,840	194,120	0.15
Export guarantee insurance	-	884,694	1,806	886,500	0.66
Guarantee	3,851,033	1,902,263	1,381,731	7,135,027	5.32
Securities	149,004	410,282	17,450	576,736	0.43
Real estate	1,720,631	1,146,484	432,126	3,299,241	2.46
Ships	859,813	205,874	9,643	1,075,330	0.80
Others	1,515,638	23,402	9,838	1,548,878	1.16
Subtotal	8,189,231	4,666,167	1,860,434	14,715,832	10.98
Exposure to credit risk after deducting credit enhancement	₩ 63,296,902	₩ 38,142,607	₩ 17,877,354	₩ 119,316,863	89.02

(*1) Loans exclude loans valuation adjustment related to fair value hedging.

4-3. Liquidity risk

(1) Overview of liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they become due. The Bank discloses all financial asset, financial liabilities and off-balance-sheet items, such as loan commitments and analysis of the contractual maturity, which are related to liquidity risk, into seven categories. The cash flows disclosed in the maturity analysis are undiscounted contractual amounts, including principal and future interest, which resulted in disagreement with the discounted cash flows included in the separate statements of financial position. However, for derivatives, each discounted cash flow consisting of current fair value is presented.

(2) Principles of the liquidity risk management

- 1) Liquidity risk is managed with integration. The Bank measures, reports and controls liquidity risk by quantification with reasonable method.
- 2) Liquidity risk reflects financing plans and fund-using plans, and the Bank reports the liquidity risk with preciseness, timeliness and consistency.
- 3) The Bank establishes liquidity risk management strategy by analyzing liquidity maturity, liquidity gap structure and market environment.

(3) Liquidity risk management

Risk management department monitors changes by liquidity risk sources and compliance of risk limits. It notifies related departments to prepare countermeasures in case the measured liquidity risk is close to risk limits. Also, it analyzes crisis situations and effects of the crisis situations and reports to the Risk Management Committee on a regular basis. Each related department monitors changes of liquidity risk sources and compliance of risk limits by itself and if exposure to new risk is expected, it discusses the matter with the head of risk management department.

(4) Measurement of liquidity risk

The Bank measures liquidity ratio, liquidity gap ratio and others for local currency and foreign currencies and simulates analysis reflecting market environment, product features and the Bank's strategies.

(5) Analysis on remaining contractual maturity of financial liabilities and off-balance-sheet items

Remaining contractual maturity and amount of financial liabilities and off-balance-sheet items as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

	On demand	Within 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 year to 5 years	Over 5 years	Total
Financial liabilities:								
Financial liabilities at FVTPL	₩ 905,901	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 905,901
Hedging derivative liabilities	-	11,405	17,721	140,390	229,816	691,997	536,974	1,628,303
Borrowings	-	68,965	45,916	448,363	632,663	3,864,588	173,063	5,233,558
Debentures	-	1,051,114	3,281,750	5,681,679	10,742,556	35,635,971	17,715,427	74,108,497
Other financial liabilities	-	719,647	-	329	2,332	167,861	947,509	1,837,678
	<u>₩ 905,901</u>	<u>₩ 1,851,131</u>	<u>₩ 3,345,387</u>	<u>₩ 6,270,761</u>	<u>₩ 11,607,367</u>	<u>₩ 40,360,417</u>	<u>₩ 19,372,973</u>	<u>₩ 83,713,937</u>
Off-balance sheet items(*1):								
Commitments	₩ 17,619,116	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 17,619,116
Financial guarantee contracts	14,500,508	-	-	-	-	-	-	14,500,508
	<u>₩ 32,119,624</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 32,119,624</u>

(*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

(December 31, 2017)

	On demand	Within 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 year to 5 years	Over 5 years	Total
Financial liabilities:								
Financial liabilities at FVTPL	₩ 911,778	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 911,778
Hedging derivative liabilities	-	206	57,322	91,587	45,610	449,538	413,933	1,058,196
Borrowings	-	216,013	15,770	1,139,708	424,604	3,936,528	575,566	6,308,189
Debentures	-	912,759	3,000,853	5,332,189	9,803,980	31,884,629	17,443,603	68,378,013
Other financial liabilities	-	985,367	-	-	65,689	34,810	708,632	1,794,498
	<u>₩ 911,778</u>	<u>₩ 2,114,345</u>	<u>₩ 3,073,945</u>	<u>₩ 6,563,484</u>	<u>₩ 10,339,883</u>	<u>₩ 36,305,505</u>	<u>₩ 19,141,734</u>	<u>₩ 78,450,674</u>
Off-balance sheet items(*1):								
Commitments	₩ 19,737,788	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 19,737,788
Financial guarantee contracts	14,493,065	-	-	-	-	-	-	14,493,065
	<u>₩ 34,230,853</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 34,230,853</u>

(*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

4-4. Market risk

(1) Overview of market risk

1) Definition of market risk

Market risk is the risk of possible losses that arise from the changes of market factors, such as interest rate, stock price, foreign exchange rate, commodity value and other market factors related to the fair value or future cash flows of the financial instruments. The Bank classifies exposures to market risk into either foreign exchange rate risk or interest rate risk. Foreign exchange risk means that possible losses on assets and liabilities denominated in foreign currencies due to changes of foreign exchange rate. Interest rate risk means that possible losses on assets and liabilities due to changes of interest rate.

2) Market risk management group

The Bank operates the Risk Management Committee and the Risk Management Council for managing risks and risk limits. The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council for practical matters, such as managing adequate assets and liabilities by analyzing foreign exchange risk, interest rate risk, liquidity risk, money balance plan and effects by initiating new product. Market risk is managed by product and currency for minimizing segments exposed to changes of foreign exchange, interest rate and securities' price. Foreign exchange risk is measured by definite method and probabilistic method and definite method is used for limits management. Interest rate value at risk ("VaR") and interest rate earning at risk ("EaR") are measured by BIS standards, definite method and probabilistic method and definite method is used for limits management. Meanwhile, the Bank performs financial crisis analysis supposing exceptional, but possible events for evaluating latent weakness. The analysis is used for important decision making, such as risk mitigation, emergency plan development and limit setup. The results of the analysis are reported to the board of directors and management on a quarterly basis.

(2) Foreign exchange risk

1) Management of foreign exchange risk

Foreign exchange risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of foreign exchange risk by source and compliance of risk limits regularly. A finance division head also monitors changes of foreign exchange risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that foreign exchange risk exceeds risk limit. If foreign exchange risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of foreign exchange risk

Foreign exchange risk is managed by foreign exchange VaR and foreign exchange position. Foreign exchange VaR is measured on a monthly basis and foreign exchange position is measured on a daily basis. It is measured separately by currency for assets and liabilities denominated in foreign currencies exceeding 5% of total assets and liabilities denominated in foreign currencies.

3) Measurement method

① VaR

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal weighted-average method based on historical changes in market rates, prices and volatilities over the previous five years data and measures VaR at a 99% single tail confidence level. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different, depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of foreign exchange that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

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

	Dec. 31, 2018				Dec. 31, 2017			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Foreign exchange risk	₩ 27,714	₩ 4,635	₩ 68,602	₩ 26,897	₩ 55,558	₩ 6,117	₩ 111,035	₩ 37,718

(3) Interest rate risk

1) Management of interest rate risk

Interest rate risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of interest rate risk by source and compliance of risk limits regularly. A finance division head also monitors changes of interest rate risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that interest rate risk exceeds risk limit. If interest rate risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of interest rate risk

Interest rate risk is managed by measuring interest rate EaR and interest rate VaR and uses interest rate sensitivity gap and duration gap as supplementary index. Interest rate EaR and interest rate VaR are measured on a monthly basis, and interest rate sensitivity gap and duration gap are measured on a daily basis. The Bank simulates analysis reflecting market environment, product features and the Bank's strategies.

3) Measurement method

① VaR

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal weighted-average method based on historical changes in market rates, prices and volatilities over the previous five years data and measures VaR at a 99% single tail confidence level. This means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique. However, the method has some limitations.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of interest rate that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

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

	Dec. 31, 2018				Dec. 31, 2017			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 79,086	₩ 37,129	₩ 112,921	₩ 37,129	₩112,024	₩ 58,413	₩ 179,886	₩96,423

4-5. Capital risk

The Bank follows the standard of capital adequacy established by the Financial Services Commission. The standard is based on Basel III, which was established by Basel Committee on Banking Supervision in BIS. In Korea, this standard has been followed since December 2013. According to the standard, domestic banks should maintain at least 8% or above of BIS capital ratio for risk-weighted asset, and quarterly report BIS capital ratio to the FSS.

According to Korean Banking Supervision rules for operations, the Bank's capitals are mainly divided into two categories:

- 1) Tier 1 capital (basic capital): Basic capital is composed of capital stock-common and other basic capital. Capital stock-common includes common stock satisfied with qualifications, capital surplus, retained earnings, accumulated other comprehensive income, other reserves and non-controlling interests among the common stock of consolidated subsidiaries. Other basic capital includes securities and capital surplus satisfied with qualifications
- 2) Tier 2 capital (supplementary capital): Supplementary capital is composed of the securities and capital surplus satisfied with qualifications, non-controlling interests among the securities of consolidated subsidiaries and the amounts of less than below 1.25% of credit risk-weighted asset like allowance for credit losses in respect of credits classified as normal or precautionary.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Bank bears. The Bank computes the risk-weighted asset by risks (credit risk, market risk and operational risk) and uses it for calculation of BIS capital ratio.

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

5-1. Classification and fair value

(1) Carrying amounts and fair values of financial instruments as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

	Classification	Carrying amount	Fair value
Financial assets:			
Cash and due from financial institutions	Non-recurring	₩ 3,682,863	₩ 3,682,864
Financial assets at FVTPL	Recurring	2,298,223	2,298,223
Hedging derivative assets	Recurring	75,743	75,743
Loans at amortized cost	Non-recurring	70,199,721	70,374,963
Financial assets at FVOCI	Recurring	8,628,968	8,628,968
Financial assets at amortized cost	Non-recurring	215,788	217,237
Other financial assets	Non-recurring	964,721	964,721
		<u>₩ 86,066,027</u>	<u>₩ 86,242,719</u>
Financial liabilities:			
Financial liabilities at FVTPL	Recurring	₩ 905,901	₩ 905,901
Hedging derivative liabilities	Recurring	1,628,303	1,628,303
Borrowings	Non-recurring	4,893,478	4,833,791
Debentures	Non-recurring	65,942,970	66,493,992
Other financial liabilities	Non-recurring	1,837,678	1,837,678
		<u>₩ 75,208,330</u>	<u>₩ 75,699,665</u>

(December 31, 2017)

	Classification	Carrying amount	Fair value
Financial assets:			
Cash and due from financial institutions	Non-recurring	₩ 2,091,920	₩ 2,092,008
Financial assets at FVTPL	Recurring	1,616,973	1,616,973
Hedging derivative assets	Recurring	228,121	228,121
Loans	Non-recurring	68,223,320	69,459,210
AFS financial assets	Recurring	6,692,478	6,692,478
HTM financial assets	Non-recurring	89,477	89,119
Other financial assets	Non-recurring	933,510	933,510
		<u>₩ 79,875,799</u>	<u>₩ 81,111,419</u>
Financial liabilities:			
Financial liabilities at FVTPL	Recurring	₩ 911,778	₩ 911,778
Hedging derivative liabilities	Recurring	1,058,196	1,058,196
Borrowings	Non-recurring	6,013,457	5,985,700
Debentures	Non-recurring	60,685,098	61,193,068
Other financial liabilities	Non-recurring	1,794,498	1,794,498
		<u>₩ 70,463,027</u>	<u>₩ 70,943,240</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For each class of financial assets and financial liabilities, the Bank discloses the fair value of that class of assets and liabilities in a way that permits them to be compared with their carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods for measuring fair value of financial instruments are as follows:

Financial instruments	Method of measuring fair value
Loans and receivables	As demand deposits and transferable deposits do not have maturity and are readily convertible to cash, the carrying amounts of these deposits approximate their fair values. Fair values of the deposits with the maturity of more than one year are determined by discounted cash flow model ("DCF model"). DCF model is also used to determine the fair value of loans. Fair value is determined by discounting the cash flows expected from each contractual period by applying the discount rates for each period.
Investment securities	Trading financial assets and liabilities and AFS financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using the DCF model.
Derivatives	For exchange traded derivative, quoted price in active market is used to determine fair value and for OTC derivative, fair value is determined primarily using the DCF model. The Bank uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives including option, interest rate swap and currency swap based on observable market parameters. However, some complex financial instruments are valued using the results of independent pricing services, where part or all of the inputs are not observable in the market.
Borrowings	Fair value is determined using DCF model discounting contractual future cash flows by appropriate discount rate.
Debentures	Fair value of debentures denominated in local currency is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets. Fair value of debentures denominated in foreign currencies is determined by DCF model.

Fair values of financial assets and financial liabilities classified as fair value Level 3 of the fair value hierarchy are determined by using the valuation of independent third-party pricing services. Meanwhile, carrying amounts of other financial assets and financial liabilities are regarded as an approximation of fair values.

(2) Fair value hierarchy

Fair value hierarchy of financial assets and liabilities, which are not measured at fair value as of December 31, 2018 and 2017, is as follows (Korean won in millions):

(Dec. 31, 2018)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from financial Institutions (*)	₩ 950,067	₩ -	₩ 2,732,797	₩ 3,682,864
Loans at amortized cost	-	-	70,374,963	70,374,963
Financial assets at amortized cost	-	217,237	-	217,237
Other financial assets	-	-	964,721	964,721
Total	<u>₩ 950,067</u>	<u>₩ 217,237</u>	<u>₩ 74,072,481</u>	<u>₩ 75,239,785</u>
Financial liabilities:				
Borrowings	₩ -	₩ 4,833,791	₩ -	₩ 4,833,791
Debentures	-	66,493,992	-	66,493,992
Other financial liabilities	-	-	1,837,678	1,837,678
Total	<u>₩ -</u>	<u>₩ 71,327,783</u>	<u>₩ 1,837,678</u>	<u>₩ 73,165,461</u>

(December 31, 2017)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from financial institutions (*)	₩ 647,521	₩ -	₩ 1,444,487	₩ 2,092,008
Loans	-	-	69,459,210	69,459,210
HTM financial assets	-	89,119	-	89,119
Other financial assets	-	-	933,510	933,510
	<u>₩ 647,521</u>	<u>₩ 89,119</u>	<u>₩ 71,837,207</u>	<u>₩ 72,573,847</u>
Financial liabilities:				
Borrowings	₩ -	₩ 5,985,700	₩ -	₩ 5,985,700
Debentures	-	61,193,068	-	61,193,068
Other financial liabilities	-	-	1,794,498	1,794,498
	<u>₩ -</u>	<u>₩ 67,178,768</u>	<u>₩ 1,794,498</u>	<u>₩ 68,973,266</u>

(*) Cash and due from financial institutions as Level 3 are consist of deposits for over-the-counter derivatives to Central Counterparty, and other financial institutions.

Fair value hierarchy of financial assets and liabilities measured at fair value as of December 31, 2018, and December 31 2017, is as follows (Korean won in millions):

(December 31, 2018)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 2,032,246	₩ 265,977	₩ 2,298,223
Hedging derivative assets	-	75,743	-	75,743
Financial assets at FVOCI	283,102	743,304	7,602,562	8,628,968
	<u>₩ 283,102</u>	<u>₩ 2,851,293</u>	<u>₩ 7,868,539</u>	<u>₩ 11,002,934</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 905,901	₩ -	₩ 905,901
Hedging derivative liabilities	-	1,628,303	-	1,628,303
	<u>₩ -</u>	<u>₩ 2,534,204</u>	<u>₩ -</u>	<u>₩ 2,534,204</u>

(December 31, 2017)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ 725,613	₩ 891,360	₩ -	₩ 1,616,973
Hedging derivative assets	-	228,121	-	228,121
AFS financial assets	319,416	812,471	3,906,416	5,038,303
	<u>₩ 1,045,029</u>	<u>₩ 1,931,952</u>	<u>₩ 3,906,416</u>	<u>₩ 6,883,397</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 911,778	₩ -	₩ 911,778
Hedging derivative liabilities	-	1,058,196	-	1,058,196
	<u>₩ -</u>	<u>₩ 1,969,974</u>	<u>₩ -</u>	<u>₩ 1,969,974</u>

The Bank classifies financial instruments as three level of fair value hierarchy as below:

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value Level 1. This level includes listed equity securities, derivatives, and government bonds traded in an active exchange market.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as Level 2. This level includes the majority of debt and general OTC derivatives such as swap, futures and options

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as Level 3. This level includes unlisted equity securities, structured bonds and OTC derivatives.

The valuation techniques and input variables of Level 2 financial instruments subsequently not measured at fair value as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

(December 31, 2018)

	Fair value	Valuation techniques	Input variables
Financial assets			
Financial assets at amortized cost			
Debt securities	₩ 217,237	DCF Model	Discount rate
Financial liabilities			
Borrowings	4,833,791	DCF Model	Discount rate
Debentures	66,493,992	DCF Model	Discount rate

(December 31, 2017)

	Fair value	Valuation techniques	Input variables
Financial assets			
HTM financial assets			
Debt securities	₩ 89,119	DCF Model	Discount rate
Financial liabilities			
Borrowings	5,985,700	DCF Model	Discount rate
Debentures	61,193,068	DCF Model	Discount rate

The valuation techniques and input variables of Level 3 financial instruments subsequently not measured at fair value as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

(December 31, 2018)

	Fair value	Valuation techniques	Input variables
Financial assets			
Loans at amortized cost	₩ 70,374,963	DCF Model	Discount rate
Other financial assets	964,721	DCF Model	Discount rate
Financial liabilities			
Other financial liabilities	1,837,678	DCF Model	Discount rate

(December 31, 2017)

	Fair value	Valuation techniques	Input variables
Financial assets			
Loans	₩ 69,459,210	DCF Model	Discount rate
Other financial assets	933,510	DCF Model	Discount rate
Financial liabilities			
Other financial liabilities	1,794,498	DCF Model	Discount rate

The valuation techniques and input variables of Level 2 financial instruments, measured at fair value after initial recognition, as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

(December 31, 2018)

	Fair value	Valuation techniques	Input variables
Financial assets			
Financial assets at FVTPL:			
Debt securities	₩ 1,194,714	DCF Model	Discount rate
Derivative assets for trading	837,532	DCF Model	Discount rate
Hedging derivative assets	75,743	DCF Model	Discount rate
Financial assets at FVOCI:			
Debt securities	743,304	DCF Model	Discount rate
Financial liabilities			
Financial liabilities at FVTPL:			
Derivative liabilities for trading	905,901	DCF Model	Discount rate
Hedging derivative liabilities	1,628,303	DCF Model	Discount rate

(December 31, 2017)

	Fair value	Valuation techniques	Input variables
Financial assets			
Financial assets at FVTPL			
Debt securities	₩ 38,665	DCF Model	Discount rate
Derivative assets for trading	852,695	DCF Model	Discount rate
Hedging derivative assets	228,121	DCF Model	Discount rate
AFS financial assets			
Debt securities	812,471	DCF Model	Discount rate
Financial liabilities			
Financial liabilities at FVTPL			
Derivative liabilities for trading	911,778	DCF Model	Discount rate
Hedging derivative liabilities	1,058,196	DCF Model	Discount rate

Below table accounts for quantitative information of fair value using input factor, which is significant but unobservable, and relation between unobservable input factor and estimate of fair value.

(December 31, 2018)

	Fair value (Korean won in million)	Valuation techniques	Significant unobservable input factors	Range	Relationship between unobservable input factors and fair value estimates
Financial assets at FVTPL:					
Unlisted stock	₩ 17,223				
Marketable securities	159,765	DCF Model NAV Methods CCA Methods	Discount rate	7.85 %	If discount rate is decreased (increased)/ if growth rate is increased (decreased), fair value is increased (decreased).
Paid-in capital	72,029		Growth rate	-	
Loans	16,960				
Financial assets at FVOCI:					
Unlisted stock	₩7,585,686	DCF Model NAV Methods CCA Methods	Discount rate	3.87~ 16.21%	If discount rate is decreased (increased)/ if growth rate is increased (decreased), fair value is increased (decreased).
Paid-in capital	16,876		Growth rate	-	

(December 31, 2017)

	Fair value (Korean won in millions)	Valuation techniques	Significant unobservable input factors	Range	Relationship between unobservable input factors and fair value estimates
AFS financial assets:					
Unlisted stock	₩ 3,906,416	DCF Model CCA Methods NAV Methods FTE Methods	Discount rate Growth rate	5.49%~19.31% -	If discount rate is decreased (increased)/ if growth rate is increased (decrease), fair value is increased (decreased).

- 1) Changes in Level 3 financial assets that are measured at fair value for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

	Beginning balance (*1)	Profit (loss)	Other comprehen- sive income	Purchases / issues	Sales/ settlements	Transfers into Level 3 / Transfers out of Level 3	Ending balance
Financial assets							
Securities at FVTPL	₩ 134,325	₩ 3,750	₩ -	₩114,491	₩ (3,549)	₩ -	₩ 249,017
Loans at FVTPL	13,577	(117)	-	3,500	-	-	16,960
Financial assets at FVOCI	6,292,539	-	1,115,904	194,134	(15)	-	7,602,562
Total	<u>₩6,440,441</u>	<u>₩ 3,633</u>	<u>₩1,115,904</u>	<u>₩312,125</u>	<u>₩ (3,564)</u>	<u>₩ -</u>	<u>₩ 7,868,539</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

(2017)

	Beginning balance	Profit (Loss)	Other comprehen- sive income	Purchases / issues	Sales/ settlements	Transfers into Level 3 / Transfers out of Level 3	Ending balance
Financial assets							
AFS financial assets	₩3,931,733	₩ (80)	₩ (87,259)	₩ 64,366	₩ (2,344)	₩ -	₩ 3,906,416

- 2) In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period and total gains or losses for financial instruments held at the end of the reporting period in the separate statement of comprehensive income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Net income (loss) from financial investments	
	2018	2017
Total gains (losses) on financial instruments held at the end of the reporting period	₩ 3,633	₩ (80)
Total gains (losses) included in profit or loss for the period	3,633	(80)

3) The sensitivity of fair value analysis for the Level 3 financial instruments

The Bank performed the sensitivity analysis for the Level 3 financial instruments for which fair value would be measured differently upon reasonably possible alternative assumptions. The Bank classified the effect from changes upon the alternative assumptions into favorable effect and unfavorable effect and presented the most favorable effect or the most unfavorable effect in the table hereunder. Stocks are the financial instruments subject to sensitivity analysis, which are classified as Level 3 and of which changes in fair value are recognized as other comprehensive income. Meanwhile, equity instruments, which are recognized as cost among the financial instruments and are classified as Level 3 are excluded from the sensitivity analysis.

Sensitivity analysis details per market risk variable of each Level 3 financial instrument held and measured at fair value as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

	<u>Net income (loss)</u>		<u>Other comprehensive income (loss)</u>	
	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
Financial assets:				
Financial assets at FVTPL(*1)	₩ 1,356	₩ (507)	₩ -	₩ -
Financial assets at FVOCI(*1)	-	-	5,923,204	(1,222,886)

(December 31, 2017)

	<u>Net income (loss)</u>		<u>Other comprehensive income (loss)</u>	
	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
Financial assets:				
AFS Financial assets(*1)	₩ -	₩ -	₩ 3,175,806	₩ (936,590)

(*1) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1% and discount rate, which are unobservable inputs.

5-2. Carrying amounts of financial instruments

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

(December 31, 2018)

	Financial assets at FVTPL	Financial assets at FVOCI	Financial assets at amortized cost	Hedging derivative assets	Total
Financial assets:					
Cash and due from financial institutions	₩ -	₩ 3,682,863	₩ -	₩ -	₩ 3,682,863
Financial assets at FVTPL	2,298,223	-	-	-	2,298,223
Hedging derivative assets	-	-	-	75,743	75,743
Loans at amortized cost	-	70,199,721	-	-	70,199,721
Financial investments	-	215,788	8,628,968	-	8,844,756
Other financial assets	-	964,721	-	-	964,721
Total	₩ 2,298,223	₩ 75,063,093	₩ 8,628,968	₩ 75,743	₩ 86,066,027

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities:				
Financial liabilities at FVTPL	₩ 905,901	₩ -	₩ -	₩ 905,901
Hedging derivative liabilities	-	-	1,628,303	1,628,303
Borrowings	-	4,893,478	-	4,893,478
Debentures	-	65,942,970	-	65,942,970
Other financial liabilities	-	1,837,678	-	1,837,678
Total	₩ 905,901	₩ 72,674,126	₩ 1,628,303	₩ 75,208,330

(December 31, 2017)

	Financial assets at FVTPL	Loans	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets:						
Cash and due from financial institutions	₩ -	₩ 2,091,920	₩ -	₩ -	₩ -	₩ 2,091,920
Financial assets at FVTPL	1,616,973	-	-	-	-	1,616,973
Hedging derivative assets	-	-	-	-	228,121	228,121
Loans	-	68,223,320	-	-	-	68,223,320
Financial investments	-	-	6,692,478	89,477	-	6,781,955
Other financial assets	-	933,510	-	-	-	933,510
Total	₩ 1,616,973	₩ 71,248,750	₩ 6,692,478	₩ 89,477	₩ 228,121	₩ 79,875,799

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities:				
Financial liabilities at FVTPL	₩ 911,778	₩ -	₩ -	₩ 911,778
Hedging derivative liabilities	-	-	1,058,196	1,058,196
Borrowings	-	6,013,457	-	6,013,457
Debentures	-	60,685,098	-	60,685,098
Other financial liabilities	-	1,794,498	-	1,794,498
Total	₩ 911,778	₩ 68,493,053	₩ 1,058,196	₩ 70,463,027

5-3. Offset of financial instruments

The Bank has conditional rights of setoff that are enforceable and exercisable only in the events mentioned in agreements regardless of meeting some or all of the offsetting criteria in K-IFRS 1032 for financial instruments. Cash collaterals do not meet the offsetting criteria in K-IFRS 1032, but they can be set off with net amount of financial instruments.

The effects of netting agreements as of December 31, 2018 and 2017, are as follow (Korean won in millions):

(December 31, 2018)

	Gross amounts of recognized financial assets (liabilities)		Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements				
					Financial instruments	Cash collateral	Net amount		
Financial assets:									
Derivatives	₩	913,275	₩	-	₩	913,275	₩ (292,132)	₩ (3,488)	₩ 617,655
Financial liabilities:									
Derivatives		2,534,204		-		2,534,204	(292,132)	(1,380,905)	861,167

(December 31, 2017)

	Gross amounts of recognized financial assets (liabilities)		Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements				
					Financial instruments	Cash collateral	Net amount		
Financial assets:									
Derivatives	₩	1,080,816	₩	-	₩	1,080,816	₩ (535,438)	₩ (38,009)	₩ 507,369
Financial liabilities:									
Derivatives		1,969,974		-		1,969,974	(535,438)	(667,220)	767,316

5-4. Transfer of financial assets

The Bank has securities sold under repurchase agreements (“RP”), and it refers to the financial assets that have been transferred, but presented in the separate financial statements since the assets do not meet the conditions of derecognition. In case of securities sold under the RP, securities are disposed, but the Bank agrees to repurchase at the fixed amount, so that the Bank retains substantially all the risks and rewards of ownership of the securities. There are no carrying amounts of transferred assets and relevant liabilities as of December 31, 2018 and December 31, 2017.

6. OPERATING SEGMENT:

Though the Bank conducts business activities related to financial services, in accordance with relevant laws, such as the Export-Import Bank of Korea Act, it does not report separate segment information, as management considers the Bank to be operating under one core business. The Bank determines geographic information of its revenue and non-current assets based on originating location. As the Bank’s originating location for all transactions is in Korea, the geographical information for revenue and non-current assets is omitted.

7. CASH AND DUE FROM FINANCIAL INSTITUTIONS:

- (1) Cash and cash equivalents as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Detail	Dec. 31, 2018	Dec. 31, 2017
Due from financial institutions in local currency	₩ 604,286	₩ 439,119
Due from financial institutions in foreign currencies	3,078,577	1,652,801
Subtotal	3,682,863	2,091,920
Restricted due from financial institutions	(2,132,796)	(985,926)
Due from financial institutions with original maturities of more than three months at acquisition date	(530,000)	(290,000)
Subtotal	(2,682,796)	(1,275,926)
Total(*1)	₩ 1,020,067	₩ 815,994

(*1) Equal to the cash and due from financial institutions as presented on the separate statements of cash flows.

- (2) Details of due from financial institutions as of December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail	December 31, 2018		December 31, 2017	
	Amount	Interest (%)	Amount	Interest (%)
Due from financial institutions in local currency:				
Demand deposits	₩ 2,026	-	₩ 1,439	-
Time deposits	600,000	1.83~2.27	430,000	1.60 ~ 2.15
Others	600	1.10	4,900	1.10
Margin for derivatives	1,660	-	2,780	-
Subtotal	604,286		439,119	
Due from financial institutions in foreign currencies:				
Demand deposits	43,379	-	44,057	-
Time deposits	-	-	28,473	-
On demand	865,382	-	572,133	-
Offshore demand deposits	38,680	-	24,993	-
Others	1,836,348	0.00 ~ 0.45	784,438	0.00 ~ 0.45
Margin for derivatives	294,788	-	198,707	-
Subtotal	3,078,577		1,652,801	
Total	₩ 3,682,863		₩ 2,091,920	

- (3) Restricted due from financial institutions as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Detail	Financial Institution	Dec. 31, 2018	Dec. 31, 2017	Reason for restriction
Others	DEUTSCHE BANK TRUST COMPANY AMERICAS and others	₩ 2,132,796	₩ 985,926	Credit support annex for derivative transactions

8. FINANCIAL ASSETS AT FVTPL:

Details of financial assets at FVTPL as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

	<u>Amount</u>
Debt securities in local currency	
Paid-in capital	₩ 67,614
Beneficiary certificates	1,212,517
Subtotal	<u>1,280,131</u>
Debt securities in foreign currency	
Debt securities	49,781
Paid-in capital	4,415
Beneficiary certificates	92,181
Equity securities in foreign currency stocks	17,223
Subtotal	<u>163,600</u>
Loans at FVPL	
Privately placed corporate bonds	16,960
Derivative assets	
Stocks	583
Interest product	445,329
Currency product	391,596
Others	24
Subtotal	<u>837,532</u>
Total	<u>₩ 2,298,223</u>

(December 31, 2017)

	<u>Amount</u>
Equity securities	
Beneficiary certificates	₩ 725,613
Debt securities	
Debt securities in foreign currency	38,665
Derivative assets	
Stocks	1,444
Interest product	329,246
Currency product	521,982
Others	23
Subtotal	<u>852,695</u>
Total	<u>₩ 1,616,973</u>

9. FINANCIAL INVESTMENTS:

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

(December 31, 2018)

	<u>Amount</u>
Financial assets at FVOCI	
Debt securities in local currency	
National bond	₩ 99,914
Derivative linked securities	50,000
Equity securities	
Stocks	7,768,874
Paid-in capital	16,876
Subtotal	<u>7,935,664</u>
Debt securities in foreign currencies	
Corporate bonds and etc. (*1)	<u>693,304</u>
Financial assets at amortized cost	
Debt securities in foreign currencies	
Corporate bonds and etc. (*1)	215,788
Total	<u>₩ 8,844,756</u>

(December 31, 2017)

	<u>Amount</u>
AFS securities in local currency	
Equity securities	
Marketable securities	₩ 220,370
Non-marketable securities	5,410,644
Equity investments in unincorporated entities	62,117
Others	65,642
Debt securities	
Debt securities	149,085
Subtotal	<u>5,907,858</u>
AFS securities in foreign currencies	
Equity securities	
Stocks	17,764
Paid-in capital	4,423
Debt securities	
Debt securities (*1)	762,433
Subtotal	<u>784,620</u>
HTM securities in foreign currencies	
Debt securities	
Debt securities (*1)	89,477
Total	<u>₩ 6,781,955</u>

(*1) Includes securities, which are pledged as collateral amounting to ₩60,229 million and ₩31,220 million as of December 31, 2018 and 2017, respectively.

10. LOANS AT AMORTIZED COST:

Loans as presented below exclude loan valuation adjustment related to fair value hedging amounting to ₩12,801 million and ₩24,182 million as of December 31, 2018 and 2017, respectively.

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

	Detail	Dec. 31, 2018	Dec. 31, 2017
Loans in local currency			
	Loans for export	₩ 11,509,858	₩ 12,027,416
	Loans for foreign investments	1,290,776	797,992
	Loans for import	2,550,627	1,959,237
	Troubled Debt Restructuring	951,800	2,161,537
	Others	533,547	2,009,825
	Subtotal	16,836,608	18,956,007
Loans in foreign currencies			
	Loans for export	26,938,880	25,985,848
	Loans for foreign investments	21,167,724	19,518,443
	Loans for rediscounted trading notes	1,017,471	-
	Loans for import	1,921,810	1,594,141
	Overseas funding loans	585,160	546,938
	Domestic usance bills	180,301	172,830
	Others	49,906	54,422
	Subtotal	51,861,252	47,872,622
Others			
	Foreign-currency bills bought	876,098	1,063,717
	Advance payments on acceptances and guarantees	30,473	10,656
	Call loans	2,515,725	2,056,086
	Interbank loans in foreign currencies	-	1,925,158
	Subtotal	3,422,296	5,055,617
	Total	72,120,156	71,884,246
Net deferred origination fees and costs		(378,931)	(398,113)
Allowance for loan losses		(1,554,304)	(3,286,995)
	Total	₩ 70,186,920	₩ 68,199,138

(2) Loans classified by type of customers as of December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

	Detail	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)
Customer	Large enterprise	₩ 6,838,493	₩ 30,626,080	₩ 102,321	₩ 37,566,894	60.73
	Small and medium sized enterprise	6,298,185	5,637,751	165,411	12,101,347	19.56
	Public sector and others	1,969,233	10,218,766	-	12,187,999	19.71
	Subtotal	15,105,911	46,482,597	267,732	61,856,240	100.00
	Net deferred origination fees and costs	(5,637)	(371,438)	-	(377,075)	
	Allowance for loan losses	(706,023)	(797,970)	(31,573)	(1,535,566)	
	Subtotal	14,394,251	45,313,189	236,159	59,943,599	
Financial institution	Bank	1,730,697	2,941,252	3,024,925	7,696,874	74.99
	Others	-	2,437,402	129,640	2,567,042	25.01
	Subtotal	1,730,697	5,378,654	3,154,565	10,263,916	100.00
	Net deferred origination fees and costs	-	(1,856)	-	(1,856)	
	Allowance for loan losses	(948)	(14,682)	(3,109)	(18,739)	
	Subtotal	1,729,749	5,362,116	3,151,456	10,243,321	
	Total	₩ 16,124,000	₩ 50,675,305	₩ 3,387,615	₩ 70,186,920	

(December 31, 2017)

	Detail	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)
Customer	Large enterprise	₩ 8,000,990	₩ 29,003,791	₩ 160,194	₩ 37,164,975	60.29
	Small and medium sized enterprise	8,511,777	6,207,018	132,851	14,851,646	24.09
	Public sector and others	1,083,874	8,545,395	-	9,629,269	15.62
	Subtotal	17,596,641	43,756,204	293,045	61,645,890	100.00
	Net deferred origination fees and costs	(3,886)	(392,432)	-	(396,318)	
	Allowance for loan losses	(2,891,976)	(368,530)	(9,700)	(3,270,206)	
	Subtotal	14,700,779	42,995,242	283,345	57,979,366	
Financial institution	Bank	1,359,366	2,368,339	4,494,987	8,222,692	80.31
	Others	-	1,748,079	267,585	2,015,664	19.69
	Subtotal	1,359,366	4,116,418	4,762,572	10,238,356	100.00
	Net deferred origination fees and costs	-	(1,795)	-	(1,795)	
	Allowance for loan losses	(800)	(8,450)	(7,539)	(16,789)	
	Subtotal	1,358,566	4,106,173	4,755,033	10,219,772	
	Total	₩ 16,059,345	₩ 47,101,415	₩ 5,038,378	₩ 68,199,138	

(3) Changes in allowance for loan losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

	12 month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total
Beginning balance(*1)	₩ 240,653	₩ 415,963	₩ 2,661,044	₩ 3,317,660
- Transfer to 12 month expected credit losses	6,436	(6,384)	(52)	-
- Transfer to lifetime expected credit losses	(4,482)	4,494	(12)	-
- Transfer to credit-impaired financial assets	(994)	(28,527)	29,521	-
Written-off	(1,091)	-	(2,018,447)	(2,019,538)
Collection of written-off loans	8,742	-	2,056	10,798
Loan-for-equity swap	-	-	(31,364)	(31,364)
Others	(38,592)	-	-	(38,592)
Unwinding effect	-	(299)	(34,048)	(34,347)
Foreign exchange translation	3,418	13,987	4,896	22,301
Additional provisions, net of reversals	43,067	159,506	124,813	327,386
Ending balance	<u>₩ 257,157</u>	<u>₩ 558,740</u>	<u>₩ 738,407</u>	<u>₩ 1,554,304</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

(2017)

	Individual assessment	Collective assessment	Total
Beginning balance	₩ 2,228,715	₩ 697,020	₩ 2,925,735
Written-off	(205,540)	(79,080)	(284,620)
Collection of written-off loans	445	18,094	18,539
Loan-for-equity swap	(48,404)	(4,093)	(52,497)
Others	-	(938,437)	(938,437)
Unwinding effect	(74,103)	(5,745)	(79,848)
Foreign exchange translation	(10,137)	(15,932)	(26,069)
Additional provisions, net of reversals	706,250	1,017,942	1,724,192
Transfer in (out)	372,475	(372,475)	-
Ending balance	<u>₩ 2,969,701</u>	<u>₩ 317,294</u>	<u>₩ 3,286,995</u>

11. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES:

- (1) Details of investments in associates and subsidiaries as of December 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

(December 31, 2018)

Company	Detail	Location	Business	Year-end	Ownership (%)	Net asset(*1)	Carrying amount
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Financial service	December	100.00	₩ 45,874	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Financial service	December	100.00	17,316	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Financial service	December	85.00	26,754	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Financial service	December	100.00	64,034	49,139
Korea Asset Management Corporation	Associate	Korea	Financial service	December	25.86	483,324	380,520
Credit Guarantee and Investment Fund(*2,4)	Associate	Philippines	Financial service	December	11.64	116,502	115,486
SUNG Dong Shipbuilding & Marine Engineering Co., Ltd.(*5)	Associate	Korea	Shipbuilding	December	81.25	(1,216,974)	-
DAESUN Shipbuilding & Engineering Co., Ltd.(*6)	Associate	Korea	Shipbuilding	December	83.03	(270,822)	-
KTB Newlake Global Healthcare PEF	Associate	Korea	Financial service	December	25.00	8,017	8,795
KBS-KDB Private Equity Fund	Associate	Korea	Financial service	December	20.30	5,892	6,032
Korea Shipping and Maritime Transportation	Associate	Korea	Financial service	December	40.00	421,440	400,000
Korea Aerospace Industries. Ltd.	Associate	Korea	Manufacturing	December	26.41	273,978	1,467,520
Total							<u>₩ 2,511,497</u>

(December 31, 2017)

Company	Detail	Location	Business	Year-end	Ownership		Carrying amount
					(%)	Net asset(*1)	
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Financial service	December	100.00	₩ 45,079	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Financial service	December	100.00	15,568	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Financial service	December	85.00	27,359	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Financial service	December	100.00	60,176	49,139
Korea Asset Management Corporation	Associate	Korea	Financial service	December	25.86	450,571	380,520
Credit Guarantee and Investment Fund(*2,4)	Associate	Philippines	Financial service	December	14.29	113,046	115,486
Korea Marine Guarantee Inc.	Associate	Korea	Financial service	December	41.88	130,788	135,000
SUNG Dong Shipbuilding & Marine Engineering Co., Ltd.(*3,4)	Associate	Korea	Shipbuilding	December	81.25	(972,550)	-
DAESUN Shipbuilding & Engineering Co., Ltd.(*4,6)	Associate	Korea	Shipbuilding	December	67.30	(264,588)	-
KTB Newlake Global Healthcare PEF	Associate	Korea	Financial service	December	25.00	2,010	2,570
KBS-KDB Private Equity Fund	Associate	Korea	Financial service	December	20.83	2,096	2,367
Korea Shipping and Maritime Transportation	Associate	Korea	Financial service	December	40.00	304,812	362,000
Korea Aerospace Industries. Ltd.	Associate	Korea	Manufacturing	December	26.41	301,181	1,467,520
Total							<u>₩ 2,598,607</u>

(*1) In cases of associates, the amounts represent net asset after taking into account percentage of ownership.

(*2) As of December 31, 2018 and December 31, 2017, this entity is classified into an associate because the Bank has significant influence in the way of representation on the board of directors or equivalent governing body of the investee.

(*3) As of December 31, 2017, this entity was under the creditor-led work out programs. The Bank would need to have at least 75% of the total creditor's loans to have substantive control based on the creditor's agreement. As the Bank had only 69.01% of the total creditor's loans, this was classified into associates.

(*4) The most recent financial statements were used (due to the unavailability of the ones as of December 31, 2018) in which the significant transactions or events, which occurred between the end of preceding reporting period of an associate and that of the Bank, had been reflected.

(*5) Since the corporate restructuring process has been initiated during the current year and major decisions have been made by the courts, the Bank classified the entity as an associate not considering to have substantial control over the entity.

(*6) This entity was under the creditor-led work out programs. The Bank should have at least 75% of the total creditor's loans to have a substantive control based on the creditor's agreement. As the Bank had only 70.60% of the total creditor's loans, this was classified into associates.

- (2) Changes in investments in associates and subsidiaries for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

Company	Detail	Beginning balance	Acquisition	Disposals	Impairment loss	Ending balance
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩ -	₩ -	₩ -	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	-	-	-	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	-	-	-	25,270
KEXIM Asia Limited	Subsidiary	49,139	-	-	-	49,139
Korea Asset Management Corporation	Associate	380,520	-	-	-	380,520
Credit Guarantee and Investment Fund	Associate	115,486	-	-	-	115,486
Korea Marine Guarantee Inc.	Associate	135,000	-	(135,000)	-	-
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	Associate	-	-	-	-	-
DAESUN Shipbuilding & Engineering Co., Ltd.	Associate	-	-	-	-	-
KTB Newlake Global Healthcare PEF	Associate	2,570	6,225	-	-	8,795
KBS-KDB Private Equity Fund	Associate	2,367	4,140	(475)	-	6,032
Korea Shipping and Maritime Transportation	Associate	362,000	38,000	-	-	400,000
Korea Aerospace Industries. Ltd.	Associate	1,467,520	-	-	-	1,467,520
Total		₩2,598,607	₩ 48,365	₩(135,475)	₩ -	₩ 2,511,497

(2017)

Company	Detail	Beginning balance	Acquisition	Disposals	Impairment loss	Ending balance
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩ -	₩ -	₩ -	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	-	-	-	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	-	-	-	25,270
KEXIM Asia Limited	Subsidiary	49,139	-	-	-	49,139
Korea Asset Management Corporation	Associate	380,520	-	-	-	380,520
Credit Guarantee and Investment Fund	Associate	115,486	-	-	-	115,486
Korea Marine Guarantee Inc.	Associate	135,000	-	-	-	135,000
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	Associate	-	236	-	(236)	-
DAESUN Shipbuilding & Engineering Co., Ltd.	Associate	-	-	-	-	-
EQP Global Energy Infrastructure PEF	Associate	280	-	(280)	-	-
KTB Newlake Global Healthcare PEF	Associate	1,153	1,417	-	-	2,570
KBS-KDB Private Equity Fund	Associate	501	1,866	-	-	2,367
Korea Shipping and Maritime Transportation	Associate	-	362,000	-	-	362,000
Korea Aerospace Industries. Ltd.	Associate	-	1,467,520	-	-	1,467,520
Total		₩ 766,084	₩ 1,833,039	₩ (280)	₩ (236)	₩ 2,598,607

- (3) Summarized financial information of associates and subsidiaries as of and for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Company	Assets	Liabilities	Operating income (loss)	Net income (loss)	Comprehensive net income (loss)
KEXIM Bank UK Limited	₩ 420,787	₩ 374,913	₩ 2,165	₩ 2,283	₩ 794
KEXIM Vietnam Leasing Co.	164,600	147,284	1,285	1,053	1,749
PT.KOEXIM Mandiri Finance	179,376	152,623	1,424	682	(87)
KEXIM Asia Limited	464,899	400,865	2,991	3,377	4,163
Korea Asset Management Corporation	4,059,409	2,190,405	85,974	72,143	(24,757)
Credit Guarantee and Investment Fund	1,042,772	41,893	17,007	16,275	(18,694)
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	939,911	2,703,386	(33,332)	(111,591)	(63)
DAESUN Shipbuilding & Engineering Co., Ltd.	408,591	792,192	4,164	(2,568)	14,001
KTB Newlake Global Healthcare PEF	32,380	311	(870)	(870)	(870)
KBS-KDB Private Equity Fund	29,249	227	608	608	608
Korea Shipping and Maritime Transportation	1,062,659	9,060	8,036	199,781	(3,347)
Korea Aerospace Industries. Ltd.	3,932,938	2,887,097	144,468	50,262	42,379

(December 31, 2017)

Company	Assets	Liabilities	Operating income (loss)	Net income (loss)	Comprehensive net income (loss)
KEXIM Bank UK Limited	₩ 453,479	₩ 408,400	₩ 3,470	₩ 2,831	₩ (1,129)
KEXIM Vietnam Leasing Co.	144,783	129,216	1,786	1,599	(2,166)
PT.KOEXIM Mandiri Finance	176,436	149,077	2,769	2,397	(5,003)
KEXIM Asia Limited	423,166	362,989	3,452	3,094	(13,969)
Korea Asset Management Corporation	3,567,608	1,825,259	60,350	45,137	33,104
Credit Guarantee and Investment Fund	837,193	46,106	12,234	12,310	15,269
Korea Marine Guarantee Inc.	331,270	18,978	(849)	(1,863)	(1,785)
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	1,294,318	2,703,607	43,967	7,976	15,412
DAESUN Shipbuilding & Engineering Co., Ltd.	420,575	795,346	(10,398)	(143)	(143)
KTB Newlake Global Healthcare PEF	8,279	239	(671)	(671)	(671)
KBS-KDB Private Equity Fund	10,516	454	(915)	(915)	(915)
Korea Shipping and Maritime Transportation	764,796	2,767	27,646	(153,589)	(142,856)
Korea Aerospace Industries. Ltd.	3,166,223	2,025,818	(208,873)	(235,186)	(239,776)

12. TANGIBLE ASSETS:

- (1) Details of tangible assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Detail	Acquisition cost	Accumulated depreciation	Government grants	Book value
Lands	₩ 190,807	₩ -	₩ -	₩ 190,807
Buildings	100,778	(36,237)	(17)	64,524
Vehicles	4,011	(3,411)	-	600
Furniture and fixture	37,026	(26,855)	-	10,171
Total	₩ 332,622	₩ (66,503)	₩ (17)	₩ 266,102

(December 31, 2017)

Detail	Acquisition cost	Accumulated depreciation	Government grants	Book value
Lands	₩ 190,807	₩ -	₩ -	₩ 190,807
Buildings	97,539	(33,834)	(17)	63,687
Vehicles	3,961	(3,088)	-	874
Furniture and fixture	35,014	(21,917)	-	13,097
Total	₩ 327,321	₩ (58,839)	₩ (17)	₩ 268,465

- (2) Changes in tangible assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

Detail	Beginning balance	Acquisitions	Disposals	Depreciation	Ending balance
Lands	₩ 190,807	₩ -	₩ -	₩ -	₩ 190,807
Buildings	63,687	3,239	-	(2,402)	64,524
Vehicles	874	200	-	(474)	600
Furniture and fixture	13,097	2,458	(6)	(5,378)	10,171
Total	₩ 268,465	₩ 5,897	₩ (6)	₩ (8,254)	₩ 266,102

(2017)

Detail	Beginning balance	Acquisitions	Disposals	Depreciation	Ending balance
Lands	₩ 190,807	₩ -	₩ -	₩ -	₩ 190,807
Buildings	66,383	-	-	(2,696)	63,687
Vehicles	1,278	230	(41)	(593)	874
Furniture and fixture	14,669	4,084	(5)	(5,651)	13,097
Total	₩ 273,137	₩ 4,314	₩ (46)	₩ (8,940)	₩ 268,465

13. INTANGIBLE ASSETS:

- (1) Details of intangible assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Detail	Acquisition cost	Accumulated Depreciation	Accumulated Impairment Losses	Book value
Computer software	₩ 23,795	₩ (12,792)	₩ -	₩ 11,003
System development fees	47,821	(23,836)	-	23,985
Memberships	3,683	-	(217)	3,466
Total	₩ 75,299	₩ (36,628)	₩ (217)	₩ 38,454

(December 31, 2017)

Detail	Acquisition cost	Accumulated Depreciation	Accumulated Impairment Losses	Book value
Computer software	₩ 22,206	₩ (9,169)	₩ -	₩ 13,037
System development fees	46,405	(15,566)	-	30,839
Memberships	4,501	-	(755)	3,746
Total	₩ 73,112	₩ (24,735)	₩ (755)	₩ 47,622

- (2) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

Detail	Beginning balance	Acquisitions	Disposals	Amortization	Impairment	Ending balance
Computer software	₩ 13,037	₩ 1,500	₩ -	₩ (3,534)	₩ -	₩ 11,003
System development fees	30,839	1,416	-	(8,270)	-	23,985
Memberships	3,746	-	(280)	-	-	3,466
Total	₩ 47,622	₩ 2,916	₩ (280)	₩ (11,804)	₩ -	₩ 38,454

(2017)

Detail	Beginning balance	Acquisitions	Disposals	Amortization	Impairment	Ending balance
Computer software	₩ 12,400	₩ 3,939	₩ -	₩ (3,302)	₩ -	₩ 13,037
System development fees	26,066	10,690	-	(5,917)	-	30,839
Memberships	4,133	336	(506)	-	(217)	3,746
Total	₩ 42,599	₩ 14,965	₩ (506)	₩ (9,219)	₩ (217)	₩ 47,622

14. OTHER ASSETS:

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

	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Other financial assets :		
Guarantee deposits	₩ 37,638	₩ 38,153
Accounts receivable	203,866	238,046
Accrued income	893,465	825,800
Receivable spot exchange	43	63
Allowances for loan losses on other assets	(170,291)	(168,552)
Subtotal	<u>964,721</u>	<u>933,510</u>
Other assets :		
Advance payments	-	1
Prepaid expenses	1,693	2,048
Current income tax asset	852	4,703
Sundry assets	12,362	10,269
Subtotal	<u>14,907</u>	<u>17,021</u>
Total	<u>₩ 979,628</u>	<u>₩ 950,531</u>

(2) Changes in allowances for loan losses on other assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	<u>2018</u>	<u>2017</u>
Beginning balance (*1)	₩ 168,156	₩ 50,938
Collection of written-off loans	42	15
Foreign exchange translation	-	(8)
Additional provisions	2,136	117,622
Others	(43)	(15)
Ending balance	<u>₩ 170,291</u>	<u>₩ 168,552</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

15. BORROWINGS:

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

(December 31, 2018)			
Detail	Lender	Interest rate (%)	Amount
Borrowings in foreign currencies:			
Borrowings from the Government	MINISTRY OF STRATEGY AND FINANCE	LIBOR 3M+0.55 ~ LIBOR 3M+0.78	₩ 2,938,456
Long term borrowings from foreign financial institutions	CREDIT AGRICOLE CIB and others	LIBOR 3M+0.52 ~ LIBOR 3M+0.85	1,677,150
Discount on borrowings			(1,159)
Offshore commercial papers denominated in foreign currency	SOCIETE GENERALE, HONG KONG BR. and others	(-)0.37 ~ 2.32	92,669
Others (Foreign banks)	DBS BANK LTD, and others	0.00 ~ 0.03	180,302
Others (CSA)	ING BANK N.V. AMSTERDAM and others	-	6,060
Total			<u>₩ 4,893,478</u>
(December 31, 2017)			
Detail	Lender	Interest rate (%)	Amount
Borrowings in foreign currencies:			
Borrowings from the Government	MINISTRY OF STRATEGY AND FINANCE	LIBOR 3M+0.50 ~ LIBOR 3M+0.78	₩ 2,976,435
Long term borrowings from foreign financial institutions	BANK OF AMERICA N.A and others	LIBOR 3M+0.40 ~ LIBOR 3M+0.85	2,678,500
Discount on borrowings			(2,224)
Commercial papers	BRED BANQUE POPULAIRE	(-)0.40	42,727
Offshore commercial papers denominated in foreign currency	BARCLAYS BANK PLC LONDON and others	(-)0.39 ~ 1.69	72,999
Others (Foreign banks)	DBS BANK LTD, SINGAPORE BRANCH and others	0.00 ~ 0.06	172,830
Others (CSA)	CITIBANK N.A., HONG KONG and others	-	72,190
Total			<u>₩ 6,013,457</u>

- (2) Details of the borrowings from other financial institutions as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

Type	Call-money	Borrowings in foreign currencies	Total
Commercial banks	₩ -	₩ 1,955,022	₩ 1,955,022

(December 31, 2017)

Type	Call-money	Borrowings in foreign currencies	Total
Commercial banks	₩ -	₩ 3,037,022	₩ 3,037,022

The above borrowings excluded the present value discounting effect.

16. DEBENTURES:

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

Detail	Dec. 31, 2018		Dec. 31, 2017	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Local currency:				
Floating rate	1.98 ~ 2.01	₩ 480,000	1.67 ~ 1.83	₩ 1,100,000
Fixed rate	1.67 ~ 4.70	14,185,000	1.35 ~ 4.70	13,020,000
Subtotal		14,665,000		14,120,000
Fair value hedging adjusting		(51,844)		(80,211)
Discount on debentures:		(81,024)		(78,861)
Subtotal		14,532,132		13,960,928
Foreign currencies:				
Floating rate	LIBOR+0.26 ~LIBOR+1.00	9,442,431	LIBOR+0.30 ~ LIBOR +1.00	7,685,330
Fixed rate	0.16 ~ 8.52	42,442,911	0.17 ~ 9.32	39,253,997
Subtotal		51,885,342		46,939,327
Fair value hedging adjusting		(360,624)		(98,744)
Discount on debentures		(113,880)		(116,413)
Subtotal		51,410,838		46,724,170
Total		₩ 65,942,970		₩ 60,685,098

17. PROVISIONS:

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

	Dec. 31, 2018	Dec. 31, 2017
Provisions for acceptances and guarantees	₩ 602,435	₩ 509,038
Provisions for unused loan commitments	149,447	166,080
Total	<u>₩ 751,882</u>	<u>₩ 675,118</u>

(2) Changes in provisions for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

	Acceptances and guarantees			
	12 month	Lifetime	Credit-impaired financial assets	Total
	expected credit losses	expected credit losses		
Beginning balance (*1)	₩ 45,086	₩ 440,860	₩ 52,335	₩ 538,281
- Transfer to 12 month expected credit losses	12,226	(12,226)	-	-
- Transfer to lifetime expected credit losses	(6)	6	-	-
- Transfer to credit-impaired financial assets	(48)	(424)	472	-
Foreign exchange translation	1,355	6,104	(172)	7,287
Additional provisions (reversal of provision)	(12,126)	70,343	(1,350)	56,867
Ending balance	<u>₩ 46,487</u>	<u>₩ 504,663</u>	<u>₩ 51,285</u>	<u>₩ 602,435</u>
	Unused loan commitments			
	12 month	Lifetime	Credit-impaired financial assets	Total
	expected credit losses	expected credit losses		
Beginning balance (*1)	₩ 16,961	₩ 89,674	₩ 84,441	₩ 191,076
- Transfer to 12 month expected credit losses	92	(90)	(2)	-
- Transfer to lifetime expected credit losses	-	165	(165)	-
- Transfer to credit-impaired financial assets	-	-	-	-
Foreign exchange translation	112	258	4	374
Additional provisions (Reversal of provision)	9,924	29,887	(81,814)	(42,003)
Ending balance	<u>₩ 27,089</u>	<u>₩ 119,894</u>	<u>₩ 2,464</u>	<u>₩ 149,447</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

(2017)

Detail	Acceptances and guarantees			Unused loan commitments	Provision for others	Total
	Individual assessment	Collective assessment	Subtotal			
Beginning balance	₩ 403,504	₩1,004,406	₩1,407,910	₩ 228,839	₩ 15,198	₩ 1,651,947
Foreign exchange translation	(5,572)	(14,047)	(19,619)	(104)	-	(19,723)
Additional provisions (Reversal of provision)	(314,764)	(564,489)	(879,253)	(62,655)	1,344	(940,564)
Transfers in (out)	370,270	(370,270)	-	-	(14,818)	(14,818)
Payment	-	-	-	-	(1,724)	(1,724)
Ending balance	₩ 453,438	₩ 55,600	₩ 509,038	₩ 166,080	₩ -	₩ 675,118

18. **RETIREMENT BENEFIT PLAN:**

The Bank operates both defined benefit plan and defined contribution plan.

(1) Defined benefit plan

The Bank operates defined benefit plans, which have the following characteristics:

- The entity has the obligation to pay the agreed benefits to all its current and past employees.
- The entity is liable for actuarial risk (excess of actual payment against expected amount) and investment risk.

The present value of the defined benefit obligation recognized in the separate statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation method. The present value of the defined benefit obligation is calculated using the projected unit credit method ("PUC"). The data used in the PUC, such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset, are based on observable market data and historical data, which are annually updated.

Actuarial assumptions may differ from actual results due to change in the market, economic trend and mortality trend, which may affect defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income or loss.

(2) Details of defined benefit obligation as of December 31, 2018 and 2017, are as follows (Korean won in millions):

	Dec. 31, 2018	Dec. 31, 2017
Present value of defined benefit obligations	₩ 97,160	₩ 79,956
Fair value of plan assets	(90,810)	(92,183)
Defined benefit liabilities(assets), net	₩ 6,350	₩ (12,227)

- (3) Changes in net defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩ 79,956	₩ (92,183)	₩ (12,227)
Contributions from the employer	-		-
Current service cost	9,314	-	9,314
Interest expense (income)	3,103	(3,586)	(483)
Return on plan assets, excluding the interest expense (income)	-	1,768	1,768
Actuarial gains and losses arising from changes in financial assumptions	3,303	-	3,303
Actuarial gains and losses arising from experience adjustments	4,494	-	4,494
Management fee on plan assets	-	215	215
Benefits paid	(3,010)	2,976	(34)
Ending balance	<u>₩ 97,160</u>	<u>₩ (90,810)</u>	<u>₩ 6,350</u>

(2017)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩ 72,105	₩ (70,013)	₩ 2,092
Contributions from the employer	-	(27,100)	(27,100)
Current service cost	8,912	-	8,912
Interest expense (income)	2,612	(2,548)	64
Return on plan assets, excluding the interest expense (income)	-	1,258	1,258
Actuarial gains and losses arising from changes in financial assumptions	(3,081)	-	(3,081)
Actuarial gains and losses arising from experience adjustments	5,029	-	5,029
Management fee on plan assets	-	122	122
Benefits paid	(5,621)	6,098	477
Ending balance	<u>₩ 79,956</u>	<u>₩ (92,183)</u>	<u>₩ (12,227)</u>

- (4) Details of plan assets as of December 31, 2018 and 2017, are as follows (Korean won in millions):

	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalent	₩ 35,943	₩ 3
Debt securities	5,551	15,073
Others	49,316	77,107
Total	<u>₩ 90,810</u>	<u>₩ 92,183</u>

- (5) Actuarial assumptions used in retirement benefit obligation assessment as of December 31, 2018 and 2017 are as follows:

	Dec. 31, 2018	Dec. 31, 2017
Discount rate	3.38%	3.89%
Expected wage growth rate	2.03%	2.43%

- (6) Assuming that all the other assumptions remain unchanged, the effect of changes in the significant actuarial assumptions which were made within the reasonable limit on retirement benefit obligations as of December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Detail	1%p Increase	1%p Decrease
Change of discount rate	₩ (10,651)	₩ 12,674
Change of future salary increase rate	12,725	(10,887)

(December 31, 2017)

Detail	1%p Increase	1%p Decrease
Change of discount rate	₩ (9,081)	₩ 10,819
Change of future salary increase rate	10,883	(9,290)

The above sensitivity analysis does not present any actual changes in the retirement benefit obligations as there is no change in actuarial assumptions which is independently made due to the correlation among the assumptions. In addition, the actuarial present value of promised retirement benefits in the sensitivity analysis is determined using the projected unit credit method, which is used in the calculation of the retirement benefit obligations in the separate financial statements.

- (7) Retirement benefit cost incurred from the defined contribution plan for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Retirement benefits	₩ 797	₩ 677

19. OTHER LIABILITIES:

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

	Dec. 31, 2018	Dec. 31, 2017
Other financial liabilities:		
Financial guarantee contract liabilities	₩ 1,119,984	₩ 1,123,773
Foreign exchanges payable	157	213
Accounts payable	14,130	57,022
Accrued expenses	703,247	613,328
Guarantee deposit received	161	162
Subtotal	<u>1,837,679</u>	<u>1,794,498</u>
Other liabilities:		
Allowance for credit loss in derivatives	89,097	69,910
Unearned income	210,728	220,441
Current tax payable	42,917	-
Sundry liabilities	7,321	4,101
Subtotal	<u>350,063</u>	<u>294,452</u>
Total	<u>₩ 2,187,742</u>	<u>₩ 2,088,950</u>

20. DERIVATIVES:

The Bank operates derivatives both for trading and hedging purposes. Derivatives held for trading purpose are included in financial assets and liabilities at FVTPL.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. When applying fair value hedge, the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss.

The Bank shall discontinue prospectively the fair value hedge if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Any adjustment arising from the gain or loss on the hedged item attributable to the hedged risk to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

The Bank uses interest rate swaps for hedging changes of fair values in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of fair values in hedged items arising from changes in foreign exchange rates

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss. When applying cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument are recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. The forecasted transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective are reclassified from equity to profit or loss as a reclassification adjustment.

The Bank uses interest rate swaps for hedging changes of cash flows in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of cash flows in hedged items arising from changes in foreign exchange.

- (3) Details of derivative assets and liabilities as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

Detail	Notional	Derivative assets			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩40,968,896	₩ 25,760	₩ -	₩ 445,329	₩ 471,089
Currency:					
Currency forwards	5,349,279	-	-	49,230	49,230
Currency swaps	29,145,216	49,983	-	342,366	392,349
Subtotal	34,494,495	49,983	-	391,596	441,579
Stock:					
Stock options	46,952	-	-	583	583
Others:					
Other derivatives	-	-	-	24	24
Total	₩75,510,343	₩ 75,743	₩ -	₩ 837,532	₩ 913,275
Detail	Notional	Derivative liabilities			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩40,968,896	₩ 504,584	₩ -	₩ 376,328	₩ 880,912
Currency:					
Currency forwards	5,349,279	-	-	56,123	56,123
Currency swaps	29,145,216	1,123,719	-	473,222	1,596,941
Subtotal	34,494,495	1,123,719	-	529,345	1,653,064
Stock:					
Stock options	46,952	-	-	210	210
Others:					
Other derivatives	-	-	-	18	18
Total	₩75,510,343	₩ 1,628,303	₩ -	₩ 905,901	₩ 2,534,204

(December 31, 2017)

Detail	Notional	Derivative assets			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩ 38,780,733	₩ 89,305	₩ -	₩ 329,246	₩ 418,551
Currency:					
Currency forwards	6,451,057	-	-	113,466	113,466
Currency swaps	24,518,828	138,816	-	408,516	547,332
Subtotal	30,969,885	138,816	-	521,982	660,798
Stock:					
Stock options	2,298,275	-	-	1,444	1,444
Other:					
Other derivative	-	-	-	23	23
Total	₩ 72,048,893	₩ 228,121	₩ -	₩ 852,695	₩ 1,080,816

Detail	Notional	Derivative liabilities			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩ 38,780,733	₩ 369,290	₩ -	₩ 311,850	₩ 681,140
Currency:					
Currency forwards	6,451,057	-	-	152,478	152,478
Currency swaps	24,518,828	688,906	-	447,433	1,136,339
Subtotal	30,969,885	688,906	-	599,911	1,288,817
Stock:					
Stock options	2,298,275	-	-	-	-
Other:					
Other derivative	-	-	-	17	17
Total	₩ 72,048,893	₩ 1,058,196	₩ -	₩ 911,778	₩ 1,969,974

- (4) Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Fair value hedge – hedged items	₩ 229,518	₩ 93,296
Fair value hedge – hedging instruments	(755,066)	1,208,424

- (5) Applying cash follow hedge, the Bank recognized ₩(954) million and ₩(467) million as other comprehensive income (loss) (before tax effect) for the years ended December 31, 2018 and 2017 and there is no ineffectiveness recognized for the years ended December 31, 2018 and 2017.

(6) Hedge accounting

1) Purpose and strategy of hedge accounting

The Bank transacts with derivative financial instruments to hedge its interest rate risk and currency risk arising from the assets and liabilities of the Bank. The Bank applies the fair value hedge accounting for the changes in the market interest rates of the financial debentures in Korean won and foreign currency and the loans in foreign currency; and cash flow hedge accounting for interest rate swaps to hedge cash flow risk due to interest rates of the debentures in Korean won.

2) Nominal values and average hedge ratio for derivatives as of December 31, 2018 are as follows (Korean won in millions):

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Fair value hedges							
Nominal values of hedged items	₩5,796,262	₩4,385,764	₩6,015,128	₩4,309,897	₩3,268,636	₩10,362,632	₩34,138,319
Nominal values of hedging derivatives	5,784,202	4,053,183	5,781,111	3,495,015	3,269,305	9,538,497	31,921,313
Average hedge ratio	99.79%	92.42%	96.11%	81.09%	100.02%	92.05%	93.51%
Cash flow hedges							
Nominal values of hedged items	480,000	-	-	-	-	-	480,000
Nominal values of hedging derivatives	480,000	-	-	-	-	-	480,000
Average hedge ratio	100.00%	-	-	-	-	-	100.00%

3) Effect of hedge accounting on financial statement, statement of comprehensive income, statement of changes in equity

① Effect of derivatives on statement financial position, statement of comprehensive income, statement of changes in equity

(Korean won in millions)

	Nominal amount	BV of asset	BV of liabilities	Changes if fair value in the period
Fair value hedges				
Interest swap	₩ 19,460,944	₩ 25,760	₩ 504,584	₩ (198,853)
Currency swap	12,460,369	49,983	1,123,719	(523,646)
Subtotal	31,921,313	75,743	1,628,303	(722,499)
Cash flow hedges	480,000	-	-	(954)
Total	₩ 32,401,313	₩ 75,743	₩ 1,628,303	₩ (723,453)

② Effect of hedging items on statement financial position, statement of comprehensive income, statement of changes in equity

	(Korean won in millions)			
	Nominal amount	BV of asset	BV of liabilities	Changes of fair value in the period
Fair value hedges				
Loans in foreign currencies	₩ 108,470	₩ -	₩ 3,183	₩ (3,370)
Debentures in local currency	1,000,000	-	60,723	(28,368)
Debentures in foreign currencies	33,029,849	75,743	1,564,397	187,629
Subtotal	34,138,319	75,743	1,628,303	155,891
Cash flow hedges	480,000	-	-	-
Total	₩ 34,618,319	₩ 75,743	₩ 1,628,303	₩ 155,891

4) Gains (losses) on hedged items and hedging instruments attributable to the hedged ineffectiveness for the year ended December 31, 2018 were as follows (Korean won in millions):

	Gains on hedged items	Gains on hedging instruments	Hedge ineffectiveness recognized in profit or loss
Fair value hedges	₩ 221,226	₩ (250,605)	₩ (29,379)
Cash flow hedges	954	(954)	-
Total	₩ 222,180	₩ (251,559)	₩ (29,379)

21. CAPITAL STOCK:

As of December 31, 2018, the authorized capital and paid-in capital of the Bank are ₩15,000,000 million and ₩11,814,963 million, respectively. The Bank does not issue share certificates. Changes in capital stock for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Beginning balance	₩ 11,814,963	₩ 10,398,055
Paid-in capital increase and investment in kind	-	1,416,908
Ending balance	₩ 11,814,963	₩ 11,814,963

22. OTHER COMPONENTS OF EQUITY:

(1) Details of other components of equity as of December 31, 2018 and 2017, are as follows (Korean won in millions):

	Dec. 31, 2018	Dec. 31, 2017
Gain on valuation of AFS securities	₩ -	₩ 101,985
Loss on valuation of financial assets at FVOCI	691,648	-
Gain on disposal of financial assets at FVOCI	(21,098)	-
Gain on valuation of cash flow hedge	(137)	586
Remeasurement of net defined benefit obligation	9,916	17,168
Total	₩ 680,329	₩ 119,739

(2) Changes in other components for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

	Beginning Balance (*1)	Increase (decrease)	Tax effect	Ending balance
Gain (loss) on valuation of financial assets at FVOCI	₩ (114,032)	₩ 1,062,901	₩ (257,221)	₩ 691,648
Loss on disposal of financial assets at FVOCI	(13,817)	(9,606)	2,325	(21,098)
Gain (loss) on valuation of cash flow hedge	586	(954)	231	(137)
Remeasurement of net defined benefit liability	17,168	(9,566)	2,314	9,916
Total	<u>₩ (110,095)</u>	<u>₩ 1,042,775</u>	<u>₩ (252,351)</u>	<u>₩ 680,329</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

(2017)

	Beginning balance	Increase (decrease)	Tax effect	Ending balance
Gain on valuation of AFS securities	₩ 259,564	₩ (179,477)	₩ 21,898	₩ 101,985
Gain (loss) on valuation of cash flow hedge	854	(467)	199	586
Remeasurement of net defined benefit liability	19,599	(3,207)	776	17,168
Total	<u>₩ 280,017</u>	<u>₩ (183,151)</u>	<u>₩ 22,873</u>	<u>₩ 119,739</u>

23. RETAINED EARNINGS:

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

	Dec. 31, 2018	Dec. 31, 2017
Legal reserve(*1)	₩ 346,136	₩ 328,856
Reserve for bad loan	302,248	206,330
Adjustments on initial application of K-IFRS No.1109	(128,763)	-
Unappropriated retained earnings	597,039	172,794
Total	<u>₩ 1,116,660</u>	<u>₩ 707,980</u>

(*1) Pursuant to the EXIM Bank Act, the Bank appropriates 10% of separate net income for each accounting period as legal reserve, until the accumulated reserve equals to its paid-in capital.

(2) Changes in retained earnings for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Beginning balance (*1)	₩ 579,217	₩ 535,186
Net income for the period	597,039	172,794
Dividends	(59,596)	-
Ending balance	<u>₩ 1,116,660</u>	<u>₩ 707,980</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

(3) Details of dividends for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
The Government	₩ 39,493	₩ -
BOK	5,876	-
Korea Development Bank	14,227	-
Total	<u>₩ 59,596</u>	<u>₩ -</u>

(4) Statements of appropriations of retained earnings for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018 (Expected date of appropriation: Mar. 29, 2019)	2017 (Date of appropriation: Mar. 30, 2018)
I. Retained earnings before appropriations:	₩ 597,039	₩ 172,794
1. Unappropriated retained earnings carried over from prior years	₩ -	₩ -
2. Net income	597,039	172,794
II. Other reserve transferred	195,598	-
III. Appropriations:	792,637	172,794
1. Legal reserve	59,704	17,280
2. Dividend	62,656	59,596
3. Other reserve	670,277	-
4. Reserve for bad loans	-	95,918
IV. Unappropriated retained earnings at the end of the period	₩ -	₩ -

(5) Reserve for bad loans

Reserve for bad loans is calculated and disclosed according to Article 29 (1) and (2), *Regulation on Supervision of Banking Business*. In accordance with Regulation on Supervision of Banking Business, etc., if the estimated allowance for credit loss determined by K-IFRS for the accounting purpose is lower than those for the regulatory purpose required by Regulation on Supervision of Banking Business, the Bank should reserve such difference as the regulatory reserve for bad loans. Due to the fact that regulatory reserve for bad loans is a voluntary reserve, the amounts that exceed the existing reserve for bad loans over the compulsory reserve for bad loans at the period-end date are reversed in profit. In case of accumulated deficit, the Bank should recommence setting aside reserve for bad loans at the time when accumulated deficit is reduced to zero.

1) Reserve for bad loans

Details of reserve for bad loans as of December 31, 2018 and 2017, are as follows (Korean won in millions):

	Dec. 31, 2018	Dec. 31, 2017
Accumulated reserve for bad loans	₩ 302,248	₩ 206,330
Expected reserve for(reversal of) bad loans	(195,598)	95,918
Reserve for bad loans	<u>₩ 106,650</u>	<u>₩ 302,248</u>

2) Regulatory reserve for bad loans and net income after adjusting reserve for bad loans.

Details of regulatory reserve for bad loans and net income after adjusting the reserve for years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Net income for the period	₩ 597,039	₩ 172,794
Regulatory reserve for bad loans	127,976	423,002
Net profit after adjusting the reserve for loan losses (*1)	<u>₩ 725,015</u>	<u>₩ 595,796</u>

(*1) Adjusted profit considering reserves for bad debt as above is calculated by assuming that the provision in reserves for bad debt before income tax is reflected in net income.

24. NET INTEREST INCOME:

Net interest income is the amount after deduction of interest expenses from interest income, and the details are as follows:

- (1) Details of interest income for the years ended December 31, 2018 and 2017, are as follows (Korean won in millions):

	2018	2017
Interest of due from financial institutions:		
Due from financial institutions in local currency	₩ 12,159	₩ 3,318
Due from financial institutions in foreign currencies	51,488	15,195
Subtotal	63,647	18,513
Interest of financial assets at FVTPL:		
Interest of trading securities	-	1,554
Interest of trading securities at FVTPL	1,393	-
Interest of loans at FVTPL	186	-
Subtotal	1,579	1,554
Interest of investments:		
Interest of AFS securities	-	17,760
Interest of securities at FVOCI	27,074	-
Interest of HTM securities	-	2,045
Interest of securities at amortized cost	2,557	-
Subtotal	29,631	19,805
Interest of loans:		
Interest of loans in local currency	617,409	713,638
Interest of loans in foreign currencies	2,165,524	1,856,733
Interest of advance for customers	23,440	25,373
Interest of bills bought	304	151
Interest of call loans	41,234	30,817
Interest of interbank loans	7,420	12,511
Subtotal	2,855,331	2,639,223
Other interest income	1,228	4,633
Total	₩ 2,951,416	₩ 2,683,728

- (2) Details of interest expenses for the years ended December 31, 2018 and 2017, are as follows (Korean won in millions):

	2018	2017
Interest of borrowings:		
Borrowings in local currencies	₩ -	₩ 2
Borrowings in foreign currencies	155,254	142,225
Interest of call money	1,468	4,462
Interest of debentures:		
Interest of debentures in local currency	270,436	205,939
Interest of debentures in foreign currencies	1,532,844	1,233,202
Subtotal	1,803,280	1,439,141
Other interest expenses	8,267	17,923
Total	₩ 1,968,269	₩ 1,603,753

25. NET COMMISSION INCOME:

Net commission income is the amount after deduction of commission expenses from commission income, and the details are as follows.

- (1) Details of commission income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Commission income in local currency:		
Commission income on management of EDCF	₩ 16,176	₩ 15,383
Commission income on management of IKCF	2,270	2,279
Other commission income in local currency	6	-
Subtotal	<u>18,452</u>	<u>17,662</u>
Commission income in foreign currencies:		
Commission income on letter of credit	1,821	2,239
Commission income on confirmation on export letter of credit	275	713
Commission income on loan commitments	34,853	38,027
Arrangement fee	4,641	7,223
Advisory fee	1,815	2,002
Cancellation fee	-	22
Prepayment fee	5,831	5,299
Sundry commission income on foreign exchange	115	139
Structuring fee	1,233	9,914
Brokerage fee for foreign currencies exchange funds	1,827	2,681
Other commission income in foreign currencies	1,339	2,477
Subtotal	<u>53,750</u>	<u>70,736</u>
Others:		
Other commission income	11,136	5,984
Guarantee fees in local currency:		
Guarantee fees in local currency	-	21,795
Guarantee fees in foreign currencies:		
Guarantee fees in foreign currencies	166,882	224,281
Premium for guarantee	73,394	60,644
Subtotal	<u>240,276</u>	<u>284,925</u>
Total	<u>₩ 323,614</u>	<u>₩ 401,102</u>

- (2) Details of commission expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Commission expenses in local currency:		
Commission expenses on domestic transaction	₩ 387	₩ 447
Commission expenses in foreign currencies:		
Service fees paid to credit-rating agency	2,394	3,458
Sundry commission expenses on foreign exchange	2,144	1,267
Sundry commissions expenses on offshore transaction	-	1
Subtotal	<u>4,538</u>	<u>4,726</u>
Others:		
Other commissions expenses	3,423	4,200
Total	<u>₩ 8,348</u>	<u>₩ 9,373</u>

26. DIVIDEND INCOME:

Details of dividend income for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Financial assets at FVTPL	₩ 2,938	₩ -
AFS securities	-	35,352
Financial assets at FVOCI	33,772	-
Total	<u>₩ 36,710</u>	<u>₩ 35,352</u>

27. GAIN (LOSS) ON FINANCIAL ASSETS AT FVTPL:

Details of gain (loss) on financial assets at FVTPL for the years ended December 31, 2018 and 2017, are as follows (Korean won in millions):

	2018
Securities at FVTPL:	
Gain on valuation	₩ 13,130
Loss on valuation	(4,807)
Gain on disposal	12,290
Loss on disposal	(805)
Others	2,990
Subtotal	<u>22,798</u>
Trading derivatives:	
Gain on valuation	468,312
Loss on valuation	(533,372)
Gain on transaction	695,385
Loss on transaction	(660,749)
Subtotal	<u>(30,424)</u>
Total	<u>₩ (7,626)</u>

	2017
Trading securities:	
Gain on valuation	₩ 5,046
Loss on valuation	(808)
Gain on disposal	13,742
Loss on disposal	(322)
Subtotal	<u>17,658</u>
Trading derivatives:	
Gain on valuation	988,657
Loss on valuation	(845,063)
Gain on transaction	635,756
Loss on transaction	(533,026)
Subtotal	<u>246,324</u>
Total	<u>₩ 263,982</u>

28. GAIN (LOSS) ON HEDGING DERIVATIVES:

Details of gain (loss) on hedging derivatives for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Gain on hedging derivatives	₩ 278,348	₩ 1,456,521
Loss on hedging derivatives	(1,033,413)	(248,247)
Total	<u>₩ (755,065)</u>	<u>₩ 1,208,274</u>

29. GAIN (LOSS) ON FINANCIAL INVESTMENTS:

Details of gain (loss) on financial investments for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018
Financial assets at FVOCI:	
Gain on disposals	₩ 321
Loss on disposals	(5,364)
Total	<u>₩ (5,043)</u>
	2017
AFS securities:	
Gain on disposals	₩ 20,865
Loss on disposals	(1,128)
Impairment loss	(3,594)
Total	<u>₩ 16,143</u>

30. OTHER OPERATING INCOME (EXPENSES):

Details of other operating income (expenses) for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Other operating income:		
Gains on sale of loans	₩ -	₩ 1,655
Gain on fair value hedged items	430,152	277,508
Others	485	1,064
Subtotal	<u>430,637</u>	<u>280,227</u>
Other operating expenses:		
Loss on fair value hedged items	200,634	184,212
Contribution to miscellaneous funds	4,861	5,177
Loss on redemption	-	2,455
Transfer of other provisions	162	1,344
Others	20,167	32,769
Subtotal	<u>225,824</u>	<u>225,957</u>
Total	<u>₩ 204,813</u>	<u>₩ 54,270</u>

31. IMPAIRMENT LOSS (REVERSAL) ON CREDIT:

Details of impairment loss (reversal) on credit for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Loans at amortized cost	₩ 327,386	₩ 1,724,192
Other financial assets	2,136	117,622
Guarantees	56,867	(879,253)
Unused loan commitments	(42,003)	(62,655)
Financial guarantee contract	80,069	180,922
Financial assets at FVOCI	(1,739)	-
Financial assets at amortized cost	21	-
Total	₩ 422,737	₩ 1,080,828

32. GENERAL AND ADMINISTRATIVE EXPENSES:

Details of general and administrative expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Detail	2018	2017
General and administrative	Short-term salaries	₩ 103,839	₩ 99,072
Other expenses in financing department	Office expenses	58,256	56,026
	Subtotal	162,095	155,098
Office expenses of EDCF		1,737	1,731
General and administrative - Others	Postemployment benefit (defined contributions)	797	677
	Postemployment benefit (defined benefits)	9,047	9,098
	Depreciation of tangible assets	8,254	8,940
	Amortization of intangible assets	11,804	9,219
	Taxes and dues	12,093	25,952
	Donations and contributions	2,000	-
	Subtotal	43,995	53,886
	Total	₩ 207,827	₩ 210,715

33. NON-OPERATING INCOME (EXPENSES):

Details of non-operating income (expenses) for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	Detail	2018	2017
Gain(loss) on investments in associates and subsidiaries	Dividend income	₩ 4,883	₩ 9,905
	Impairment loss	-	(235)
	Loss on disposal	(3,357)	-
	Subtotal	<u>1,526</u>	<u>9,670</u>
Others income	Gain on disposals of tangible assets	41	60
	Reversal of impairment loss on intangible assets	-	50
	Gain on disposals of intangible assets	100	-
	Rental income	166	156
	Damages paid for breach of contracts	2	5
	Interest on other loans	123	85
	Revenue on research project	19,090	2,912
	Other miscellaneous income	7,015	1,790
	Subtotal	<u>26,537</u>	<u>5,058</u>
Others expenses	Loss on disposal of tangible assets	5	5
	Loss on disposal of intangible assets	-	20
	Impairment loss on intangible assets	-	217
	Donations and contributions	4,748	3,117
	Court cost	5,505	3,571
	Expenses on research project	6,171	7,202
	Other miscellaneous expenses	68	1,082
	Subtotal	<u>16,497</u>	<u>15,214</u>
	Total	<u>₩ 10,040</u>	<u>₩ (10,156)</u>

34. INCOME TAX EXPENSE (BENEFIT):

- (1) Details of income tax expenses (benefit) for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Current income tax payable	₩ 66,212	₩ 8
Changes in deferred income taxes due to temporary differences	338,433	33,177
Changes in deferred income taxes directly recognized in equity	(248,590)	22,873
Income tax expense	<u>₩ 156,055</u>	<u>₩ 56,058</u>

- (2) Changes in temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

(2018)

Detail	Temporary differences			Deferred tax assets (liabilities) - ending balance
	Beginning balance(*1)	Increase (Decrease)	Ending balance	
Depreciation	₩ 82	₩ 36	₩ 118	₩ 29
Fair value hedging income (loss)	(203,138)	(222,130)	(425,268)	(102,915)
Financial guarantee contract liability	943,516	4,309	947,825	229,374
Loans	(377,724)	237,123	(140,601)	(34,025)
Allowance for loan losses	671,854	(654,823)	17,031	4,121
Unused commitment provisions	166,080	(16,633)	149,447	36,166
Net deferred origination fees and costs	398,113	(19,182)	378,931	91,701
Long-term income in advance	(5,907)	1,518	(4,389)	(1,062)
Provisions for acceptances and guarantees	509,037	93,398	602,435	145,789
Loan-for-equity swap	1,719,839	308,339	2,028,178	490,819
Loss on valuation of derivatives	(932,587)	(391,213)	(1,323,800)	(320,360)
Gain on valuation of derivatives	881,283	719,663	1,600,946	387,429
Defined benefit liability	(16,040)	18,782	2,742	664
Accrued interest and interest receivables related to swap transaction	(219,183)	(65,621)	(284,804)	(68,922)
Tangible assets	(175,158)	(167)	(175,325)	(42,429)
Others	412,903	984,641	1,397,544	338,205
Loss carried forward	1,341,870	(1,341,870)	-	-
Subtotal	<u>5,114,840</u>	<u>(343,830)</u>	<u>4,771,010</u>	<u>1,154,584</u>
Deferred income tax assets (liabilities) directly adjusted in equity				<u>(252,332)</u>
Total				<u>₩ 902,252</u>

(*1) The beginning balance was restated in accordance with K-IFRS No. 1109.

(2017)

Detail	Temporary differences			Deferred tax
	Beginning balance	Increase (Decrease)	Ending balance	assets (liabilities) - ending balance
Depreciation	₩ 82	₩ -	₩ 82	₩ 20
Fair value hedging income (loss)	(123,217)	(79,921)	(203,138)	(49,159)
Financial guarantee contract liability	805,555	137,961	943,516	228,331
Loans	(196,157)	(181,567)	(377,724)	(91,409)
Allowance for loan losses	208,405	463,449	671,854	162,589
Unused commitment provisions	228,839	(62,759)	166,080	40,191
Net deferred origination fees and costs	426,935	(28,822)	398,113	96,343
Long-term income in advance	(6,216)	309	(5,907)	(1,430)
Provisions for acceptances and guarantees	1,407,910	(898,873)	509,037	123,187
Loan-for-equity swap	1,723,573	(3,734)	1,719,839	416,201
Loss on valuation of derivatives	(2,286,929)	1,354,342	(932,587)	(225,686)
Gain on valuation of derivatives	2,375,073	(1,493,790)	881,283	213,271
Defined benefit liability	(1,061)	(14,979)	(16,040)	(3,882)
Accrued interest and interest receivables related to swap transaction	(293,700)	74,517	(219,183)	(53,042)
Tangible assets	(176,588)	1,430	(175,158)	(42,388)
Others	215,931	11,215	227,146	54,968
Loss carried forward	851,792	490,078	1,341,870	324,733
Subtotal	<u>5,160,227</u>	<u>(231,144)</u>	<u>4,929,083</u>	<u>1,192,838</u>
Deferred income tax assets (liabilities) directly adjusted in equity				<u>(66,639)</u>
Total				<u>₩ 1,126,199</u>

(3) Details of the reconciliation between net income before income tax and income tax expense (benefit) for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

	2018	2017
Net income (loss) before income tax	₩ 753,094	₩ 228,852
Income tax (benefit) calculated at statutory tax rate (11% up to ₩200 million, 22% over ₩200 million to ₩20 billion, 24.2% over ₩20 billion to ₩300 billion, and 27.5% over ₩300 billion)	196,739	54,920
Adjustments:		
Effect on non-taxable income	(9,466)	(1,215)
Effect on non-deductible expense	3,830	362
Effect on tax deduction	(12,265)	-
Unrecognized temporary differences	-	57
Others	(22,783)	6,302
Subtotal	<u>(40,685)</u>	<u>5,506</u>
Adjustment recognized in the period for current tax of prior periods	-	(4,368)
Income tax expense	<u>₩ 156,055</u>	<u>₩ 56,058</u>
Effective tax rate from operations	20.72%	24.50%

- (4) Details of deferred tax relating to items that are recognized directly in equity as of December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail	Dec. 31, 2018	Dec. 31, 2017
Loss on valuation of AFS securities	₩ -	₩ (60,971)
Loss on valuation of financial investments	(249,210)	-
Loss on valuation of cash flow hedge	44	(187)
Remeasurement of net defined benefit liability	(3,166)	(5,481)
Total	₩ (252,332)	₩ (66,639)

- (5) Unrecognized deferred tax assets and liabilities

The Bank does not recognize deferred tax liabilities for taxable temporary difference of ₩48,818 million related to investments in associates and subsidiaries as of December 31, 2018 because the Bank is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Bank also does not recognize deferred tax assets for deductible temporary differences of ₩4,469 million related to impairment loss of AFS securities as of December 31, 2018 because the realizable period has already passed.

35. STATEMENTS OF CASH FLOWS:

- (1) Details of non-cash flow transactions for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail	2018	2017
Written-off	₩ 2,019,538	₩ 342,836
Transfer to financial investments from the investments in associates	131,094	-
Investment in kind	-	1,416,908
Gain (Loss) on valuation of AFS securities	-	(179,477)
Remeasurement of net defined benefit liability	9,566	3,207

- (2) Changes in liabilities arising from financing activities for the year ended December 31, 2018 and 2017 are as follows (Korean won in millions):

<2018>

Detail	Borrowings	Debentures	Total
Beginning balance	₩ 6,013,457	₩ 60,685,098	₩ 66,698,555
Change in cash flows	(1,421,877)	4,149,261	2,727,384
Amortization	1,697	181,849	183,546
Foreign exchange transaction	300,201	1,159,493	1,459,694
Change in fair value hedged items	-	(232,731)	(232,731)
Ending balance	₩ 4,893,478	₩ 65,942,970	₩ 70,836,448

<2017>

Detail	Borrowings	Debentures	Total
Beginning balance	₩ 9,761,389	₩ 62,119,016	₩ 71,880,405
Change in cash flows	(2,739,482)	3,285,396	545,914
Amortization	3,137	161,295	164,432
Foreign exchange transaction	(1,011,587)	(4,781,714)	(5,793,301)
Change in fair value hedged items	-	(98,895)	(98,895)
Ending balance	₩ 6,013,457	₩ 60,685,098	₩ 66,698,555

36. CONTINGENT LIABILITIES AND COMMITMENTS:

- (1) Details of contingent liabilities and commitments as of December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail		Dec. 31, 2018	Dec. 31, 2017
Guarantees	Confirmed	₩ 34,794,577	₩ 38,960,799
	Unconfirmed	5,215,972	3,847,975
	Subtotal	40,010,549	42,808,774
Loan commitments	Local currency, foreign currency loan commitments	16,884,935	17,996,772
	Others	944,320	1,825,727
	Subtotal	17,829,254	19,822,499
	Total	₩ 57,839,803	₩ 62,631,273

- (2) Details of guarantees that have been provided for others as of December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail		Dec. 31, 2018	Dec. 31, 2017
Confirmed guarantees	Local currency:		
	Performance of contracts	₩ 59,467	₩ 50,709
	Repayment of advances	283,203	227,091
	Others	290,108	602,187
	Subtotal	632,778	879,987
	Foreign currency:		
	Performance of contracts	9,232,888	10,096,151
	Repayment of advances	7,990,136	11,091,318
	Acceptances of imported goods	3,864	3,277
	Acceptances of import letter of credit outstanding	68,786	89,480
Foreign liabilities	11,912,436	10,964,999	
Others	4,953,689	5,835,587	
Subtotal	34,161,799	38,080,812	
Unconfirmed guarantees	Foreign liabilities	1,424,174	1,569,782
	Repayment of advances	3,661,665	2,243,202
	Performance of contracts	130,099	33,793
	Underwriting of import credit	-	1,163
	Others	34	35
	Subtotal	5,215,972	3,847,975
Total	₩ 40,010,549	₩ 42,808,774	

(3) Details of guarantees classified by country as of December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia	₩ 21,218,012	60.98	₩ 3,791,583	72.69	₩ 25,009,595	62.51
Korea						
China	257,780	0.74	-	-	257,780	0.64
Saudi Arabia	1,840,720	5.29	-	-	1,840,720	4.60
India	445,637	1.28	45,644	0.88	491,281	1.23
Indonesia	969,133	2.78	123,191	2.36	1,092,324	2.73
Uzbekistan	272,000	0.79	-	-	272,000	0.68
Vietnam	1,227,908	3.53	281,117	5.39	1,509,025	3.77
Australia	645,927	1.86	52,874	1.01	698,801	1.75
Philippines	12,073	0.03	70	0.01	12,143	0.03
Qatar	280,822	0.81	-	-	280,822	0.70
Oman	376,700	1.08	26,687	0.51	403,387	1.01
Others	1,459,282	4.19	431,327	8.27	1,890,609	4.73
Subtotal	29,005,994	83.36	4,752,493	91.12	33,758,487	84.38
Europe						
United Kingdom	753,530	2.17	-	-	753,530	1.88
Belgium	86,348	0.25	-	-	86,348	0.22
France	415,262	1.19	-	-	415,262	1.04
Others	774,439	2.22	312,612	5.99	1,087,051	2.71
Subtotal	2,029,579	5.83	312,612	5.99	2,342,191	5.85
America						
United States	2,254,907	6.48	12,299	0.24	2,267,206	5.67
Brazil	406,027	1.17	-	-	406,027	1.01
Mexico	246,816	0.71	2,027	0.04	248,843	0.62
Bermuda	213,076	0.61	-	-	213,076	0.53
Others	189,915	0.55	124,386	2.38	314,301	0.79
Subtotal	3,310,741	9.52	138,712	2.66	3,449,453	8.62
Africa						
Madagascar	166,237	0.48	-	-	166,237	0.42
Others	282,026	0.81	12,155	0.23	294,181	0.73
Subtotal	448,263	1.29	12,155	0.23	460,418	1.15
Total	₩ 34,794,577	100.00	₩ 5,215,912	100.00	₩ 40,010,549	100.00

(December 31, 2017)

	Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia	Korea	₩ 26,140,921	67.10	₩ 2,197,447	57.11	₩ 28,338,368	66.20
	Saudi Arabia	1,914,178	4.91	-	-	1,914,178	4.47
	India	441,562	1.13	78,704	2.05	520,266	1.22
	Indonesia	970,827	2.49	122,053	3.17	1,092,880	2.55
	Uzbekistan	280,884	0.72	1,163	0.03	282,047	0.66
	Vietnam	960,748	2.47	301,267	7.83	1,262,015	2.95
	Australia	697,324	1.79	50,666	1.32	747,990	1.75
	Philippines	126,536	0.32	8,614	0.22	135,150	0.32
	Qatar	290,789	0.75	-	-	290,789	0.68
	Oman	326,291	0.84	75,970	1.97	402,261	0.94
	Others	983,640	2.52	117,139	3.04	1,100,779	2.56
	Subtotal	33,133,700	85.04	2,953,023	76.74	36,086,723	84.30
Europe	United Kingdom	329,506	0.85	-	-	329,506	0.77
	France	394,781	1.01	52,095	1.35	446,876	1.04
	Others	449,278	1.15	184,849	4.80	634,127	1.48
	Subtotal	1,173,565	3.01	236,944	6.15	1,410,509	3.29
America	United States	2,348,208	6.03	194,670	5.06	2,542,878	5.94
	Brazil	471,757	1.21	-	-	471,757	1.10
	Mexico	265,381	0.68	1,942	0.05	267,323	0.62
	Bermuda	191,686	0.49	-	-	191,686	0.45
	Others	281,531	0.72	33,958	0.88	315,489	0.74
	Subtotal	3,558,563	9.13	230,570	5.99	3,789,133	8.85
Africa	Madagascar	159,293	0.41	-	-	159,293	0.37
	Marshall Islands	568,553	1.46	-	-	568,553	1.33
	Others	367,125	0.95	427,438	11.12	794,563	1.86
	Subtotal	1,094,971	2.82	427,438	11.12	1,522,409	3.56
	Total	₩ 38,960,799	100.00	₩ 3,847,975	100.00	₩ 42,808,774	100.00

(4) Details of guarantees classified by industry as of December 31, 2018 and 2017, are as follows (Korean won in millions):

(December 31, 2018)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 16,163,602	46.45	₩ 4,542,436	87.09	₩ 20,706,038	51.75
Transportation	1,665,252	4.79	2,498	0.05	1,667,750	4.17
Finance	2,290,564	6.58	146	0.01	2,290,710	5.73
Wholesale and retail	798,662	2.30	53,725	1.03	852,387	2.13
Property related business	379,908	1.09	48,220	0.92	428,128	1.07
Construction	7,898,229	22.70	265,256	5.09	8,163,485	20.40
Public and others	5,598,360	16.09	303,691	5.81	5,902,051	14.75
Total	₩ 34,794,577	100.00	₩ 5,215,972	100.00	₩ 40,010,549	100.00

(December 31, 2017)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 18,577,567	47.68	₩ 3,087,986	80.25	₩ 21,665,553	50.61
Transportation	1,850,655	4.75	56,203	1.46	1,906,858	4.45
Finance	2,051,157	5.26	1,163	0.03	2,052,320	4.79
Wholesale and retail	863,844	2.22	217,253	5.65	1,081,097	2.53
Property related business	353,741	0.91	59,345	1.54	413,086	0.96
Construction	9,251,902	23.75	22,135	0.58	9,274,037	21.67
Public and others	6,011,933	15.43	403,890	10.49	6,415,823	14.99
Total	₩ 38,960,799	100.00	₩ 3,847,975	100.00	₩ 42,808,774	100.00

(5) Global Medium-Term Note Program and CP programs

The Bank has been establishing the following programs regarding the issue of foreign currencies bonds and CPs:

- 1) Established on August 1, 1991, initially, and annually renewed, U.S. Shelf Registration to issue foreign bonds under the Securities and Exchange Commission rule of the United States of America with an issuance limit of USD 50 billion.
- 2) Established on May 14, 1997, and May 16, 1997, initially, and annually renewed, CP program to issue CPs with issuance limits of USD 6 billion and USD 2 billion, respectively.
- 3) Established on November 6, 1997, initially, and annually renewed, Global Medium-Term Note Program to issue mid-to-long-term foreign currencies bonds with an issuance limit of USD 25 billion.
- 4) Established on February 2, 2012, initially, and annually renewed, MYR MTN program to issue Malaysian Ringgit-denoted bonds with issuance limits of MYR 1 billion.
- 5) Established in 1995, initially, and renewed every two years, Yen Shelf Registration to issue Samurai bond with an issuance limit of JPY 500 billion.
- 6) Established on May 31, 2010, Australian Domestic Debt Issuance Program to issue Kangaroo bond with limit of AUD 4 billion.
- 7) Established on January 17, 2011, and renewed every two years, Uridashi Shelf Registration to issue Uridashi bond with an issuance limit of JPY 500 billion.

(6) Litigations

As of December 31, 2018, 10 lawsuits (aggregated claim amount: ₩163,701 million) were filed as a plaintiff and 8 pending litigations as a defendant were filed (aggregated claim amount: ₩127,108 million). The Bank's management expects that there is no significant impact on the financial statements due to these lawsuits but it is possible to make additional loss to the Bank due to the results of future litigation.

(7) Written-off loans

The Bank manages written-off loans that have claims on debtors due to the statute of limitations, uncollected after write-off, etc. The written-off loans as of December 31, 2018 and 2017, are ₩3,413,713 million and ₩1,385,885 million, respectively.

37. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

Related parties consist of entities related to the Bank, postemployment benefits, a key management personnel and a close member of that person's family, an entity controlled or jointly controlled and an entity influenced significantly.

(1) Details of related parties as of December 31, 2018, are as follows:

<u>Detail</u>	<u>Relationship</u>	<u>Ownership- percentage (%)</u>
Parent:		
Korean government	Parent	66.27
Subsidiaries and Associates:		
KEXIM Bank UK Limited	Subsidiary	100.00
PT.KOEXIM Mandiri Finance	Subsidiary	85.00
KEXIM Vietnam Leasing Co.	Subsidiary	100.00
KEXIM Asia Limited	Subsidiary	100.00
Korea Asset Management Corporation	Associate	25.86
Credit Guarantee and Investment Fund	Associate	11.64
SUNG Dong Shipbuilding & Marine Engineering Co., Ltd.	Associate	81.25
DAESUN Shipbuilding & Engineering Co., Ltd.	Associate	83.03
KTB Newlake Global Healthcare PEF	Associate	25.00
KBS-KDB Private Equity Fund	Associate	20.30
Korea Shipping and Maritime Transportation	Associate	40.00
Korea Aerospace Industries. Ltd.	Associate	26.41

(2) Significant balances of receivables, payables and guarantees with the related parties

1) Significant balances of receivables and payables with the related parties as of December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Detail	Receivables		Allowance /Provisions		Payables	
Subsidiaries:						
KEXIM Bank UK Limited	₩	149,849	₩	-	₩	122
PT.KOEXIM Mandiri Finance		151,717		262		-
KEXIM Vietnam Leasing Co.		125,074		302		-
KEXIM Asia Limited		143,624		69		-
Subtotal		570,264		633		122
Associates:						
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.		610,291		182,037		-
DAESUN Shipbuilding & Engineering Co., Ltd.		487,111		424,705		139
Korea Shipping and Maritime Transportation		42,783		-		-
Subtotal		1,140,185		606,742		139
Total	₩	1,710,449	₩	607,375	₩	261

(December 31, 2017)

Detail	Receivables		Allowance /Provisions		Payables	
Subsidiaries:						
KEXIM Bank UK Limited	₩	136,805	₩	-	₩	93
PT.KOEXIM Mandiri Finance		145,109		227		-
KEXIM Vietnam Leasing Co.		122,994		195		-
KEXIM Asia Limited		121,267		58		59
Subtotal		526,175		480		152
Associates:						
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.		1,931,974		1,590,951		-
DAESUN Shipbuilding & Engineering Co., Ltd.		459,156		284,443		41,743
Subtotal		2,391,130		1,875,394		41,743
Total	₩	2,917,305	₩	1,875,874	₩	41,895

- 2) Guarantees provided to the related parties as of December 31, 2018 and 2017 are as follows (Korean won in millions):

(December 31, 2018)

Detail	Confirmed guarantees	Unconfirmed guarantees	Loans commitments	Other commitments
Subsidiaries:				
KEXIM Bank UK Limited	₩ -	₩ -	₩ 199,855	₩ 12,299
PT.KOEXIM Mandiri Finance	-	-	16,772	-
KEXIM Vietnam Leasing Co.	-	146	126,200	-
KEXIM Asia Limited	-	-	105,110	-
Subtotal	-	146	447,937	12,299
Associates:				
DAESUN Shipbuilding & Engineering Co., Ltd.	120,789	124,044	-	-
Subtotal	120,789	124,044	-	-
Total	₩ 120,789	₩ 124,190	₩ 447,937	₩ 12,299

(December 31, 2017)

Detail	Confirmed guarantees	Unconfirmed guarantees	Loans commitments	Other commitments
Subsidiaries:				
KEXIM Bank UK Limited	₩ -	₩ -	₩ 202,495	₩ 15,000
PT.KOEXIM Mandiri Finance	-	-	16,071	-
KEXIM Vietnam Leasing Co.	-	-	16,071	-
KEXIM Asia Limited	-	-	88,766	20,892
Subtotal	-	-	323,403	35,892
Associates:				
SUNG DONG Shipbuilding & Marine Engineering Co., Ltd.	25,997	98,061	210,000	-
DAESUN Shipbuilding & Engineering Co., Ltd.	92,812	77,425	-	-
Subtotal	118,809	175,486	210,000	-
Total	₩ 118,809	₩ 175,486	₩ 533,403	₩ 35,892

(3) Profit and loss transactions with related parties

Profit and loss transactions with related parties for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail	Related party	2018			2017		
		Revenue	Bad debt expenses	Expenses	Revenue	Bad debt expenses	Expenses
Subsidiaries	KEXIM Bank UK Limited	₩ 3,634	₩ -	₩ 371	₩ 2,149	₩ -	₩ 535
	PT.KOEXIM Mandiri Finance	3,889	23	-	2,293	(4)	-
	KEXIM Vietnam Leasing Co.	3,326	97	-	2,191	(22)	1
	KEXIM Asia Limited	3,396	11	13	2,385	58	116
Associate	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	29,241	24,565	6	82,413	887,790	-
	DAESUN Shipbuilding & Engineering Co., Ltd	34,759	143,754	-	49,297	49,047	59
	Korea Shipping and Maritime Transportation	619	-	-	-	-	-
	Total	₩ 78,864	₩ 168,450	₩ 390	₩ 140,728	₩ 936,869	₩ 711

(4) Money dealing with related parties

Money dealing with related parties for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail	2018		2017	
	Financing transaction		Financing transaction	
	Loan	Collection	Loan	Collection
Subsidiaries:				
KEXIM Bank UK Limited	₩ 236,787	₩ 228,162	₩ 240,458	₩ 231,744
PT.KOEXIM Mandiri Finance	304,758	305,054	297,385	275,019
KEXIM Vietnam Leasing Co.	244,567	247,818	209,031	214,802
KEXIM Asia Limited	309,166	297,815	320,952	315,549
Associates:				
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	24,345	25,048	34,000	216,503
DAESUN Shipbuilding & Engineering Co., Ltd.	-	-	99,450	-
Total	₩ 1,119,623	₩ 1,103,897	₩ 1,201,276	₩ 1,253,617

(5) Details of compensation for key executives for the years ended December 31, 2018 and 2017 are as follows (Korean won in millions):

Detail	2018	2017
Salaries	₩ 2,944	₩ 2,418
Severance and retirement benefits	201	162
Total	₩ 3,145	₩ 2,580

38. APPROVAL OF FINANCIAL STATEMENTS:

The financial statements of the Bank were approved by board of directors on March 26, 2019, and were finally approved by the Operations Committee on March 29, 2019.

39. THE ADOPTION OF K-IFRS No. 1109 'Financial Instruments':

The Bank has adopted K-IFRS No. 1109 'Financial Instruments' which was published on September 25, 2015 from the year beginning on January 1, 2018. The effect of the adoption of this new standard to the Bank's financial statements is as follows:

(1) Classification and measurement of financial assets

The impacts on the classification and measurements of the non-derivative financial instruments as of January 1, 2018 by application of this new standard were as follows (Korean won in millions):

	Classification under K-IFRS No.1039	Classification under K-IFRS No.1109		Amounts under K-IFRS No.1039(*1)		Amounts under K-IFRS No.1109(*1)
Due from banks:	Loans and receivables	Amortized cost	₩	2,091,920	₩	2,091,920
Loans:	Loans and receivables	FVPL		18,216		13,577
	Loans and receivables	FVOCI		1,095,968		866,318
	Loans and receivables	Amortized cost		70,371,948		70,371,948
Other financial assets	Loans and receivables	Amortized cost		1,102,062		1,090,380
Trading assets (debt securities)	FVTPL	FVPL		38,665		38,665
Trading assets (equity securities)	FVTPL	FVPL		725,613		725,613
AFS financial assets (debt securities)	AFS financial assets	FVOCI		911,518		911,518
AFS financial assets (equity securities)	AFS financial assets	FVPL		134,324		134,324
	AFS financial assets	FVOCI		5,646,636		5,646,636
HTM financial assets (debt securities)	HTM financial assets	Amortized cost		89,477		89,477
	Total of the non-derivative financial instruments		₩	<u>82,226,347</u>	₩	<u>81,980,376</u>

(*1) These are amounts before deduction of allowance for loan loss, and exclude loan valuation adjustment related to fair value hedging amounting to ₩24,182 million.

(2) Loss allowances impact

The impacts on loss allowances as of January 1, 2018 by application of this new standard were as follows (Korean won in millions):

Detail	Stages	Loans	Loss allowance under K-IFRS	
			No.1039	No.1109
Loans and receivables	Stage 1	₩ 64,646,271	₩ 209,161	₩ 241,555
	Stage 2	3,185,189	96,182	417,303
	Stage 3	4,099,725	2,840,651	2,826,958
	Reclassification	2,315,657	309,554	-
	Subtotal	74,246,842	3,455,548	3,485,816
Acceptances and guarantee contracts/ commitments	Stage 1	48,995,311	744,674	758,590
	Stage 2	12,335,103	541,790	722,789
	Stage 3	1,216,148	512,427	512,870
	Subtotal	62,546,562	1,798,891	1,994,249
Debt securities	Stage 1	1,000,995	-	1,815
Total		₩ 137,794,399	₩ 5,254,439	₩ 5,481,880

(3) Changes in equity

Changes in retained earnings as of January 1, 2018 due to the initial application date of K-IFRS No.1109 were as follows (Korean won in millions):

	Amounts
Retained earnings at January 1, 2018 before changes	₩ 707,980
Adjustments of retained earnings due to the application of K-IFRS No.1109:	
Reclassification from financial assets at amortized cost to financial assets at FVOCI	120,064
Reclassification from available-for-sale financial assets to financial assets at FVOCI	(61,926)
Increase in loss allowance for financial assets at amortized cost	(30,705)
Increase in provisions for acceptances and guarantees	(29,244)
Increase in provisions for unused loan commitments	(166,116)
Increase in loss allowance for debt instruments at FVOCI	(2,342)
Others (*1)	397
Subtotal	(169,872)
Tax effect	41,109
Retained earnings at January 1, 2018 after changes	579,217

(*1) Others represent translation difference of foreign currencies, and others.

Changes in other components of equity of January 1, 2018 due to the initial application date of K-IFRS No.1109 were as follows (Korean won in millions):

	<u>Amounts</u>
Other components of equity at January 1, 2018 before changes	₩ 119,739
Adjustments of other components of equity due to the application of K-IFRS No.1109:	
Reclassification from financial assets at amortized cost to financial assets at FVOCI	(305,553)
Reclassification from available-for-sale financial assets to financial assets at FVOCI	2,342
Subtotal	<u>(303,211)</u>
Tax effect	<u>73,377</u>
Other components of equity at January 1, 2018 after changes	<u><u>(110,095)</u></u>

REGISTERED OFFICE OF THE ISSUER

The Export-Import Bank of Korea

38 Eunhaeng-ro
Yeongdeungpo-gu
Seoul 07242
Korea

FISCAL AGENT, PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

REGISTRAR, PAYING AGENT AND TRANSFER AGENT

Deutsche Bank Trust Company Americas

c/o Deutsche Bank National Trust Company
100 Plaza One, 6th Floor, MS 0699
Jersey City, NJ 07311-3901
United States of America

PAYING AGENT AND TRANSFER AGENT

Deutsche Bank Luxembourg S.A.

2 Boulevard Konrad Adenauer
L-1115 Luxembourg

ARRANGER

UBS AG Hong Kong Branch

52/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

DEALERS

Banco Bilbao Vizcaya Argentaria, S.A.
Unit 9507, 95/F, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Crédit Agricole Corporate and Investment Bank
30/F Two Pacific Place
88 Queensway
Hong Kong

Daiwa Capital Markets Europe Limited
5 King William Street
London EC4N 7AX
United Kingdom

Deutsche Bank AG, Singapore Branch
One Raffles Quay
#17-00 South Tower
Singapore 048583

The Hongkong and Shanghai Banking Corporation Limited
Level 17, HSBC Main Building
1 Queen's Road Central
Hong Kong

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ
United Kingdom

DBS Bank Ltd.
12 Marina Boulevard, Level 42
Marina Bay Financial Centre Tower 3
Singapore 018982

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

ING Bank N.V., Singapore Branch
1 Wallich Street
#12-01 Guoco Tower,
Singapore 078881

Merrill Lynch International, LLC Seoul Branch
29F, Seoul Finance Center
136 Sejongdae-Ro, Jung-Gu
Seoul 04520
Republic of Korea

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Société Générale
29, boulevard Haussmann
75009 Paris
France

Standard Chartered Bank

One Basinghall Avenue
London EC2V 5DD
United Kingdom

UBS AG Hong Kong Branch

52/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

AUDITORS

KPMG Samjong Accounting Corp.

27th Floor, Gangnam Finance Center
152 Teheran-ro
Gangnam-gu
Seoul 06236
Korea

LEGAL ADVISERS

*To the Issuer
in respect of Korean law*

Bae, Kim & Lee LLC
133 Teheran-ro, Gangnam-gu
Seoul 06133
Korea

*To the Dealers
in respect of English law*

Cleary Gottlieb Steen & Hamilton LLP
c/o 19F, Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP

1 Robinson Road
#18-00 AIA Tower
Singapore 048542

