IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A, OR (2) PURCHASING THE SECURITIES OUTSIDE THE U.S. IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S (AS DEFINED BELOW)

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e mail including all attachments. The following applies to the pricing supplement following this page which supplements and should be read together with the offering circular dated 5 September 2014 (together, the "**offering circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES 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, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

Confirmation of your Representation: In order to be eligible to view the following offering circular or make an investment decision with respect to the securities, investors must be either (I) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act), or (II) purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the following offering circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs, or (b) purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to the delivery of such offering circular by electronic transmission.

You are reminded that this offering circular has been delivered to you on the basis that you are a person into whose possession this 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 this offering circular to any other person.

The materials relating to any offering of securities under the Programme to which this offering circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and any of the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by such underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This 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 neither the Arranger nor any Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch International, Mizuho Securities USA Inc., Standard Chartered Bank and Woori Investment & Securities Co., Ltd. (together, the "**Managers**") (each as described in this offering circular) nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard-copy version available to you on request from any of the Managers.

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

Pricing Supplement dated 22 September 2014

NongHyup Bank

Issue of U.S.$300,000,000 2.75% Fixed Rate Notes due 2019
under the U.S.$8,000,000,000
Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 5 September 2014. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular and this Pricing Supplement.

1.	Issuer:		NongHyup Bank
2.	(i)	Series Number:	12
	(ii)	Tranche Number:	1
3.	Specified Currency or Currencies:		United States Dollars ("**U.S.$**")
4.	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$300,000,000
	(ii)	Tranche:	U.S.$300,000,000
5.	(i)	Issue Price:	99.819% of the Aggregate Nominal Amount
	(ii)	Net proceeds (after deducting the underwriting commission but prior to deducting the offering expenses):	U.S.$298,497,000
6.	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
7.	(i)	Issue Date:	29 September 2014
	(ii)	Interest Commencement Date:	Issue Date
8.	Maturity Date:		29 September 2019
9.	Interest Basis:		2.75% Fixed Rate
10.	Redemption/Payment Basis:		Redemption at par
11.	Change of Interest Basis or Redemption/Payment Basis:		Not Applicable

12.	Put/Call Options:		None
13.	(i)	Status of the Notes:	Senior
	(ii)	Date of Board approval for issuance of Notes obtained:	24 January 2014
	(iii)	Date of regulatory approval/consent/report for issuance of Notes obtained:	The Issuer filed a report for the issuance of the Notes to the Ministry of Strategy and Finance of Korea, which report has been accepted on 25 August 2014.
14.	Listing:		Singapore Exchange Securities Trading Limited
15.	Method of distribution:		Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions		Applicable
	(i)	Rate(s) of Interest:	2.75% per annum payable semi-annually in arrear
	(ii)	Interest Payment Date(s):	29 March and 29 September in each year (with the first interest payment date being 29 March 2015) up to and including the Maturity Date
	(iii)	Fixed Coupon Amount(s):	U.S.$13.75 per Calculation Amount
	(iv)	Broken Amount(s):	Not Applicable
	(v)	Day Count Fraction:	30/360 unadjusted
	(vi)	Determination Date(s):	Not Applicable
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
17.	Floating Rate Note Provisions		Not Applicable
18.	Zero Coupon Note Provisions		Not Applicable
19.	Index Linked Interest Note/other variable-linked interest Note Provisions		Not Applicable
20.	Dual Currency Note Provisions		Not Applicable

PROVISIONS RELATING TO REDEMPTION

21.	Call Option	Not Applicable
22.	Put Option	Not Applicable
23.	Final Redemption Amount	U.S.$1,000 per Calculation Amount
24.	Early Redemption Amount	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	Registered Notes: Unrestricted Global Certificate exchangeable for unrestricted Individual Note Certificates in the limited circumstances described in the Unrestricted Global Certificate and Restricted Global Certificate exchangeable for Restricted Individual Note Certificates in the limited circumstances described in the Restricted Global Certificate
26.	Additional Financial Centre(s) or other special provisions relating to payment dates:	Seoul, London and New York
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29.	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	Not Applicable
	(ii) Instalment Date(s):	Not Applicable
30.	Redenomination renominalisation and reconventioning provisions:	Not Applicable
31.	Consolidation provisions:	Not Applicable
32.	Other terms or special conditions:	Not Applicable

DISTRIBUTION

		Managers	Commitments
33.	(i) If syndicated, names and addresses of Managers and underwriting commitments:	Crédit Agricole Corporate and Investment Bank 27th Floor, Two Pacific Place 88 Queensway Hong Kong	U.S.$50,000,000
		Deutsche Bank AG, Singapore Branch One Raffles Quay #17-00 South Tower Singapore 048583	U.S.$50,000,000
		The Hongkong and Shanghai Banking Corporation Limited Level 17, HSBC Main Building 1 Queen's Road Central Hong Kong	U.S.$50,000,000
		Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom	U.S.$50,000,000
		Mizuho Securities USA Inc. 320 Park Avenue, 12th Floor New York, New York 10022-6815 United States of America	U.S.$50,000,000
		Standard Chartered Bank 1 Basinghall Avenue London EC2V 5DD United Kingdom	U.S.$50,000,000
		Woori Investment & Securities Co., Ltd. 23-4 Yoido-dong, Youngdungpo-gu Seoul, 150-725, Korea	—
	(ii) Date of Subscription Agreement:	22 September 2014	
	(ii) Stabilising Manager(s) (if any):	Standard Chartered Bank	
34.	If non-syndicated, name of Relevant Dealer:	Not Applicable	
35.	U.S. Selling Restrictions:	Reg. S Category 2 TEFRA rules not applicable Rule 144A Eligible	
36.	Additional selling restrictions:	Not Applicable	

OPERATIONAL INFORMATION

37.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	DTC
38.	Delivery:	Delivery against payment
39.	In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:	Deutsche Bank Luxembourg S.A. 2, Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg
40.	Additional Paying Agent(s) (if any):	Not Applicable

ISIN:	Rule 144A Notes: US65540JAA60 Regulation S Notes: XS1110203616
Common Code:	Rule 144A Notes: 111122563 Regulation S Notes: 111020361
CUSIP:	Rule 144A Notes: 65540JAA6

USE OF PROCEEDS

The net proceeds of the issue of the issue of the Notes will be applied for general corporate purposes, including repayment of outstanding long-term borrowings.

RATING OF THE NOTES

The Notes are expected to be rated A1 by Moody's Investors Service, Inc. and A by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. Such ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organisations. Each such rating should be evaluated independently of any other rating of the Notes.

STABILISING

In connection with this issue, Standard Chartered Bank (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

RESPONSIBILITY

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

OFFERING CIRCULAR **STRICTLY CONFIDENTIAL**

NONGHYUP BANK

(incorporated with limited liability in the Republic of Korea)

U.S.$8,000,000,000
Global Medium Term Note Programme

Under this U.S.$8,000,000,000 Global Medium Term Note Programme (the "**Programme**"), NongHyup Bank (the "**Issuer**" or the "**Bank**") may from time to time issue notes (the "**Notes**", which expression shall include Senior Notes and Subordinated Notes (as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). Notes may be issued in bearer or registered form. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$8,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application has been made to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in and the quotation for any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of us, the Programme or such Notes.

See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form will be represented on issue by a temporary global note (each a "**Temporary Global Note**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933 (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a "**Permanent Global Note**" and, together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant pricing supplement, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Tranche, upon certification as to non-US beneficial ownership. Interests in permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes of each Series to be issued in registered form ("**Registered Notes**") and which are sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearsteam, Luxembourg**"), with a common depositary on behalf of Euroclear and Clearstream, Luxembourg or (b) in the case of a Series intended to be cleared through the Central Moneymarkets Unit Service (the "**CMU Service**"), operated by the Hong Kong Monetary Authority (the "**HKMA**"), with a sub-custodian for the CMU Service, (c) in the case of a Series intended to be cleared through The Depositary Trust Company ("**DTC**"), registered in the name of Cede & Co. as nominee for DTC and (d) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, DTC and/or the CMU Service, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. Registered Notes which are sold in the United States to "qualified institutional buyers" (each, a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act ("**Restricted Notes**") will initially be represented by a permanent registered global certificate (each a "**Restricted Global Certificate**" and, together with the relevant Unrestricted Global Certificate, the "**Global Certificates**"), without interest coupons, which may be deposited on the relevant issue date with a custodian (the "**DTC Custodian**") for, and registered in the name of Cede & Co. as nominee for, DTC. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes have not been recommended, approved or disapproved by the United States Securities and Exchange Commission or any other federal or state securities commission or other regulatory authority in the United States. None of the foregoing authorities have passed upon the adequacy or accuracy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be submitted to the SGX-ST and made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

Standard Chartered Bank

Dealers

Barclays	**BNP PARIBAS**	**BofA Merrill Lynch**
Citigroup	**Crédit Agricole CIB**	**Deutsche Bank**
HSBC	**ING**	**Mizuho Securities**
Morgan Stanley	**Standard Chartered Bank**	**UBS**
	Woori Investment & Securities	

The date of this Offering Circular is 5 September 2014.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Offering Circular is based on information provided by the Issuer and by other sources the Issuer believes are reasonable. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. None of the Dealers accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme. Each Dealer and its affiliates accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such information.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or 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.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The 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 United States persons, 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, as amended (the "U.S. Internal Revenue Code") and the regulations promulgated thereunder.

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 document 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 may 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 the United States, the European Economic Area (including the United Kingdom), Japan, Hong Kong, Singapore and Korea; see "*Subscription and Sale*".

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Dealers and the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) ("Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or person(s) acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

U.S. INFORMATION

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 the registration requirements of the Securities Act. See "*Subscription and Sale*".

This offering circular may be submitted on a confidential basis in the United States to a limited number of QIBs (as defined under "Form of the Notes") for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Restricted Global Certificate (as defined in "*Form of Notes*") or any Notes issued in registered form in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Transfer Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in a deed of covenant dated 5 September 2014 (the "**Deed of Covenant**") to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organised under the laws of Korea. All of the officers and directors named herein reside in Korea and all or a substantial portion of the assets of the Issuer and of such officers and directors are located in Korea. As a result, it may not be possible for investors to effect service of process outside Korea upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Bae, Kim & Lee LLC, its Korean legal counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

The "Agency Agreement", the "Deed of Covenant", the "Notes", the "Receipts" and the "Coupons" (each as defined under "*Terms and Conditions of the Notes*" below) and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, English law except that Condition 4(b) is governed by, and shall be construed in accordance with, Korean law. However, if a claim relating to any non-contractual obligations arising out of or in connection with any of the Agency Agreement, the Deed of Covenant, the Notes, the Receipts or the Coupons is brought to a court in Korea, Korean courts may not recognise English law as the governing law of such claim.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains statements that are, or may deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward looking statements can be identified by the use of terminology such as "aim", "anticipate", "assume", "believe", "contemplate", "continue", "estimate", "expect", "future", "goal", "intend", "may", "objective", "plan", "project", "risk", "seek to", "shall", "should", "will", "will likely result", "will pursue", and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to the Issuer's business discussed under "*Risk Factors*" other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- the risk of adverse impacts from an economic downturn in Korea and globally;
- the Issuer's ability to implement its strategy successfully;
- the condition of and changes in the Korean, Asian or global economies, including changes in consumer confidence and spending;
- the Issuer's growth and expansion;
- future levels of non-performing loans;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- changes in interest rates and changes in government regulation and licensing of the Issuer's businesses in Korea;
- availability of funding and liquidity;
- the Issuer's exposure to market risks;
- competition in the financial services industry; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Issuer's income or results of operations could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular could include, but are not limited to:

- general economic and political conditions in Korea or other countries which have an impact on the Issuer's business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environment in Korea; and
- regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see "*Risk Factors*". The Issuer cautions you not to place undue reliance on forward-looking statements, which speak only as of the date of this Offering Circular. Except as required by law, the Issuer is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to the Issuer or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless the context otherwise requires, in this Offering Circular:

- all references to the "**NACF**" refer to National Agricultural Cooperative Federation;
- all references to the "**NACF Group**" refer to NACF and its consolidated subsidiaries; and
- all references to the "**Issuer**", the "**Bank**", "**we**", "**our**", "**us**", or like terms, when used in a historical context (periods prior to 2 March 2012), refer to the credit and banking business (excluding the mutual credit business) of NACF prior to its transfer to NongHyup Bank on 2 March 2012; references when used in the present tense or prospectively (after 2 March 2012) refer to NongHyup Bank and its consolidated subsidiaries.

All references in this Offering Circular to "**Korea**" refer to the Republic of Korea, the "**U.S.**" or the "**United States**" refer to the United States of America, "**China**" or "**PRC**" refer to People's Republic of China and the "**EU**" refer to the European Union. References to "**Korean Won**", "**Won**" or "**₩**" refer to the currency of Korea, those to "**U.S. dollars**", "**U.S.$**" or "**$**" refer to the currency of the U.S., those to "**Renminbi**", "**Chinese Renminbi**" or "**RMB**" refer to the currency of PRC and those to "**Japanese Yen**" or "**Yen**" refer to the currency of Japan. References to the "**Government**" refer to the government of Korea. In addition, references to "**Sterling**" or "**£**" refer to the currency of the United Kingdom and those to "**euro**" and "**€**" refer to the currency of the EU.

Unless otherwise specified, all conversions of Won into U.S. dollars in this Offering Circular were made at the base rate under the market average exchange system announced by Seoul Money Brokerage Services, Ltd. in Seoul for U.S. dollars against Won (the "**Market Average Exchange Rate**"). For convenience only, except as set out below and where otherwise indicated, certain Won amounts have been translated into U.S. dollars at the Market Average Exchange Rate of U.S.$1.00 = Won 1,014.4 as of 30 June 2014. No representation is made that the Won or the U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. See "*Exchange Rates*".

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. References to billion are to thousands of millions.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated herein, the financial data of the Bank as of 31 December 2012 and 2013 and for the period from 2 March 2012 through 31 December 2012 and the year ended 31 December 2013 have been derived from the audited consolidated financial statements of the Bank as of 2 March 2012 (inception), 31 December 2012 and 31 December 2013 and for the period from 2 March 2012 (inception) to 31 December 2012 and for the year ended 31 December 2013, which are based on International Financial Reporting Standards, as adopted by Korea ("K-IFRS") on a consolidated basis.

Unless otherwise indicated herein, the financial data of the Bank as of 30 June 2013 and 2014 and for the six months ended 30 June 2013 and 2014 have been derived from the unaudited consolidated financial statements of the Bank as of 30 June 2013 and 2014 and for the six months ended 30 June 2013 and 2014, which are based on K-IFRS on a consolidated basis.

Certain statistical information of the Bank are derived from information set forth in the Bank's monthly reports submitted to the Financial Services Commission ("FSC"), which information is prepared on a separate basis and in accordance with the guidelines promulgated by the FSC based on Article 43-2 of the Banking Act of Korea. Unless otherwise stated herein, such information is referred herein as having been prepared "on a separate basis". Such information may differ in certain aspects from the information that would have been prepared in accordance with K-IFRS.

In this Offering Circular, unless otherwise specified, references to a particular "fiscal year" are to the Issuer's financial year ended 31 December of such year.

CORPORATE INFORMATION

NongHyup Bank's principal executive offices are located at 120 Tongil-ro, Jung-gu, Seoul, 100-707, Korea.

CONTENTS

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 consolidated (if any) annual financial statements and, if published later, the most recently published unaudited quarterly and semi-annual interim consolidated financial statements (if any) of the Issuer;

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time; and

(c) with respect to each Tranche, the relevant Pricing Supplement,

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 (with effect from the date such statement or document, as the case may be, is issued) 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, without charge, from the principal office in Hong Kong of Deutsche Bank AG, Hong Kong Branch (the "**Principal Paying Agent**") for Notes listed on the SGX-ST.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*" below.

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$8,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular shall have the same meanings in this summary.

Issuer:	NongHyup Bank
Description:	Global Medium Term Note Programme
Programme Size:	Up to U.S.$8,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its respective obligations in respect of the Notes are discussed under the section "*Risk Factors*".
Arranger:	Standard Chartered Bank
Dealers:	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Deutsche Bank AG, Singapore Branch The Hongkong and Shanghai Banking Corporation Limited ING Bank N.V., Singapore Branch Merrill Lynch International Mizuho Securities Asia Limited Morgan Stanley & Co. International plc Standard Chartered Bank UBS AG, Hong Kong Branch Woori Investment & Securities Co., Ltd. and any other Dealers appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Principal Paying Agent and Paying Agent:	Deutsche Bank AG, Hong Kong Branch (in respect of Unrestricted Notes)
Registrars:	Deutsche Bank Luxembourg S.A. (in respect of Unrestricted Notes other than CMU Notes and Unrestricted Notes cleared through DTC ("**DTC Unrestricted Notes**")), Deutsche Bank AG, Hong Kong Branch (in respect of CMU Notes) and Deutsche Bank Trust Company Americas (in respect of Restricted Notes and DTC Unrestricted Notes)

Transfer Agents:	Deutsche Bank Luxembourg S.A. (in respect of Unrestricted Notes other than CMU Notes and DTC Unrestricted Notes), Deutsche Bank AG, Hong Kong Branch (in respect of CMU Notes) and Deutsche Bank Trust Company Americas (in respect of Restricted Notes and DTC Unrestricted Notes)
Exchange Agent:	Deutsche Bank AG, Hong Kong Branch (in respect of Restricted Notes)
CMU Lodging and Paying Agent:	Deutsche Bank AG, Hong Kong Branch
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*" and "*Transfer Restrictions*") including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year 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*".
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
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 completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the pricing supplement (the "**Pricing Supplement**").
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.

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 the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency; **provided that,** at the date of this Offering Circular, (i) Lower Tier II Subordinated Notes shall have a minimum maturity of five years and (ii) Upper Tier II Subordinated Notes shall have a minimum maturity of ten years and may not be perpetual.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Clearing Systems:	Clearstream, Luxembourg, Euroclear, the CMU Service and/or the DTC and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Principal Paying Agent and the relevant Dealer.
Form of Notes:	Notes may be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons (in the case of Subordinated Notes, only with the prior approval of the Financial Supervisory Service of Korea or of such other relevant regulatory authorities in Korea, if necessary) or, in the case of Senior Notes, following an Event of Default or, in the case of Subordinated Notes, following a Subordination Event) or that such Notes will be redeemable at the option of the Issuer (only with, in the case of Subordinated Notes, the prior approval of the Financial Supervisory Service of Korea or of such other relevant regulatory authorities in Korea, if necessary) and/or (except in the case of Subordinated Notes) the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution; see "*—Certain Restrictions — Notes having a maturity of less than one year*" above.
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Withholding Tax:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any relevant Tax Jurisdiction, subject as provided in Condition 13 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 13 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 5 (*Negative Pledge*).
Cross Default / Cross Acceleration:	The terms of the Senior Notes will contain a cross default/ cross acceleration provision as further described in Condition 14 (*Events of Default*).
Status of the Senior Notes:	The Senior Notes and any relative Receipts and Coupons will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4(a) (*Status - Status of the Senior Notes*), unsecured obligations of the Issuer and will rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Status of the Subordinated Notes:	The Subordinated Notes and any relative Receipts and Coupons will constitute direct, general, subordinated and unsecured obligations of the Issuer which will rank *pari passu* among themselves and in priority to claims of holders of all class of equity (including holders of preference shares (if any) of the Issuer).
Listing:	Each Series of the Notes may, if so agreed between the Issuer and the relevant Dealer(s), be listed on the SGX-ST or any stock exchange(s) as may be agreed between the Issuer and the relevant Dealer(s), subject to all necessary approvals having been obtained. If the application to the SGX-ST to list a particular Series of Notes is approved, for so long as such Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of at least S$200,000 (or its equivalent in foreign currencies). Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law, except for Condition 4(b) (*Status of the Subordinated Notes and relevant provisions*) which will be governed by, and construed in accordance with, Korean law.

Enforcement of Notes in Global Form:	In the case of Global Notes and Global Certificates, individual investors' rights against the Issuer will be governed by a Deed of Covenant dated 5 September 2014, a copy of which will be available for inspection at the specified office of the Principal Paying Agent.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Hong Kong, Singapore and Korea and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".
United States Selling Restrictions:	Regulation S, Category 1 or 2 and Rule 144A as specified in the applicable Pricing Supplement. TEFRA C or D/TEFRA not applicable as specified in the applicable Pricing Supplement.

RISK FACTORS

Prospective purchasers of Notes should carefully review the information contained elsewhere in this Offering Circular, including the following matters. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially and adversely affected.

Unless the context otherwise requires, references in this report to the "Bank", "we", "our", "us" or like terms, when used in a historical context (periods prior to 2 March 2012), refer to the credit and banking business (excluding the mutual credit business) of NACF prior to its transfer to NongHyup Bank on 2 March 2012; references when used in the present tense or prospectively (after 2 March 2012) refer to NongHyup Bank and its consolidated subsidiaries.

Risks Relating to the Bank

Difficult conditions and the risk of market deterioration may have an adverse effect on the Bank's financial condition.

Most of the Bank's assets are located in, and the Bank generates most of its income from, Korea. Accordingly, the Bank's business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of the Bank's corporate and retail customers.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. The ongoing difficulties affecting the U.S., European and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the European, U.S., Chinese and global economies have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy and in turn on the Bank's business and profitability. In addition, the value of the Won relative to the U.S. Dollar has also fluctuated significantly in recent years, and there is no guarantee that similar currency fluctuation will not occur again in the future. See "*Exchange Rates*". In addition, substantial uncertainties remain for the global and Korean economy in the form of anticipated tightening of the monetary policy in the United States and its potentially adverse implications for the global economy, fiscal difficulties in several European countries, a downgrade in the sovereign credit rating of the United States and signs of less than robust growth of the Chinese economy, as well as heightened military and political tension in the Middle East and the former Soviet bloc. A continued slump in the Korean economy or any future deterioration of the Korean or global economy could adversely affect the Bank's business, financial condition and results of operations.

In particular, difficulties in global and Korean financial and economic conditions could result in significant deterioration in the quality of the Bank's assets and accumulation of higher provisioning, allowances for loan losses and charge offs as an increasing number of the Bank's corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. In addition, depending on the nature of the difficulties in the financial markets and general economy, the Bank may be forced to scale back certain of its core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on the Bank's earnings and profitability. Furthermore, while the Bank currently maintains its capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the

Government in case of a deepening crisis. In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other, unanticipated systemic or other risks that may not be presently predictable. Any of these risks, if materialised, may have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank's substandard or below credits, including those credits that have been in arrears for three months or more and as classified according to the Financial Supervisory Service ("**FSS**") guidelines, amounted to Won 3,121 billion as of 30 June 2014 and Won 3,116 billion as of 31 December 2013, respectively, and the ratio of the Bank's substandard or below credits to total credits was 1.92% as of 30 June 2014 and 1.97% as of 31 December 2013. The Bank's delinquent loans as reported to the FSC, which represent loans the principal amount of which is past due for one day or more, also decreased to Won 1,503 billion as of 30 June 2014 from Won 1,685 billion as of 31 December 2013, and its delinquency ratio decreased to 0.96% as of 30 June 2014 from 1.11% as of 31 December 2013. However, there is no assurance that the asset quality of the Bank's loans, particularly the loans to the real estate and construction companies (including real estate related projects) and the service industry, will not deteriorate in the future, especially if the current economic and financial conditions in global and Korean markets (including the Korean real estate market) were to worsen, which would have a material adverse effect on the Bank's business, financial condition and results of operations.

The Government may promote lending and financial support to certain types of borrowers, to which the Bank would not otherwise lend absent such policies, and the Government may implement other policy measures and such lending, support, and/or policy measures may negatively impact the Bank's financial condition.

Through its policy guidelines and recommendations, the Government has from time to time promoted and, as a matter of policy, may continue to attempt to promote, lending by the Korean financial institutions to particular types of borrowers. For example, in the past, the Government has announced policy guidelines requesting financial institutions to participate in remedial programmes for troubled corporate borrowers, as well as policies aimed at promoting certain sectors of the economy, including measures such as making low interest funding available to financial institutions that lend to these sectors. For example, in light of the deteriorating financial condition and liquidity position of small and medium sized enterprises ("**SMEs**") in Korea as a result of the global financial crisis commencing in the second half of 2008 and adverse conditions in the Korean economy affecting consumers, the Government introduced measures intended to encourage Korean banks to provide financial support to SME borrowers. See "*—Risks relating to the Bank's Business—The Bank's loan exposure to SMEs with financial difficulties may deteriorate the quality of the Bank's loan portfolio, which could have an adverse effect on the Bank's financial condition*". In addition, the Bank provides policy loans to farmers in furtherance of the Government's national agricultural policy. The Bank expects that all loans or credits made pursuant to these Government policies will be reviewed in accordance with its credit approval procedures. However, these or any future Government policies may influence it to lend to certain sectors or in a manner in which the Bank otherwise would not lend in the absence of such policies.

The Government has also implemented other policy measures in an effort to help stabilise the financial markets. The Bank has participated in the Government-led debt restructuring plan for household loans in 2012 and the "National Happiness Fund" designed to rescue individual credit defaulters in April 2013. In addition, in the wake of the financial market turmoil in recent years, on 31 August 2009, six major Korean banks, including the Bank (the "**Participating Banks**"), entered into an agreement (the "**Bad Bank Agreement**") to establish an entity (the "**Bad Bank**") that would, among others, purchase and manage non-performing loans from the Participating Banks and other financial institutions. The Bank contributed Won 72.9 billion and acquired a 15% equity stake in the Bad Bank. There can be no assurance that the Bad Bank will not require any additional financings from the Participating Banks other than as provided in the Bad Bank Agreement. The overall impact of these and other legislative and regulatory efforts on the Korean financial markets are uncertain, and they may not have the intended stabilising effect.

The Government may request financial institutions in Korea, including the Bank, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which such financial institutions, including the Bank, may decide to accept. The Bank may incur costs or losses as a result of providing such financial support.

The Bank's loan exposure to SMEs with financial difficulties may deteriorate the quality of the Bank's loan portfolio, which could have an adverse effect on the Bank's financial condition.

In recent years, substantially all Korean banks have adopted a strategy of reducing large corporate loan exposure and increasing SME and retail loan exposure. The Bank's total loans to SMEs amounted to Won 55,843 billion, representing 35.8% of the Bank's total loans as of 30 June 2014 on a separate basis. The Bank loans to SMEs that were classified as substandard or below amounted to Won 1,800 billion as of 30 June 2014, representing 3.2% of the Bank's total loans to those enterprises as of 30 June 2014 on a separate basis. The Bank may be required to take measures to decrease its exposure to these customers.

Financial difficulties experienced by SMEs as a result of, among others, the ongoing global economic difficulties and the adverse impact on the Korean economy, coupled with aggressive marketing and intense competition among Korean banks to expand lending to this segment, may result in further deterioration in the asset quality of the Bank's loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have a material adverse impact on the Bank's business, financial condition and results of operations. As large Korean corporations continue to expand into China and other countries with lower labour costs and other expenses through relocating their production plants and facilities to such countries, such development may have a material adverse impact on such SMEs. Moreover, many SMEs have close business relationships with chaebols, primarily as suppliers. Any difficulties encountered by chaebols are likely to adversely affect the liquidity and financial condition of related SMEs, including those to which the Bank has exposure to, also resulting in an impairment of the SMEs' ability to repay loans. In addition, any difficulties encountered by the SMEs may have an adverse effect on chaebols and the ability for a Korean conglomerate to repay the loans that it may have with the Bank. See "*—Risks Relating to the Bank's Business—Exposure to large Korean conglomerates, or chaebols, could have an adverse effect on the Bank*".

Exposure to large Korean conglomerates, or chaebols, could have an adverse effect on the Bank.

As of 30 June 2014, the total amount of the Bank's exposures to the 30 largest chaebols was Won 15,366 billion which represented 9.6% of the Bank's total exposure on a separate basis. The Bank's largest single credit (based on outstanding balances) to a chaebol at that date was Won 1,695 billion, which represented 1.1% of total credits on a separate basis. Given the size and importance of chaebols to the Korean economy, difficulties experienced by the chaebols are likely to have an adverse effect on the Korean economy as a whole, which would adversely impact the Bank. The Bank is one of the creditor banks to various members of the STX Group, which have been under court receivership since May 2013, and the Bank may be required to inject additional funds to further aid the corporate restructuring plan for these companies. If the Bank's credits to one or more chaebols become non-performing, the quality of the Bank's credit portfolio would be adversely affected and additional provisions would be required.

There is no assurance that the allowances the Bank has established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to companies that are in, or in the future enter into, workout or liquidation proceedings (including member companies of the STX Group), the Bank may not be able to make any recoveries against such companies. The Bank may, therefore, experience future losses with respect to those loans.

The Bank has exposure to Korean construction, real estate development, shipbuilding and shipping companies, and financial difficulties of these companies may adversely impact the Bank.

As of 30 June 2014, the total amount of the Bank's loans to companies in Korea in the construction, real estate development and shipbuilding and shipping industries amounted to Won 4,905 billion and Won 1,715 billion, or 3.1% and 1.1% of the Bank's loans on a separate basis, respectively. The Bank also has other exposures to companies in these four industries, including in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by the Bank. In the case of shipbuilding companies, such exposures include refund guarantees extended by the Bank on behalf of such companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts. In the case of construction and real estate development companies, the Bank also has potential exposure with respect to guarantees provided to the Bank by general contractors for financing extended by the Bank for residential and commercial real estate development projects, as well as commitments by the Bank to purchase asset-backed securities secured by the assets of companies in the construction and real estate development industries and other commitments the Bank enters into relating to project financing for such real estate projects, which may effectively function as guarantees.

The construction and real estate development industries in Korea are continuing to face sustained sluggishness, due to excessive investment in the past in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul. In April 2013, the Government announced a plan to revitalise the real estate market with measures such as the offer of exemptions on acquisition and capital gains taxes along with the financial support for first-time home buyers. In addition, in July 2014, as a further way to boost the real estate transactions by facilitating home purchases, the Government relaxed the loan-to-value ratio and the debt-to-equity ratio which generally operate to set the maximum amount of mortgage and home equity loans. The Government may in the future introduce other measures to revitalise the real estate market. However, it remains to be seen whether such measures will have the intended effect of significantly improving the real estate market in Korea. In fact, such stimulative measures may have the unintended effect of over-stimulating the real estate market and creating a bubble in the real estate prices, the bursting of which may lead to deterioration in the asset quality of the Bank's mortgage and home equity and hurt the Bank's business, results of operation and financial condition. Conversely, if the Government were to take measures designed to stabilise the real estate market in the future in anticipation or as a result of an over-speculation in the real estate market, such measures may result in substantial future declines in real estate prices, which would reduce the value of the collateral securing the Bank's mortgage and home equity loans.

The shipbuilding and shipping industries in Korea are also continuing to experience a significant downturn in the form a significant decrease in shipbuilding and shipping orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade following the global financial crisis that started in 2008. In response to the deteriorating financial condition and liquidity position of borrowers in these troubled industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Government implemented a series of programmes since the first half of 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. Most recently, in July 2014, the FSC and FSS announced the results of credit risk evaluations conducted by creditor financial institutions (including the Bank) of companies in Korea, in which 34 companies with outstanding debt of Won 50 billion or more (21 of which were construction companies and three of which was a shipbuilding and shipping companies) were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. There is no assurance, however, that these measures will be successful in stabilising the Korean construction, shipbuilding and shipping industries.

In addition, there is no assurance that the provisions (including the Bank's regulatory reserve for credit loss), that the Bank has established against its credit exposures to the borrowers (including STX Group) in the troubled industries will be sufficient to cover all future losses arising from these and other exposures. As of 30 June 2014, the Bank's total outstanding loans and guarantees provided to STX Group was Won 2,087 billion and its loan loss provision in relation to such loans was Won 136 billion. If the credit quality of the Bank's borrowers in the troubled industries further declines, including as a result of their entry into restructuring processes, the Bank's exposures to such companies may increase and/or the Bank may incur substantial additional bad debt expenses, any of which could adversely impact the Bank's business, financial condition or results of operations. Furthermore, although a portion of the Bank's credit exposures to its borrowers in the troubled industries are secured by collateral, such collateral may not be sufficient to fully cover the Bank's credit exposures to such borrowers.

Competition in the Korean banking industry is intense and may further intensify as a result of mergers and acquisitions in the Korean banking industry, and the Bank's business may experience declining margins as a result.

The Bank competes principally with nation-wide commercial banks in Korea but also faces competition from other market participants, including regional banks, development banks, specialised banks and branches of foreign banks operating in Korea. The Bank also competes for customer funds with other types of financial services institutions, including savings institutions (such as mutual savings and finance companies, credit unions and credit co-operatives) and investment institutions (such as merchant banking corporations). Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of branch networks, the level of automation and the amounts of interest rates charged and paid. In recent years, the Bank has faced increasing pricing pressure on deposit products from the Bank's competitors. If the Bank does not continue to offer competitive interest rates to its deposit customers, the Bank may lose their business. In addition, even if the Bank is able to match its competitors' pricing, doing so may result in an increase in the Bank's funding costs, which may have an adverse impact on the Bank's business, financial condition and results of operations.

Furthermore, margins realised from the Bank's retail lending and credit card operations may decline as a result of the growing market saturation in those segments, increased interest rate competition, regulatory or market pressure to lower the fee rates applicable to the Bank's credit cards (particularly merchant fee rates) and higher marketing expenses. Intense and increasing competition has made and continues to make securing retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve the Bank's business objectives in a commercially acceptable manner more difficult for the Bank.

In addition, the Bank believes that regulatory reforms, including the implementation of the Financial Investment Services and Capital Market Act (the "**FSCMA**") in 2009, and the general advancement of business practices in Korea will lead to increased competition among financial institutions in Korea. The Bank also believes that foreign financial institutions, many of which have greater experience and sources than the Bank does, will seek to compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the years, including Hana Financial Group's acquisition of Korea Exchange Bank, which became a wholly-owned subsidiary of Hana Financial Group in April 2013. Consolidation in the financial industry may continue. In particular, in August 2013, the Government has announced that it plans to merge The Korea Development Bank with the Korea Finance Corp. to raise efficiency in policy financing, four years after the latter was spun off from the former. Also, the Government has announced that it plans to dispose of or reduce its controlling interest in Woori Finance Holdings Co., Ltd. ("**Woori Finance Holdings**"), the financial holding company of Woori Bank. In June 2013, the Government announced a plan to separate the businesses of Woori Finance Holdings into three parts in the fourth attempt since 2010 to sell the Government's stake in Woori Finance Holdings. As part of such privatisation, in June 2014 the NH Financial Group acquired four subsidiaries of Woori Finance Holdings, namely, Woori Investment & Securities, Woori Aviva Life Insurance Co., Ltd., Woori Futures Co., Ltd. and Woori FG Savings Bank. Rival financial institutions may seek to acquire or merge with other businesses, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Bank. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on the Bank's future profitability. Accordingly, the Bank's business, financial condition and results of operations may suffer as a result of increasing competition in the banking and other financial sectors in Korea.

Growing market saturation in the credit card sector may adversely affect growth prospects and profitability of the Bank's credit card operations.

In the past several years, substantially all commercial banks and financial institutions in Korea engaged in aggressive marketing campaigns and made significant investments in, the credit card sector. The profitability of the Bank's credit card operations may decline as a result of growing market saturation in the credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to the Bank's credit cards and higher marketing expenses. Accordingly, the Bank's business, financial condition and results of operations may suffer as a result of increasing competition and market saturation in the Korean credit card market. Furthermore, the Government may introduce new regulations that have the effect of lowering the fee rates of credit cards (including those charged on merchants, many of whom are SMEs).

As the volume of transactions as well as the number of cardholders reach their respective growth limits as part of market saturation, market growth will likely become significantly limited. As a result, the Bank may find it increasingly difficult to attract new credit card customers who meet the Bank's credit criteria. If and if the growth rate of assets of the Bank's credit card operations declines or becomes negative, the Bank's business, financial condition and results of operations may be adversely affected.

Liquidity, funding management and credit ratings are critical to the Bank's ongoing performance.

Liquidity is essential to the Bank's business as a financial intermediary, and the Bank may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements (such as those imposed under Basel III and the FSC), enhance its capital levels or fund the growth of its operations as opportunities arise.

Basel III includes an international framework for liquidity risk measurement, standards and monitoring, as noted above, including a new minimum liquidity standard, known as the liquidity coverage ratio ("**LCR**"), which is designed to ensure that banks have an adequate stock of unencumbered high quality liquid assets ("**HQLA**") that can be easily and speedily converted into cash in the private marketplace to survive a significant stress scenario lasting 30 calendar days. The LCR is computed as (a) the value of a banking organisation's HQLA, divided by (b) its total expected net cash outflows over the next 30 calendar days under stress scenarios. The minimum LCR is 100%. In January 2013, the Basel Committee on Banking Supervision (the "**Basel Committee**") released a revised formulation of the LCR, one of two quantitative liquidity measures approved in December 2010 as part of Basel III. The Basel Committee extended the timetable for full phase-in of the LCR to the effect that the minimum LCR will be 60% as of 1 January 2015 and will thereafter rise by an annual increment of 10% so that the minimum LCR will be 100% as of 1 January 2019. The FSC and the FSS are expected to promulgate proposed regulations to implement the liquidity requirements of Basel III.

In addition, the FSC requires certain specialised banks (which includes the Bank) to maintain a Won currency liquidity ratio (calculated as Won currency liquid assets (including marketable securities) with remaining maturity of not more than one month divided by Won currency liquid liabilities (as calculated in) with remaining maturity of not more than one month) of not less than 70.0% and to make monthly reports to the FSC. The FSC requires each Korean bank to (1) maintain a foreign currency liquidity ratio (calculated as foreign currency assets with remaining maturity of not more than three months divided by foreign currency liabilities with remaining maturity of not more than three months) of not less than 85.0% and to make monthly reports to the FSC, (2) maintain a foreign currency maturity mismatch ratio due within seven days (calculated as the ratio of foreign-currency liquid assets with remaining maturity of not more than seven days less foreign-currency liabilities with remaining maturity of not more than seven days, divided by total foreign-currency assets) of not less than negative 3.0% and (3) maintain a foreign-currency maturity mismatch ratio due within one month (calculated as the ratio of foreign currency liquid assets with remaining maturity of not more than one month less foreign currency liabilities with remaining maturity of not more than one month divided by total foreign currency assets) of not less than negative 10.0% The Bank is required to maintain a mid -to long-term foreign exchange funding ratio (calculated as the ratio of the balance of foreign currency borrowing in excess of one year in the repayment period divided by the balance of foreign-currency lending in excess of one year or more in the repayment period) of 100.0% or more. Details regarding the computation of these ratios as well as Won currency liquid assets and liabilities and foreign currency assets and liabilities are provided in the Detailed Regulation on Supervision of Banking Business of Korea. Although the Bank is currently in compliance with these revised criteria, there can be no assurance that the Bank will be able to meet such requirements in the future. To the extent the Bank is unable to meet any one of these requirements in the future, the FSC may require the Bank to take measures to improve its liquidity positions to levels maintained by other commercial banks, or impose certain restrictions on its operations, which may constrain its lending and funding activities. See "*—Risks Relating to Korea*" and "*Supervision and Regulation—Liquidity.*"

The Bank's funding requirements are met primarily through customer deposits. As of 30 June 2014, deposits (including certificates of deposit) amounted to Won 155,670 billion, of which 95.0% had maturities of one year or less or were payable on demand. As of 30 June 2014, deposits placed by local governments amounted to Won 28,754 billion, which had maturity of one year or less or payable on demand. In the past, a substantial portion of the Bank's customer deposits have rolled over upon maturity or otherwise have been maintained with the Bank and have historically been a stable source of funding for the Bank. No assurance can be given, however, that this experience will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity or withdraw such funds from the Bank, the Bank's liquidity position could be adversely affected, and the Bank may be required to seek more expensive sources of funding to finance operations and meet its liquidity requirements. To the extent the Bank is unable to obtain sufficient funding on acceptable terms, the Bank's business, financial condition and results of operations may be adversely affected. Furthermore, Korean farmers, which account for a significant part of the Bank's customer deposit base, may encounter financial difficulties since they compete with more price competitive agricultural and livestock products from the U.S. or Europe as a result of the Korea-United States Free Trade Agreement and Korea-EU Trade Agreement, which became effective in March 2012 and July 2011, respectively. In addition, once the Korea-China Free Trade Agreement, which is currently under negotiation, becomes effective, it may further worsen the situation for Korean farmers. Adverse financial conditions encountered by such farmers may also affect the amount of deposits they place in the Bank or the amount of other investment products they purchase and may accordingly impact the Bank's business, financial condition and results of operations.

The Bank also raises funds in capital markets and borrows from other financial institutions, the cost of which depends on market rates and the general availability of credit and the terms of which may limit its ability to pay dividends, make acquisitions or subject itself to other restrictive covenants. In addition, during times of sudden and significant devaluations of the Won against the U.S. dollar as was the case at the outset of the recent global liquidity crisis, Korean banks had temporary difficulties refinancing or obtaining optimal amounts of foreign currency-denominated funding on terms commercially acceptable to the Bank. While the Bank currently is not facing liquidity difficulties in any material respect, if the Bank is unable to obtain the funding that it needs on terms commercially acceptable to it for an extended period of time for whatever reason, it may not be able to ensure its financial viability, meet regulatory requirements, implement its strategies or compete effectively.

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. Domestic and international rating agencies regularly evaluate the Bank, and their ratings of the Bank's long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally and in Korea. There can be no assurance that the rating agencies will maintain the Bank's current ratings or outlooks or that the Bank will not experience a downgrade in its credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to the Bank. Any downgrades in the Bank's credit ratings and outlooks will likely increase its cost of funding, limit its access to capital markets and other borrowings, or require it to post additional collateral in financial transactions, and could increase the amount of regulatory liquidity the Bank will be required to hold when Basel III liquidity requirements become effective, any of which could adversely affect its liquidity, net interest margins and profitability, and in turn, its business, financial condition and results of operations.

The Bank may be required to raise additional capital under the new Basel Capital Accord, but it may not be able to do so on favourable terms or at all.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision has begun phasing in the new set of measures, referred to as Basel III, from 2013. In May 2013, the FSC announced that major Asian countries had already implemented Basel III in the first quarter of 2013 and that the proposed Basel III measures relating to stricter minimum capital ratio requirements were to be implemented in Korea starting from 1 December 2013. In July 2013 and September 2013, the FSC promulgated amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies 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 1 December 2013, which minimum ratios increased to 4.0% and 5.5%, respectively, from 1 January 2014 and will increase further to 4.5% and 6.0%, respectively, from 1 January 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 contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including the Bank.

Under the capital adequacy requirements of the FSC, the Bank is currently required to maintain a minimum Tier I common equity capital adequacy ratio of 4.0%, Tier I capital adequacy ratio of 5.5% and combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. Partly in order to meet capital adequacy requirements, the Bank received capital contributions from NH Financial Group of Won 450 billion, Won 500 billion in March 2013 and September 2013, respectively. As of 30 June 2014, the Bank's Tier I common equity capital adequacy ratio was 11.69%, the Bank's Tier I capital adequacy ratio was 12.03% and its combined Tier I and Tier II capital adequacy ratio was 14.32%, which exceeded the minimum levels required by the FSC.

There is no assurance that the Bank's capital base and capital adequacy ratio will not deteriorate in the future if its results of operations or financial condition deteriorates for any reason, including as a result of any deterioration in the asset quality of its retail loans and loans to SMEs, or if the Bank is not able to deploy its funding into suitably low-risk assets. If the Bank's capital adequacy ratio deteriorates, the Bank may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. The Bank may not be able to obtain additional capital on favourable terms, or at all. The Bank's ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that the Bank fails to maintain its capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on it ranging from a warning to suspension or revocation of its licence. For a description of the capital adequacy requirements of the FSC, see "*Supervision and Regulation—Capital Adequacy and Allowances*".

The asset quality of the Bank's retail loans may deteriorate and a decline in the value of the collateral securing the Bank's loans and the Bank's inability to realise full collateral value may adversely affect the Bank's credit portfolio.

In recent years, retail debt to individual and household borrowers has increased substantially in Korea. The Bank's portfolio of retail loans, on a non-consolidated basis, has grown Won 66,662 billion as of 31 December 2012 to Won 69,405 billion as of 31 December 2013. An increase in the Bank's exposure to consumer debt means that the Bank may be more exposed to changes in economic conditions affecting retail borrowers in Korea. Accordingly, economic difficulties in Korea that hurt retail borrowers, such as an increase in unemployment or interest rates, could result in increasing delinquencies and a decline in the asset quality of the Bank's consumer loan portfolio. While the Bank's non-performing loans ratio for Won-denominated retail loans, on a separate basis, has remained at a relatively low level of 0.8% or below as of 31 December 2012, 31 December 2013 and 30 June 2014, there is no assurance that it will remain at such low levels in the future.

A substantial portion of the Bank's retail loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is the Bank's general policy to lend up to 60.0% of the appraised value of collateral and to periodically re-appraise its collateral, downturns in the real estate markets in Korea from time to time, including as a result of measures adopted by the Government in the past to stabilise the real estate market in light of a perceived over-speculation in such market in the past, have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. If collateral values decline in the future, they may not be sufficient to cover outstanding amounts in respect of the Bank's secured loans. Any declines in the value of the real estate or other collateral securing the Bank's loans, or its inability to obtain additional collateral in the event of such declines, could result in a deterioration in the Bank's asset quality and may require it to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realised with respect to such collateral. The Bank cannot guarantee that it will be able to realise the full value on its collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of the Bank's security interest in collateral. The Bank's failure to recover the expected value of collateral could expose it to substantial losses.

The Bank is a subsidiary of NongHyup Financial Group Inc., which is owned by NACF, and the decisions and policies implemented by NongHyup Financial Group Inc. or NACF may not be in the Bank's best interest as a stand-alone company.

The Bank is the largest subsidiary of NongHyup Financial Group Inc. ("**NH Financial Group**"), a financial holding company which is currently owned by NACF. NH Financial Group, as the sole shareholder of the Bank, is entitled to receive from the Bank dividends as well as royalty fees for using the *NongHyup* and *NH* brand names, which for 2014 is set at 1.8% of the average operating profit of the last three fiscal years of the Bank. In 2013 and the first half of 2014, the amount of royalty fees paid by the Bank for the brand usage was Won 424 billion and Won 146 billion respectively. In addition, the Bank paid dividends of Won 308 billion in respect of 2012 and paid no dividends in respect of fiscal year 2012.

While the Bank believes that NH Financial Group and its subsidiaries (including the Bank) will play a vital role in the NACF Group's profit generation, the group-wide management decisions and policies that NACF or NH Financial Group implements in the future may not necessarily be in the Bank's best interest as a stand-alone company. For example, subject to certain limitations under the Financial Holding Company Act, NACF or NH Financial Group may:

- require the Bank to engage in various transactions, including investments, joint ventures or dispositions, either with other subsidiaries or with third parties, or to expand or restrict the Bank's operations, for the benefit of the group;

- require the Bank to provide direct or indirect support, financial, operational, technical or otherwise to itself or to other subsidiaries;

- make changes to the Bank's management personnel or employees, including for the purpose of seconding individuals with particular skills or expertise to itself or to other subsidiaries or as a result of policy disagreements; and

- implement group-wide initiatives, policies or strategies that require significant expenditures from the Bank or significant time and attention of the Bank's management.

There is no guarantee that the benefits to the Bank of being a part of NACF or NH Financial Group will outweigh the related costs.

The Bank depends upon the contributions and support from the Government.

The Government has historically provided NACF, including its credit and banking business, with significant direct and indirect financial and other support (including interest payment support for policy loans, guarantees of borrowings and tax benefits, among others) to enable NACF to carry out the Government's agricultural and livestock policy. The Bank offers policy loans to farmers usually at concessionary interest rates set below market rates. As of 30 June 2014, the amount of policy loans amounted to Won 18,198 billion. Policy loans may be funded by the Government or the Bank. If a policy loan is funded by the Bank, the Government pays the Bank the difference between market and concessionary interest rates. The difference between the market and concessionary interest rates ranged from 1.40% to 4.40% during 2013 and from 1.07% to 4.07% during the first half of 2014. The concessionary rate is agreed between the Bank and the Government every year. If a policy loan is funded by the Government, the Government usually pays the Bank a spread in the range of 0.1% and 1.5% of the loan amount in consideration of the policy loan services provided by the Bank. As of 30 June 2014, policy loans provided by the Bank amounted in the aggregate to Won 13,780 billion, representing 8.8% of the Bank's total loans, which consisted of policy loans funded by the Government of Won 5,002 billion and policy loans funded by the Bank of Won 8,779 billion. Repayment of policy loans is guaranteed by the Agricultural Credit Guarantee Fund, which is funded almost entirely by the Government.

In addition, the Bank from time to time receives capital contributions from its parent NH Financial Group, which has been instrumental to improving the Bank's capital adequacy. For example, the Bank received capital injections from NH Financial Group of Won 450 billion and Won 500 billion in March 2013 and September 2013, respectively.

There is no assurance that the Government, whether directly or through NACF or NH Financial Group, will continue to provide sufficient funding to enable the Bank to carry out the Government's agricultural and livestock policy, including policy loans. Any reduction in Government support may adversely affect the Bank's business, financial condition and results of operations.

An increase in interest rates would decrease the value of the Bank's debt securities portfolio and raise the Bank's funding costs while reducing loan demand, which could adversely affect the Bank's business, financial condition and results of operations.

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea ("**BOK**") reduced its policy rate to 2%, by a total of 325 basis points, to support Korea's economy amid the global financial crisis, and left such rate unchanged throughout 2009. In an effort to stem inflation amid improved growth prospects, the BOK progressively increased its policy rate from 2% in 2009 to 3.25% in June 2011. The BOK reduced its policy rate to 3.00% in July 2012, 2.75% in October 2012 and 2.50% in May 2013 and further reduced such rate to 2.25% in August 2014 to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects.

As of 30 June 2014, a substantial majority of the debt securities that the Bank holds pay interest at a floating rate. All else being equal and assuming that the interest rate sensitivity gap of the Bank's assets and liabilities is narrow, a considerable increase in interest rates would lead to a decline in the value of the debt securities in its portfolio. A sustained increase in interest rates will also raise the Bank's funding costs, while reducing loan demand, especially among customers. A considerable rise in interest rates may, therefore, require the Bank to rebalance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of the Bank's corporate and retail borrowers, including holders of the Bank's credit card, which in turn may lead to a deterioration in its credit portfolio. Since most of the Bank's corporate and retail loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of its corporate and retail borrowers and could adversely affect their ability to make payments on their outstanding loans.

Depreciation of the value of the Won against the U.S. dollar and other major foreign currencies may have a material adverse effect on the Bank's results of operations and the market value of the Notes.

Substantially all of the Bank's revenues are denominated in Won. Depreciation of the Won may materially affect the Bank's results of operations because, among other things, it causes an increase in the amount of Won required by the Bank to make interest and principal payments on the Bank's foreign currency-denominated debt (comprising deposits, borrowings and debentures), which accounted for 5.53% of the Bank's total consolidated debt (comprising deposits, borrowings and debentures), as of 30 June 2014.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, the Bank may not be able to realise the full "marked-to-market" value of debt securities the Bank holds when the Bank sells any of those securities.

As of 30 June 2014, the Bank and its subsidiaries held debt securities with a total book value of Won 24,769 billion in its trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require the Bank to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on the Bank's balance sheet is determined by references to suggested prices posted by

Korean rating agencies or the Korea Financial Investment Association. These valuations, however, may differ significantly from the actual value that the Bank could realise in the event the Bank elects to sell these securities. As a result, the Bank may not be able to realise the full "marked-to-market" value at the time of any such sale of these securities and thus may incur losses.

The Bank may experience disruptions, delays, cyber attacks or other difficulties relating to its information technology systems, and the Bank's Internet banking services are subject to security concerns relating to the commercial use of the Internet.

The Bank relies on its information technology ("**IT**") system for its daily operations including effecting online and offline banking transactions and record keeping. In April 2011, the Bank suffered IT disruptions where certain of the Bank's financial transactions, including Internet banking, ATM transactions, onsite deposit-and-withdrawal and phone banking, came to a halt for several days. As a result of these IT disruptions, the Bank experienced deletion or leaks of customer records, credit card records and other transactional data. The Bank has provided compensation to its customers who suffered damages due to the IT disruption, however, there can be no assurance that affected customers will not seek any other compensatory claims, including legal action, which in turn may affect the Bank. The Government launched a probe and concluded that North Korea was behind the IT disruptions on the Bank but the North Korean government has denied involvement in the Bank's IT disruptions. On 13 May 2011, the Bank's ATM network halted for several minutes, on 19 May 2011, the Bank suffered another IT disruption where the Bank's network system froze for several hours disrupting financial transactions of its customers, on 20 March 2013, the Bank suffered cyber attacks suspected from North Korea launched on Korean banks and broadcasting companies, and on 10 April 2013, the Bank's online system was paralyzed for an unknown reason.

To prevent future IT disruptions, the Bank created a position of Chief Security Officer and has been upgrading its IT infrastructure and security systems. There can be no assurance, however, that the Bank will not experience any security breaches or cyber attacks to, or disruptions in, its IT systems in the future or that any such incident will not damage its reputation or result in a loss of customers or have a material adverse effect on its Bank's business, financial condition or results of operations.

The Bank also provides Internet banking services to its retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the internet, although secure, are not free from security breaches. The Bank may experience security breaches in connection with its Internet banking service in the future, which may result in liability to the Bank customers and third parties and materially and adversely affect its business.

The Bank's risk management system may not be effective in mitigating risk and loss to the Bank.

The Bank seeks to monitor and manage its risk exposure through a comprehensive risk management platform, encompassing a centralised risk management organisation and credit evaluation systems, reporting and monitoring systems, early warning systems and other risk management infrastructure, using a variety of risk management strategies and techniques. See "*Business—Risk Management*". However, such risk management strategies and techniques employed by the Bank and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, including risks that are unidentified or unanticipated. For example, from time to time, a limited number of the Bank's personnel have engaged in embezzlement or other forms of misbehaviour that resulted in financial harm to the Bank. In response to these incidents, the Bank has strengthened its internal control procedures by, among others, implementing a real-time monitoring system, but there is no assurance that such measures will be sufficient to prevent similar employee misconduct in the future. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and the Bank cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks that the Bank faces. Furthermore, the Bank's risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as the Bank to deal with such market conditions. In such circumstances, it may be difficult for the Bank to reduce its risk positions due to the activity of such other market participants.

The Bank is a heavily regulated entity and operates in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

As a financial services provider, the Bank is subject to a number of regulations that are designed to maintain the safety and soundness of Korea's financial system, to ensure the Bank's compliance with economic and other obligations and to limit its risk exposure. These regulations may limit the Bank's activities, and changes in these regulations may increase its costs of doing business. Regulatory agencies frequently review regulations relating to the Bank's business and implement new regulatory measures, including increasing the minimum required provisioning levels or capital adequacy ratios applicable to the Bank from time to time. The Bank expects the regulatory environment in which it operates to continue to change. Changes in regulations applicable to the Bank and the Bank's business or changes in the implementation or interpretation of such regulations could affect it in unpredictable ways and could adversely affect its business, results of operations and financial condition.

For example, under the FSCMA, financial institutions, including the Bank, may offer a broader range of investment products with novel and complex structures, including by way of hedge funds and private equity funds. Such products may involve counterparty risks as well as compliance risks associated with inadequate disclosure of investment risks. In addition, upon implementation of the proposed Financial Consumer Protection Act (currently pending at the National Assembly for a vote), customers of financial services will be entitled to heightened investor protection measures, including additional remedies in the case of "imperfect sales" of financial products based on inadequate disclosure or unfair inducement. The Bank may also become subject to other restrictions on its operations as a result of future changes in laws and regulations, including more stringent liquidity requirements under Basel III, which will be adopted in phases in Korea in consideration of, among other things, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on the Bank's ability to expand operations or adequately manage its risks and liabilities.

In addition, violations of law and regulations could expose the Bank to significant liabilities and sanctions. For example, the FSC conducts periodic audits on the Bank. If the FSC determines as part of such audit or otherwise that the Bank's financial condition is unsound or that the Bank has violated applicable law or regulations, including FSC orders, or if the Bank fails to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the FSC may order, among other things, improvement of organisational management, restriction on new investments in another company or investment in fixed, disposal of non-performing assets, capital increases or reductions, restriction on distribution of profits, establishment of special allowance for credit loss, restriction on holding risky assets and disposal of assets, restriction on the deposit interest rate, reorganisation of subsidiaries as prescribed under the Regulation on Supervision of Banking Business of Korea. If any of such measures is imposed on the Bank as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, it will have a material adverse effect on the Bank's business, financial condition and results of operations.

For further details on the principal laws and regulations applicable to the Bank, see "*Supervision and Regulation*".

Legal claims and regulatory risks arise in the conduct of the Bank's business.

In the ordinary course of its business, the Bank is subject to regulatory oversight and liability risk. The Bank is also involved in a variety of other claims, disputes, legal proceedings and government investigations in jurisdictions where it is active, including Korea. These types of proceedings expose the Bank to substantial monetary damages and legal defence costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on its businesses. The outcome of these matters cannot be predicted, and they could adversely affect the Bank's future business.

In addition, due to the global economic slowdown and a deteriorating Korean stock market since the second half of 2008, many investment funds whose performance is tied to domestic and foreign stock markets have experienced a sharp fall in their rates of return. Consequently, investors in these funds have increasingly brought lawsuits against commercial banks in Korea that have sold such investment fund products based on the allegation that such banks used defective sales practices in selling such funds, such as failing to comply with disclosure requirements or unfairly inducing them to invest in the funds. There have been cases in which the courts required the banks to compensate their customers for inadequate disclosure and unfair inducement. In July 2013, the FSS issued an institutional caution to the Bank and censured 28 employees for irregular investment practices and breach of banking regulations between 2007 and 2011. In the same month, the FSS also issued a disciplinary warning against the Bank for providing loans in the amount of Won 6.35 trillion to NACF at excessively low interest rates and levied a fine of Won 25.0 million.

In April 2012, the Fair Trade Commission of Korea (the "**FTC**") designated NH Financial Group as a business group subject to the limitations on cross-shareholding. A member company of a business group falling under this definition is prohibited from acquiring or holding shares of another company in the same group which, in turn, acquires or holds shares of such member company. NACF, on behalf of NH Financial Group, brought a suit against the FTC in May 2012 in an attempt to cancel such designation, but the court ruled against NACF in January 2013. However, an amendment was made to the National Agricultural Cooperatives Federation Act (the "**NACF Act**") in December 2012, under which NH Financial Group and its subsidiaries, including the Bank, are: (i) permitted to exercise their voting rights without limitation in respect of non-financial affiliates even if they are engaged in financial and insurance businesses; (ii) exempted from the obligation to pass a resolution of the board of directors and publish the approval thereof prior to any large-scale intra-group transaction; and (iii) not deemed to be included as an enterprise group subject to the limitations on cross-shareholding under any act other than the Monopoly Regulations and Fair Trade Act, the Broadcast Act, the Software Industry Promotion Act, the Inheritance Tax and Gift Tax Act and the FSCMA. In light of the above, the effect of such designation by the FTC on the Bank's business, financial condition and results of operations remains uncertain.

In February 2014, the FSC temporarily suspended the new credit card issuance and other related activities of the Bank's credit card business for three months from February to May 2014, in relation to an incident involving the misappropriation of personal information of a large number of its customers by an employee of an external credit information company, which incident involved several other financial institutions in Korea. Specifically, during such suspension period, the Bank was prohibited from (i) adding new subscribers for credit cards, prepaid cards and debit cards or issuing such types of cards (except as permitted by the chairman of the FSC for public policy purposes), and (ii) providing new or additional credit lines to credit card customers. In December 2013, the FSS issued an institutional caution against the Bank and was also fined by the Ministry of Security and Public Administration in the amount of Won 1 million in relation to such incident. In June 2014, the Bank was also fined by the FSC in the amount of Won 6 million in relation to such incident. There is no assurance that the regulators will not take further disciplinary or other sanctions against the Bank or executives in connection with such incident. Furthermore, in connection with the misappropriation incident, a number of customers have filed lawsuits against the Bank seeking damages, and it could become subject to additional litigation and regulatory sanctions. See "*Business—Legal Proceedings*." The Bank may also incur significant costs relating to the issuance of replacement cards for customers and the compensation of customers for losses incurred as a result of the fraudulent use of the misappropriated personal information. Accordingly, the misappropriation incident and the resulting regulatory sanctions (including the three-month suspension of the Bank's new business activities), customer claims and costs could have a material adverse effect on our business, reputation, results of operations and financial condition.

The Bank is also involved in various pending legal proceedings arising in the normal course of business. As of 30 June 2014, the Bank is named as a plaintiff in 252 cases with related aggregate claims amounting to Won 100 billion, and as a defendant in 299 cases with related aggregate claims amounting to Won 203 billion. Accordingly, the Bank accrued a litigation-related liability of Won 4 billion in other liabilities. The amount claimed may increase in the course of litigation, and there may be other lawsuits that may be brought against the Bank based on similar allegations. While it is difficult to predict the outcome of each lawsuit against us, as it will ultimately depend on the specific facts and circumstances underlying each lawsuit, if the courts rule against the Bank, the lawsuits may have a material adverse effect on the Bank's business, financial condition and results of operations.

Labour unrest may adversely affect the Bank's operations.

As of 30 June 2014, 12,963 employees of the Bank were members of labour unions, and to date, the Bank has not experienced any significant difficulties in its relationships with the labour unions since the Bank's inception. However, any significant labour unrest in the Korean financial industry or other sectors of the Korean economy could adversely affect the Bank's operations, as well as the operations of many of the Bank's customers and their ability to repay their loans, and could affect the financial conditions of Korean companies in general, and depress the prices of securities on the Korea Exchange, the value of unlisted securities and the value of the Won relative to other currencies. Such developments would likely have an adverse effect on the Bank's business, financial condition, results of operations and capital adequacy.

Risks Relating to Korea

Unfavourable financial and economic conditions in Korea and globally may have a material adverse impact on the Bank's business, financial condition and results of operations.

The Bank is incorporated in Korea, where most of its assets are located and most of its income is generated. As a result, the Bank is subject to political, economic, legal and regulatory risks specific to Korea, and its business, financial condition and results of operations are substantially dependent on developments relating to the Korean economy. As Korea's economy is highly dependent on the health and direction of the global economy, and investors' reactions to developments in one country can have adverse effects on the securities price of companies in other countries, the Bank is also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in the Korean or global economy are for the most part beyond the Bank's control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to the Bank as provided elsewhere in this section, factors that could negatively impact Korea's economy in the future include, among others:

- increased volatility or deterioration in Korea's credit and capital markets;
- a decline in consumer confidence and a slowdown in consumer spending and the overall economy;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including an increase in oil prices), exchange rates (particularly against the U.S. dollar), interest rates and stock markets;
- uncertainty and volatility in Korean real estate markets arising, in part, from the Government's policy driven tax and other regulatory measures;

- increases in the levels of household debt and delinquencies and credit defaults by consumers or SME borrowers;

- financial and fiscal difficulties in select countries in Europe and elsewhere and the resulting adverse effects on the global financial markets;

- adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan, China and India, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

- the continued emergence of China, 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 manufacturing from Korea to China);

- deterioration of economic or market conditions in other emerging markets;

- financial problems relating to *chaebols*, or their suppliers, and their potential adverse impact on the Korean economy;

- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain *chaebols* or difficulty or lack of progress in the restructuring of *chaebols*, the financial industry and other large troubled companies, including credit card companies;

- social and labour unrest;

- a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programmes that, together, may lead to an increased Government budget deficit;

- political uncertainty or increasing strife among or within political parties in Korea;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

- the economic impact on Korean economy of any pending or future free trade agreements;

- geo political uncertainty and risk of further attacks by terrorist groups around the world;

- natural disasters or health epidemics that have a significant adverse economic or other impact on Korea or its major trading partners;

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;

- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil resulting from those hostilities;

- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea and/or the United States; and

- changes in financial regulations in Korea.

Increased tensions with North Korea could have an adverse effect on the Bank and the market value of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of 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. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

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

- In December 2013, Jang Sung-taek, a relative of Kim Jong-un, who was widely speculated to be the second in command after Kim Jong-un, was executed on charges of sedition. There are reports that such development may cause further political and social instability in North Korea and/or adoption of more hostile policies that could engender further friction with Korea and the rest of the world. For example, North Korea has recently announced its plan to test long-distance missiles, Kwangmyong Sung No. 3, despite the sanction from the United Nations Security Council and objection from the international society;

- Before the two Koreas have reached an agreement to reopen the inter-Korean industrial complex in a border city of Gaeseong in early August 2013, North Korea blocked Koreans' access to the industrial complex in April 2013, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space in the same month;

- In late March 2013, North Korea stated that it had entered "a state of war" with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests;

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013;

- In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology; and

- In August 2011, North Korea unilaterally declared that it will legally dispose of all Korean-owned real estate, equipment and raw materials it seized in April 2010 within the Mt. Geumgang resort area (the "**Geumgang area**"), concurrent with its seizure and embargo of Korean supplies and assets and its exit order of all employees who were dispatched from Korea (the "**2011 Declaration**"). It is estimated that the value of the assets, including the real estate, owned by the Government, the Korea Tourism Organisation and other private Korean companies in the Geumgang area amount to approximately Won 484.1 billion.

Tourism in the Geumgang area has effectively been discontinued since a Korean tourist was shot and killed by a North Korean soldier in July 2008. Currently, the Government is in the process of considering various options, including legal and diplomatic measures, in response to the 2011 Declaration.

North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tensions or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of diplomacy or accelerated reunification, could have a material adverse effect on the Bank's business, results of operations and financial condition and the market value of the Notes.

The Bank is generally subject to Korean accounting, regulatory, corporate governance and disclosure standards, which differ from those applicable to banks in other countries.

Banks in Korea, including the Bank, are subject to Korean accounting standards and disclosure requirements, which differ in significant respects from those applicable to banks in certain other countries, including the United States. The Bank's financial statements are prepared in accordance with K-IFRS, which may differ in certain respects from IFRS applied in other countries. In addition, the Bank is subject to corporate governance standards applicable to Korean banks which differ in many respects from standards applicable in other countries. There may also be less publicly available information about Korean banks, such as the Bank, than is regularly made available by public or non-public companies in other countries. Such differences in accounting and corporate governance standards as well as less available public information could result in less than satisfactory corporate governance practices or disclosure to investors.

You may not be able to enforce a judgment of a foreign court against the Bank.

The Bank is a corporation with limited liability organised under the laws of Korea. Substantially all of the Bank's directors and officers and other persons named in this offering circular reside in Korea, and all or a significant portion of the assets of the Bank's directors and officers and other persons named in this offering circular and substantially all of its assets are located in Korea. As a result, it may not be possible for investors to effect service of process within the United States, or to enforce against them or the Bank in the United States judgments obtained in United States courts based on 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 United States courts, of civil liabilities predicated on the United States federal securities laws.

Risks Relating to the Notes

Financial instability in Korea and other countries, particularly emerging market countries, could adversely impact the price of the Notes.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, including emerging market countries. Financial turmoil in Asia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country, can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in

Korean financial markets. No assurances can be given that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 or globally in the aftermath of the global credit crisis that began in 2008 will not happen again or will not have an adverse effect on the Bank's business or the price of the Notes.

In the future, if the Government believes that serious difficulties exist or are expected in relation to international balance of payments or finance or the movement of capital between Korea and abroad poses serious obstacles in carrying out its currency, exchange rate and other macroeconomic policies, it may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the means of payment acquired in such transactions in certain Korean Governmental agencies or financial institutions. Such measures would likely have an adverse impact on the price of the Notes.

The Notes are unsecured obligations, the repayment of which may be jeopardised in certain circumstances.

Because the Notes are unsecured obligations, their repayment may be compromised if:

- the Bank enters into bankruptcy, liquidation, rehabilitation or other winding-up procedures;
- there is a default in payment under the Bank's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Bank's indebtedness.

If any of these events occurs, the Bank's assets may not be sufficient to pay amounts due on any of the Notes.

The Notes which are Subordinated Notes are subordinated and have only limited rights of acceleration.

The relevant Pricing Supplement may specify that the Notes will be Subordinated Notes (as defined in Condition 4(b) of "*Terms and Conditions of the Notes*") which will be subordinated obligations of the Bank. Payments on the Subordinated Notes will be subordinate in right of payment upon the occurrence of a Subordination Event (as defined in "*Terms and Conditions of the Notes — Status of the Notes — Subordination*") to the prior payment in full of all deposits and other liabilities of the Bank, except those liabilities which rank equally with or junior to the Subordinated Notes. As a consequence of these subordination provisions, if any of such events should occur, the holders of the Subordinated Notes may recover proportionately less than the holders of the Bank's deposit liabilities or the holders of its other unsubordinated liabilities. As of 30 June 2014, all of the Bank's outstanding liabilities (including deposits, borrowings, call money, guarantees and acceptances and other liabilities, but excluding provisions) would rank senior to the Subordinated Notes, except for subordinated debt of Won 2,860 billion, which would rank *pari passu* with the Subordinated Notes.

Only those events described herein regarding the Bank's bankruptcy or insolvency will permit a holder of a Note to accelerate payment of the Notes. In such event, the only recourse that the holder has in Korea against the Bank is to take certain actions to cause, or make a claim in, the Bank's liquidation or rehabilitation. Furthermore, if the Bank's indebtedness were to be accelerated, its assets may be insufficient to repay in full borrowings under all such debt instruments, including the Notes.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth in the Agency Agreement or otherwise specified in the applicable Pricing Supplement, an Instrument may be transferred only if the principal amount of Instruments transferred is at least U.S.$200,000. For a further discussion of the transfer restrictions applicable to the Notes, see "*Subscription and Sale*".

The Notes may have limited liquidity.

The Notes when issued may constitute a new issue of securities for which there will be no existing market. Application has been made to the SGX-ST for permission to deal in and the quotation for any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange.

Although the Dealers may make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including but not limited to:

- prevailing interest rates;
- the Bank's business, financial condition and results of operations;
- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in and affecting Korea;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial sector.

The implementation of Basel III guidelines may have an adverse effect on the position of the Noteholders.

On 17 December 2009, the Basel Committee proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled "*Strengthening the resilience of the banking sector*". On 16 December 2010 and on 13 January 2011, the Basel Committee issued its final guidance on Basel III. The Basel III reforms require Tier 1 and Tier 2 capital instruments to be loss-absorbing. The United States intends to implement Basel III under a yet-to-be-defined timeline. The Basel III capital regulatory framework is being implemented in the EU through Directive 2013/36/EU and Regulation (EU) no. 575/2013 (the Capital Requirements Directive IV and the Capital Requirements Regulation). Full implementation began from 1 January 2014.

In May 2013, the FSC announced that major Asian countries have already implemented Basel III in the first quarter of 2013 and that the proposed Basel III measures relating to stricter minimum capital ratio requirements will be implemented in Korea starting from 1 December 2013. In July 2013 and September 2013, the FSC promulgated amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies 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 1 December 2013, which minimum ratios increased to 4.0% and 5.5%, respectively, from 1 January 2014 and will increase further to 4.5% and 6.0%, respectively, from 1 January 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 contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including the Bank.

The implementation of Basel III is subject to a series of transitional arrangements and will be phased in over a period of time.

The press release of the Basel Committee dated 13 January 2011 included the following statements:

"The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

(b) a peer group review confirms that the jurisdiction conforms with clause (a); and

(c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph.

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority".

The terms of any Subordinated Notes that may be issued under the Programme may not contain any such provision. There can be no assurance that the laws applicable to the Bank in the United Kingdom, the United States or Korea will be confirmed in due course by a peer group review (as referred to in clause (b) above) to conform with clause (a) above so that such Subordinated Notes would be subject to being written down or fully loss absorbing as set out in clause (a) in the above paragraph. If the authorities having regulatory oversight of the Bank at the relevant time (i) disclose that a peer group review has confirmed that the legislation in the United Kingdom, the United States or Korea conforms with clause (a) above and (ii) disclose that they do not require a change to the terms and conditions of any non-common Tier 1 and Tier 2 instruments to include a provision that requires either that they be written off or converted into equity upon the occurrence of a trigger event (which they may require even if legislation in the United Kingdom, the United States or Korea is deemed by a peer group review to conform with clause (a) in the above paragraph), then the Bank will notify holders of any affected Subordinated Notes that, going forward, such instruments are confirmed as subject to loss as set out in clause (a) in the above paragraph.

Furthermore, there can be no assurance that the Basel Committee will not amend the package of reforms described above. Further, the European Commission and/or the FCA and/or the United States and/or the FSC may implement the package of reforms, including the terms which capital securities are required to have, in a manner that is different from that which is currently envisaged, or may impose more onerous requirements on the Bank.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes or Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and/or DTC, or lodged with the CMU Service (each of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes or Individual Note Certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Certificates, the Bank will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or in the case of the CMU Service, to the persons for whose account(s) interests in such Global Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the Bank in a relevant CMU Instrument Position Report or any other notification by the CMU Service.

A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right under the respective Global Notes or Global Certificates to take enforcement action against the Bank in the event of a default under the relevant Notes but will have to rely upon their rights under the Agency Agreement.

The rights attaching to the Notes may be modified by certain thresholds of Noteholders.

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including modification of the Conditions. Such modifications may be sanctioned by holders of a specified percentage of the aggregate principal amount of Notes and by meetings which are quorate by being attended by representatives of a specified percentage of the aggregate principal amount of Notes. In addition, resolutions which affect the Notes of more than one Series but do not give rise to a conflict of interest between the holders of Notes of any such Series may be considered and passed at a single meeting of the holders of the Notes of all Series so affected (a "**Combined Meeting**").

As a result, the interest of Noteholders may be affected by the decision of a specified percentage of Noteholders and, in the case of a modification which does not give rise to a conflict of interest between the holders of multiple Series, by holders of other Series so affected. Attendance and voting by holders of larger aggregate principal amounts of other Series at any Combined Meeting may reduce the aggregate principal amount of Notes of another Series required to sanction a modification.

U.S. Foreign Account Tax Compliance Act ("FATCA") Withholding

Under the Foreign Account Tax Compliance Act, commonly referred to as FATCA, a foreign financial institution that enters into an agreement with the U.S. Treasury Department may be required to withhold 30% from certain "foreign passthru payments" made to recalcitrant accountholders or certain foreign financial institutions. The term "foreign passthru payments" has not yet been defined by the IRS but is intended to capture payments that are non-U.S. source but are attributable to a U.S.-source payment. Debt obligations giving rise to foreign passthru payments will generally not be subject to withholding tax under FATCA if such obligations are issued on or prior to the date which is six months after the publication of final regulations defining the term foreign passthru payment. In addition, Treasury regulations provide that a foreign financial institution would not be required to withhold on foreign passthru payments until the later of 1 January 2017, or six months after the publication of final regulations defining the term foreign passthru payment. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

U.S. withholding tax may apply to Notes linked to the performance of underlying U.S. securities.

Where Notes are linked to a U.S. security, certain payments on the Notes could be subject to U.S. withholding tax (at a rate of 30% or such lower rate as may be provided in an applicable income tax treaty).

If withholding is required on Notes linked to U.S. securities, the Bank will not be required to pay any additional amounts with respect to the withheld amounts.

Risks relating to Renminbi-denominated Notes

Notes denominated in Renminbi ("**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in 2010 to cover 20 provinces and cities in the PRC and to make Renminbi trade and other current account item settlement available in all countries worldwide. It was further extended in August 2011 to cover all provinces and cities in the PRC. The Renminbi trade settlements under the pilot scheme have become one of the most significant sources of Renminbi funding in Hong Kong.

On 13 October 2011, *Measures on Administration of Renminbi Settlement in relation to Foreign Direct Investment* (the "**PBOC RMB FDI Measures**") issued by the People's Bank of China ("**PBOC**") set out operating procedures for PRC banks to handle Renminbi settlement relating to RMB FDI and borrowing by foreign invested enterprises of offshore Renminbi loans. Prior to the PBOC RMB FDI Measures, cross-border Renminbi settlement for RMB FDI required approvals from the PBOC on a case-by-case basis. The new rules replace the PBOC approval requirement with a less onerous post-event registration and filing requirement. Under the new rules, foreign invested enterprises (whether established or acquired by foreign investors) need to (i) register their corporate information after the completion of a RMB FDI transaction, and (ii) make post-event registration or filing with the PBOC of any changes in registration information or in the event of increase or decrease of registered capital, equity transfer or replacement, merger, division or other material changes. On 3 December 2013, the Ministry of Commerce of the PRC ("**MOFCOM**") promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

As the above measures and circulars are still relatively new, how they will be applied in practice still remain subject to the interpretation by the relevant PRC authorities.

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting the remittance of Renminbi into or outside the PRC.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Bank's ability to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licenced banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business (the "**Settlement Agreement**") between the PBOC and Bank of China (Hong Kong) Limited (the "**RMB Clearing Bank**") to further expand the scope of Renminbi business for participating banks in Hong Kong.

Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit (other than as provided in the following paragraph) on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. In addition, participating banks are also required by the Hong Kong Monetary Authority to maintain a Renminbi liquidity ratio of not less than 25% (computed on the same basis as the statutory liquidity ratio), which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for Hong Kong residents of up to RMB20,000 per person per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of Renminbi Notes. To the extent the Bank is required to source Renminbi in the offshore market to service Renminbi Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC, by international political and economic conditions and by many other factors. All payments of interest and principal will be made with respect to Renminbi Notes in Renminbi. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the Renminbi Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of the Renminbi against such currency could cause a decrease in the effective yield of the Renminbi Notes below their stated coupon rates and could result in a loss when the return on the Renminbi Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in Renminbi Notes.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely by (i) when Renminbi Notes are represented by Global Notes or Global Certificates, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

Investment in the Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. Consequently, the trading price of the Notes will vary with the fluctuations in the Renminbi interest rates. If holders of the Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

FORM OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days or are treated as being in registered form for U.S. federal income tax purposes, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being a "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and

(ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (Hong Kong time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (Hong Kong time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

(i) on the expiry of such period of notice as may be specified in the Pricing Supplement; or

(ii) at any time, if so specified in the Pricing Supplement; or

(iii) if the Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

  (A) Euroclear or Clearstream, Luxembourg or the CMU Service or any other relevant clearing system 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; or

  (B) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(x) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(y) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(z) Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment, then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (x) above) or at 5.00 p.m. (Hong Kong time) on the date on which such Temporary Global Note becomes void (in the case of (y) above) or at 5.00 p.m. (Hong Kong time) on such due date ((z) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by a Temporary Bearer Global Notes exchangeable for Definitive Notes.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

(A) Euroclear or Clearstream, Luxembourg or the CMU Service or any other relevant clearing system 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; or

(B) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear or Clearstream, Luxembourg or the CMU Service and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "— *Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"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 U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED".

Registered Notes

Each Tranche of Notes in registered form ("**Registered Notes**") will be represented by either:

(i) individual Note Certificates in registered form ("**Individual Note Certificates**"); or

(ii) one or more Unrestricted Global Certificates ("**Unrestricted Global Certificate(s)**") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S ("**Unrestricted Registered Notes**") and/or one or more Restricted Global Certificates ("**Restricted Global Certificate(s)**") in the case of Registered Notes sold to QIBs in reliance on Rule 144A ("**Restricted Notes**"),

in each case as specified in the relevant Pricing Supplement, and references in this Offering Circular to "**Global Certificates**" shall be construed as a reference to Unrestricted Global Certificates and/or Restricted Global Certificates.

Each Note represented by a Restricted Global Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC and the relevant Restricted Global Certificate will be deposited on or about the issue date with the custodian for DTC (the "**DTC Custodian**"). Beneficial interests in Notes represented by a Restricted Global Certificate may only be held through DTC at any time. Each Note represented by an Unrestricted Global Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system or in the name of Cede & Co. as nominee for DTC, and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common depositary or the DTC custodian.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being "Global Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Certificates each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) at any time, if so specified in the relevant Pricing Supplement; or

(iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Certificate", then:

    (a) in the case of any Global Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or if at any time DTC is no longer eligible to act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;

    (b) in the case of any Global Certificate held by or on behalf of, Euroclear and/or Clearstream, Luxembourg and/or CMU Service and/or any other clearing system (other than DTC), if Euroclear, Clearstream, Luxembourg or the CMU Service or any other relevant clearing system 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; and

    (c) in any case, if any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever a Global Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Certificate is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes represented by a Global Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Certificate in accordance with the terms of the Global Certificate on the due date for payment,

then the Global Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the holder of the Global Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Certificate or others may have under the Deed of Covenant.

Under the Deed of Covenant, persons shown in the records of DTC, Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system as being entitled to an interest in a Global Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of DTC, Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by one or more Global Certificates, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the person in whose name the relevant Global Certificate is for the time being registered in the Register which (a) in the case of a Restricted Global Certificate or Unrestricted Global Certificate held by or on behalf of DTC, will be Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC; and (b) in the case of any Unrestricted Global Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service, will be such sub-custodian, such depositary or common depositary, or a nominee for such depositary or common depositary, as the case may be

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Certificate (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Certificate and in relation to all other rights arising under such Global Note or Global Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Certificate.

If a Global Note or a Global Registered Note is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Registered Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU Service as entitled to receive payments in respect of Notes represented by such Global Note or Global Registered Note and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Registered Note must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Registered Note.

Conditions applicable to Global Notes

Each Global Note and Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: in the case of a Global Note or a Global Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Registered Note (other than a Global Registered Note cleared through DTC) will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means any week day (Monday to Friday inclusive) within any given calendar year, except 25 December and 1 January.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption of the Senior Notes only at the option of the Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Certificate is, (i) registered in the name of DTC's nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system (other than the CMU Service, in respect of which see (ii) below), notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or (ii) deposited with the CMU Service, notices to the holders of Notes of the relevant Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Registered Note.

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.*]

Pricing Supplement dated [date]

NongHyup Bank

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$8,000,000,000 Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 5 September 2014 [and the supplementary Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.]

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.]

[*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.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer:	NongHyup Bank
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:	[●] (*If Notes are being cleared through DTC with interest and or principal payable in a currency other than U.S. dollars, check whether DTC will accept payments in such currency*)

4.	Aggregate Nominal Amount:		[●]
	[(i)]	Series:	[●]
	[(ii)	Tranche:	[●]]
5.	[(i)]	Issue Price:	[●]% 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.	(i)	Specified Denominations:	[●] (*Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies)*.) (*N.B. If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows* "*€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000]*".
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:		[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*] [*(N.B. (i) Lower Tier II Subordinated Notes shall have a minimum maturity of five years and (ii) Upper Tier II Subordinated Notes shall have a minimum maturity of 10 years and may not be perpetual.)*]
9.	Interest Basis:		[[●]% Fixed Rate] [[LIBOR/EURIBOR/*specify reference rate*] +/- [●]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [Other (*Specify*)] (further particulars specified below)

10. Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [Other (*Specify*)]
11. Change of Interest Basis 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. (i) Status of the Notes:	[Senior/[Dated/Perpetual]/Subordinated] [(*If "Subordinated", specify either "Upper Tier II Subordinated" or "Lower Tier II Subordinated*")]
(ii) Date of [Board] approval for issuance of Notes obtained:	[●]/[None required] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
(iii) Date of regulatory approval/ consent for issuance of Notes obtained:	[●]/[None required] (*N.B. Only relevant where regulatory (or similar) approval or consent is required for the particular tranche of Notes*)
14. Listing:	[Singapore/*specify other*/None] (*N.B. Consider disclosure requirements under the Prospectus Directive applicable to securities admitted to an EU regulated market*)
15. Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i) Rate(s) of Interest:	[●]% per annum [payable [annually/ semi-annually/quarterly/other (*specify*)] in arrear]
(ii) Interest Payment Date(s):	[[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day*"]/not adjusted]
(iii) Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*)	[●] per Calculation Amount
(iv) Broken Amount(s): (*Applicable to Notes in definitive form*)	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]

	(v)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) / other]
	(vi)	Determination Date(s):	[●] in each year (*Insert (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)).*)
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
17.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Specified Period(s):	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
	(ii)	Specified Interest Payment Dates:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
	(iii)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(iv)	Additional Business Centre(s):	[Not Applicable/*give details*]
	(v)	Manner in which the Rate(s) of Interest and/or Interest Amount(s) is/are to be determined:	[Screen Rate Determination/ ISDA Determination/other (*give details*)]
	(vi)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	[[*Name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)]

	(vii)	Screen Rate Determination:	
		Reference Rate:	[*For example, LIBOR or EURIBOR*]
		Interest Determination Date(s):	[●]
		Relevant Screen Page:	[*For example, Reuters LIBOR 01/ EURIBOR 01*]
	(viii)	ISDA Determination:	
		Floating Rate Option:	[●]
		Designated Maturity:	[●]
		Reset Date:	[●]
	(ix)	Margin(s):	[+/-] [●]% per annum
	(x)	Minimum Rate of Interest:	[●]% per annum
	(xi)	Maximum Rate of Interest:	[●]% per annum
	(xii)	Day Count Fraction:	[●] Actual/365 (Fixed) Actual/360 30/360 30E/360 30E/360 (ISDA) Other] (*See definition of "Day Count Fraction" in Condition [2(a)] for alternatives*)
	(xiii)	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:	[●]
18.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Accrual Yield:	[●]% per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 8(b) and 10(f) apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)

19.	**Index Linked Interest Note/other variable-linked interest Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Index/Formula:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the interest due:	[●]
	(iii) Party responsible for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Interest Determination Date(s):	[●]
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(vi) Interest or calculation period(s):	[●]
	(vii) Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
	(viii) Specified Interest Payment Dates:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(ix) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(x) Additional Business Centre(s):	[●]
	(xi) Minimum Rate/Amount of Interest:	[●]% per annum

	(xii)	Maximum Rate/Amount of Interest:	[●]% per annum
	(xiii)	Day Count Fraction:	[●]
20.	**Dual Currency Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give or annex 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:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

21.	**Call Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period:	[●] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)

22.	**Put Option**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
23.	**Final Redemption Amount**	[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
	(i) Index/Formula/variable:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the Final Redemption Amount:	[●]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi) Minimum Final Redemption Amount:	[●] per Calculation Amount

	(vii) Maximum Final Redemption Amount:	[●] per Calculation Amount
24.	**Early Redemption Amount**	[Not Applicable
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	(*If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes*)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	**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 described in the Permanent Global Note]
		[Temporary Global Note exchangeable for Definitive Notes on [[●] days' notice]
		* (*N.B. If the Specified Denomination of the Notes in paragraph 6(i) includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]", the Temporary Global Note shall not be exchangeable on [●] day's notice/at any time.*)
		[Permanent Bearer Global Note exchangeable for Definitive Notes on [●] days' notice given at any time/in the limited circumstances described in the Permanent Global Note]
		Registered Notes:
		[Unrestricted Global Certificate exchangeable for unrestricted Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Unrestricted Global Certificate]
		[and]
		[Restricted Global Certificate exchangeable for Restricted Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Restricted Global Certificate]

26.	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 subparagraphs 17(iii) and 19(vii) relate*)
27.	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*]]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*.]
29.	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	[Not Applicable/*give details*]
	(ii) Instalment Date(s):	[Not Applicable/*give details*]
30.	Redenomination renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [●] apply]] (*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*)
31.	[Consolidation provisions:	[Not Applicable/The provisions [in Condition [19] (*Further Issues*)] [annexed to this Pricing Supplement] apply]]
32.	Other terms or special conditions:	[Not Applicable/give details] [(*N.B. If Upper Tier II Subordinated Notes, provide Compound Rate*)]

DISTRIBUTION

33.	(i) If syndicated, names and addresses of Managers and underwriting commitments:	[Not Applicable/*give names*]
	(ii) Date of [Subscription] Agreement:	[●]
	(iii) Stabilising Manager(s) (if any):	[Not Applicable/*give name(s)*]
34.	If non-syndicated, name of relevant Dealer:	Not Applicable/give name]

35.	U.S. Selling Restrictions:	Reg. S Category [1/2]; *(In the case of Bearer Notes)* - [TEFRA C/TEFRA D/ TEFRA not applicable] *(In the case of Registered Notes)* - [Not] Rule 144A Eligible
36.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

37.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not applicable/*give name(s) and number(s)*] *(In the case of CMU Notes, include the CMU Instrument Number)*
38.	Delivery:	Delivery [against/free of] payment
39.	[In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:]	[Not applicable/[Luxembourg]]
40.	Additional Paying Agent(s) (if any):	[●]

ISIN:	[●]
Common Code:	[●]
[CUSIP	[●]]
[CINS:	[●]]

(insert here any other relevant codes)

[USE OF PROCEEDS

[***Give details if different from the "Use of Proceeds" section in the Offering Circular.***]]

[RATING OF THE NOTES

The Notes are expected to be rated [[●] by Fitch Inc., [●] by Moody's Investors Service and [●] by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc]. Such ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organisations. Each such rating should be evaluated independently of any other rating of the Notes.]

[STABILISING

In connection with this issue, [***insert name of Stabilising Manager***] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the U.S.$8,000,000,000 Global Medium Term Note Programme of NongHyup Bank.

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ______________________

Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. **Introduction**

(a) *Programme*: NongHyup Bank (the "**Issuer**") has established a Global Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$8,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a pricing supplement (the "**Pricing Supplement**") which supplements these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Agency Agreement*: The Notes are the subject of an amended and restated agency agreement dated 5 September 2014 (as amended and/or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as CMU lodging and paying agent (the "**CMU Lodging and Paying Agent**", which expression includes any successor CMU lodging and paying agent appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the registrars named therein (the "**Registrars**", which expression includes any successor registrars appointed from time to time in connection with the Notes, and the transfer agents named therein (together with the Registrars and the CMU Lodging and Paying Agent, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

(d) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 5 September 2014 (the "**Deed of Covenant**") entered into by the Issuer.

(e) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing at the Specified Office of each of the Paying Agents and Transfer Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity.

(f) Summaries: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. **Interpretation**

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**", other than in Condition 3(g) (*Registration and delivery of Note Certificates*) means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

(ii) in relation to any sum payable in a currency other than euro and Renminbi, 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; and

(iii) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**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:

"**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(i) "**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;

(ii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

‘(iii) “**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

(iv) “**No Adjustment**” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“**Calculation Agent**” means the Principal Paying Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

“**Calculation Amount**” has the meaning given in the relevant Pricing Supplement;

“**CMU Service**” means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(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:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) 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 (b) 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, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and "D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and "D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "30E/360 (ISDA)" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**DTC**" means The Depository Trust Company;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Indebtedness**" means all obligations created, incurred or assumed by the Issuer or any of its Principal Subsidiaries for the payment or repayment of moneys relating to or in connection with (a) any indebtedness of the Issuer or any of its Principal Subsidiaries in respect of moneys borrowed by it; (b) any indebtedness of the Issuer or any of its Principal Subsidiaries under acceptance or documentary credit facilities; (c) any indebtedness of the Issuer or any of its Principal Subsidiaries under bills, bonds, debentures, notes or similar instruments on which the Issuer or any of its Principal Subsidiaries is liable; (d) any obligations of the Issuer or any of its Principal Subsidiaries under leases which in accordance with accounting principles generally accepted in Korea are required to be capitalised for financial reporting purposes; (e) any indebtedness of the Issuer or any of its Principal Subsidiaries (whether actual or contingent) for moneys owing under any instrument entered into by the Issuer or any of its Principal Subsidiaries in respect of the acquisition cost of assets payment of which is deferred for a period in excess of six months after acquisition thereof; and (f) indebtedness of the Issuer or any of its Principal Subsidiaries (actual or contingent) under guarantees, security, indemnities or other commitments designed to assure any creditors in respect of the payment of any indebtedness of any other person;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any 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 each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**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.) unless otherwise specified in the relevant Pricing Supplement;

“**Issue Date**” has the meaning given in the relevant Pricing Supplement;

“**Margin**” has the meaning given in the relevant Pricing Supplement;

“**Maturity Date**” has the meaning given in the relevant Pricing Supplement;

“**Maximum Redemption Amount**” has the meaning given in the relevant Pricing Supplement;

“**Minimum Redemption Amount**” has the meaning given in the relevant Pricing Supplement;

“**Noteholder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

“**Optional Redemption Amount (Call)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**Optional Redemption Amount (Put)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**Optional Redemption Date (Call)**” has the meaning given in the relevant Pricing Supplement;

“**Optional Redemption Date (Put)**” 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;

“**Payment Business Day**” means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (b) a day on which commercial banks are open for general business (including dealing in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, (a) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

(iii) in the case of any payment in respect of a Registered Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**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;

(ii) in relation to Australian dollars, it means Sydney or Melbourne and in relation to New Zealand dollars, it means either Auckland or Wellington, 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; and

(iii) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" has the meaning given in the relevant Pricing Supplement;

"**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 Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Senior Notes**" means Notes whose status is specified in the applicable Pricing Supplement as Senior;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Subordinated Notes**" means Notes specified in the applicable Pricing Supplement as Upper Tier II Subordinated Notes (the "**Upper Tier II Subordinated Notes**") or Lower Tier II Subordinated Notes (the "**Lower Tier II Subordinated Notes**"). Upper Tier II Subordinated Notes and Lower Tier II Subordinated Notes are together referred to in these Terms and Conditions as "Subordinated Notes";

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**Treaty**" means the Treaty establishing the European Communities, as amended; and "**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (Taxation), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Interpretation—Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination, Title and Transfer**

(a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "Holder" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) *Title to Registered Notes*: The Registrar will maintain a register outside the United Kingdom in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**"). In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within three business days of the surrender of a Note Certificate in accordance with paragraph (f) (Transfers of Registered Notes) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: Noteholders may not require transfers to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;

(ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 10(b) (*Redemption for tax reasons*) or Condition 10(c) (Redemption at the option of the Issuer); and

(iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 10(e) (*Redemption of the Senior Notes only at the option of the Noteholders*).

(j) Regulations concerning transfers and registration: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Status**

(a) *Status of the Senior Notes*: Notes whose status is specified in the applicable Pricing Supplement as Senior Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5 (Negative Pledge)) unsecured obligations of the Issuer and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) *Status of the Subordinated Notes and relevant provisions*:

*This Condition 4(b) applies only to Notes specified in the applicable Pricing Supplement as Subordinated. Notes whose status is specified in the applicable Pricing Supplement as Subordinated shall be either Upper Tier II Subordinated Notes (the "**Upper Tier II Subordinated Notes**") or Lower Tier II Subordinated Notes (the "**Lower Tier II Subordinated Notes**"). Upper Tier II Subordinated Notes and Lower Tier II Subordinated Notes are together referred to in these Terms and Conditions as "Subordinated Notes".*

Subordinated Notes constitute direct, general, subordinated and unsecured obligations of the Issuer which rank *pari passu* among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer.

(i) **Provisions relating to Subordinated Notes generally**

(A) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Bankruptcy Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the distribution list (as amended, if such be the case) for final distribution submitted to the court in the bankruptcy proceedings is paid in full or provided to be paid in full in such bankruptcy proceedings.

(B) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Restoration Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the restoration plan of the Issuer at the time when the court's approval of such plan becomes final and conclusive shall have been paid in full in the restoration proceedings to the extent of the original amount thereof (without regard to any adjustment of such amount in the approved restoration plan).

(C) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Restructuring Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer is paid in full or provided to be paid in full.

(D) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Foreign Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall only become payable upon conditions equivalent to those enumerated in the above four paragraphs having been fulfilled; **provided that** notwithstanding any provision herein to the contrary if the imposition of any such conditions is not allowed under such proceedings, any amounts which become due under the Subordinated Notes shall become payable in accordance with the terms herein provided and not subject to such conditions.

(E) A holder of a Subordinated Note by its acceptance thereof or its interest therein, shall thereby agree that (i) if any payment in respect of such Note is made to such holder after the occurrence of a Subordination Event and the amount of such payment shall exceed the amount, if any, that should have been paid to such holder upon the proper application of these subordination provisions, the payment of such excess amount shall be deemed null and void and such holder (without the Registrar or any Paying Agent having any obligation or liability with respect thereto, save to the extent that the Registrar or such Paying Agent shall return to the Issuer any such excess amount which remains held by it at the time of the notice next referred to) shall be obliged to return the amount of the excess payment within ten days of receiving notice from the Issuer of the excess payment and (ii) upon the occurrence of a Subordination Event and so long as such Subordination Event continues, such holder shall not exercise any right to set off any liabilities of the Issuer under such Note which become so payable on or after the date on which the Subordination Event occurs against any liabilities of such holder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under such Note become payable pursuant to the proper application of theses subordination provisions.

In these Conditions:

"**Bankruptcy Event**" shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be bankrupt pursuant to the provisions of the Korean Law Concerning Credit Restoration and Bankruptcy or any successor legislation thereto;

"**Foreign Event**" shall mean in any jurisdiction other than Korea, the Issuer having become subject to bankruptcy, corporate reorganisation or other equivalent proceedings pursuant to any applicable law of any jurisdiction other than Korea;

"**Korea**" shall mean the Republic of Korea;

"**Restoration Event**" shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be subject to the restoration proceedings pursuant to the provisions of the Korean Law Concerning Credit Restoration and Bankruptcy or any successor legislation thereto;

"**Restructuring Event**" shall mean a determination by the Prime Bank, the Creditor Banks Council or the Creditor Financial Institutions Council (each, as defined under the Korean Corporate Restructuring Promotion Law), as the case may be, that a restructuring process under the Korean Corporate Restructuring Promotion Law should be implemented for the Issuer;

"**Senior Indebtedness of the Issuer**" shall mean all deposits and other liabilities of the Issuer (other than (i) those which are subject to provisions equivalent to the payment conditions in paragraph (A), (B), (C) or (D) above and (ii) those which rank or are expressed to rank *pari passu* with or junior to the Subordinated Notes); and "**Subordination Event**" shall mean any Bankruptcy Event, Restoration Event, Restructuring Event or Foreign Event.

(ii) **Additional Provisions relating only to Upper Tier II Subordinated Notes**

(A) *Interest Payment Deferrals*

If the Issuer is not, or would be caused by any interest payment on any Subordinated Notes not to be, in compliance with the Capital Adequacy Ratio Requirement (as defined below) on any Interest Payment Date, the Issuer may, at its option, defer (in whole but not in part) payment of interest on such Subordinated Notes and any such failure to pay will not constitute a default by the Issuer for any purpose; **provided, however, that**, the Issuer shall not declare or pay any dividends on any capital stock of the Issuer or make any payments in respect of liabilities of the Issuer that rank equally with or junior to the Subordinated Notes unless and until any and all Interest in Arrears (as defined below) and other accrued interest on the Subordinated Notes, including Additional Interest (as defined below), have been paid in full.

Any interest in respect of Subordinated Notes not paid on an Interest Payment Date, together with any other interest in respect of the Subordinated Notes not paid on any other Interest Payment Date, will, so long as the same remains unpaid, constitute "**Interest in Arrears**". Until paid (whether before or after the Maturity Date), Interest in Arrears will bear interest ("**Additional Interest**") at a rate that is 1.00% per annum over the interest rate payable on the relevant Subordinated Note at that time. In addition, the principal of the relevant Subordinated Notes, if not paid on the Maturity Date, will also bear interest at a rate that is 1.00% per annum over the interest rate that otherwise would be payable on such Subordinated Notes at that time.

Interest in Arrears and accrued interest, including Additional Interest, thereon may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than 14 days' notice to such effect given to the Principal Paying Agent and to the holders of the Notes.

Interest in Arrears and other accrued interest, including Additional Interest, in respect of Subordinated Notes will (subject to Conditions 4(b)(i) (*Status of the Subordinated Notes and relevant provisions—Provisions relating to Subordinated Notes generally) and 4(b)(ii)(B) (Status of the Subordinated Notes and relevant provisions—Additional Provisions relating only to Upper Tier II Subordinated Notes*)) become due in full on whichever is the earliest of (1) the next Compulsory Interest Payment Date, (2) the Maturity Date or the date fixed for any redemption pursuant to the provisions in Condition 10 (*Redemption and Purchase*) or (3) the occurrence of a Subordination Event. If notice is given by the Issuer of its intention to pay the whole or any part of Interest in Arrears and other accrued interest, including Additional Interest, the Issuer shall be obligated (subject to Conditions 4(b)(i) (*Status of the Subordinated Notes and relevant provisions—Provisions relating to Subordinated Notes generally) and 4(b)(ii)(B) (Status of the Subordinated Notes and relevant provisions—Additional Provisions relating only to Upper Tier II Subordinated Notes*)) to do so upon the expiration of such notice.

As used in this Condition:

"**Compulsory Interest Payment Date**" means an Interest Payment Date for the relevant Subordinated Notes, as of which date the Issuer, based upon its best estimates, is in compliance with the Capital Adequacy Ratio Requirement, **provided that** any payment of interest on such Subordinated Notes will not cause the Issuer, based upon its best estimates, not to be in compliance with the Capital Adequacy Ratio Requirement; and "**Capital Adequacy Ratio Requirement**" means the requirement for the minimum risk-weighted total capital ratio of the Issuer, determined in accordance with the guidelines of the FSS.

(B) *Solvency Condition*

Payments of principal of, and interest on, the Subordinated Notes are conditional upon the Issuer not being an Insolvent Financial Institution (as defined below) at the time of payment by the Issuer, and no principal or interest shall be payable in respect of the Subordinated Notes, except to the extent that the Issuer could make the necessary payment and still not become an Insolvent Financial Institution. For the purposes of this paragraph, an "**Insolvent Financial Institution**" means any of the following:

(1) a financial institution (a) (i) whose liabilities exceed its assets according to an actual investigation of conditions of its operations or (ii) which clearly has difficulty in operating its ordinary business as its liabilities exceed its assets due to the occurrence of any adverse financial incident or nonperforming claims, in each case involving large amounts, and (b) which the FSC or the Operating Committee of the Korea Deposit Insurance Corporation (the "**Operating Committee**") determines to be an "**Insolvent Financial Institution**". In this case, the valuation and calculation of liabilities and assets shall be made according to the standards set in advance by the FSC;

(2) a financial institution which is under suspension of (a) payment of claims such as deposits (including the principal, interest, profit, insurance proceeds, various payments and other agreed monetary claims) or (b) repayment of money borrowed from other financial institutions; or

(3) a financial institution which is deemed by the FSC or the Operating Committee to be having difficulty in paying claims such as deposits (including the principal, interest, profit, insurance proceeds, various payments and other agreed monetary claims) or repaying borrowed money without fund support from outside or separate borrowings (excluding borrowing in ordinary financial transactions).

Failure by the Issuer to make payments of principal of, and interest on, the Subordinated Notes while the Issuer remains an Insolvent Financial Institution (an "**Insolvency Period**") shall not constitute a default by the Issuer for any purpose; **provided, however, that**, while Subordinated Notes are outstanding, the Issuer shall not declare or pay any dividends on any capital stock of the Issuer or make any payments in respect of liabilities of the Issuer (other than liabilities under the Lower Tier II Subordinated Notes and any other indebtedness classified as Lower Tier II Subordinated indebtedness by the FSS) that rank equally with or junior to the Subordinated Notes.

Payments of principal of, and interest on, the Subordinated Notes not made during an Insolvency Period will (subject to Condition 3(i) (*Form, Denomination, Title and Transfer—Closed periods*)) become payable on whichever is the earlier of (1) the Issuer ceasing to be an Insolvent Financial Institution and (2) the occurrence of a Subordination Event. Until paid (whether before or after the Maturity Date), payments of interest on Subordinated Notes not made during an Insolvency Period will bear additional interest at a rate that is 1.00% per annum over the interest rate payable on such Subordinated Notes at that time. In addition, if the Insolvency Period is continuing on and after the Maturity Date, the principal on the Subordinated Notes will also bear interest at a rate that is 1.00% per annum over the interest rate that otherwise would be payable on the Subordinated Notes at that time.

5. **Negative Pledge**

(a) Negative Pledge: So long as any of the Senior Notes remain outstanding (as defined in the Agency Agreement), the Issuer will not, and will procure that no Principal Subsidiary (as defined below) will, create or permit to subsist any Security Interest upon or over the whole or any part of the property, assets or revenues (whether present or future) of the Issuer or any Principal Subsidiary to secure for the benefit of the holders of any International Investment Securities (as defined below):

(i) any payment of any sum due in respect of any such International Investment Securities;

(ii) any payment under any guarantee or other like obligation in respect of any such International Investment Securities; or

(iii) any payment under any indemnity or other like obligation in respect of any such International Investment Securities,

without, in any such case and at the same time, according to the holders of the Senior Notes either the same security as is available for the benefit of the holders of such International Investment Securities guarantee, indemnity or other like obligation or such other arrangement (whether or not comprising a Security Interest) as shall be approved for the purpose by an Extraordinary Resolution (as defined below) of the holders of the Senior Notes.

For the avoidance of doubt, notwithstanding the foregoing, in the event that there is a change in law or regulation in Korea permitting or providing for the issue of covered bonds (the "**Covered Bonds Legislation**"), issuance of covered bonds by the Issuer and any arrangement relating to the segregation or ring-fencing of any part of the Issuer's property, assets or revenues (whether present or future) for the purpose thereof shall be permitted, **provided that** such covered bonds are issued and such arrangement is entered into, respectively, in compliance with the Covered Bonds Legislation and that such property, assets and revenues are intended to form part of the pool of the assets in respect of which a priority of claim in favour of the covered bondholders may be given.

(b) *Interpretation*

In these Conditions:

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

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

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

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

"**Principal Subsidiary**" means at any time a Subsidiary of the Issuer:

(i) whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited non-consolidated accounts of the Issuer relate, are equal to) not less than 10% of the non-consolidated net profits of the Issuer, or, as the case may be, non-consolidated total assets, of the Issuer, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, non-consolidated) of such Subsidiary and the then latest audited non-consolidated accounts of the Issuer, **provided that** if the then latest audited non-consolidated accounts of the Issuer show a net loss for the relevant financial period then there shall be substituted for the words "net profits" the words "gross revenues" for the purposes of this definition;

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, **provided that** the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (ii) on the date on which the non-consolidated accounts of the Issuer for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such non-consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited non-consolidated accounts of the Issuer relate, generate net profits equal to) not less than 10% of the non-consolidated net profits of the Issuer, or represent (or, in the case aforesaid, are equal to) not less than 10% of the non-consolidated total assets of the Issuer, all as calculated as referred to in subparagraph (i) above, **provided that** the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net profits equal to) not less than 10% of the non-consolidated net profits of the Issuer, or its assets represent (or, in the case aforesaid, are equal to) not less than 10% of the non-consolidated total assets of the Issuer, all as calculated as referred to in subparagraph (i) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (iii) on the date on which the non-consolidated accounts of the Issuer for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such non-consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition, all as more particularly defined in the Agency Agreement.

For the purposes of this definition:

(i) if, in the case of a Subsidiary which itself has Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net profits and consolidated total assets shall be determined on the basis of pro forma consolidated accounts (which need not be audited) of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the Issuer;

(ii) if (a) any Subsidiary shall not in respect of any relevant financial period for whatever reason produce audited accounts or (b) any Subsidiary shall not have produced at the relevant time for the calculations required pursuant to this definition audited accounts for the same period as the period to which the latest audited non-consolidated accounts of the Issuer relate, then there shall be substituted for the purposes of this definition the management accounts of such Subsidiary for such period;

(iii) where any Subsidiary is not wholly owned by another Subsidiary there shall be excluded from all calculations all amounts attributable to minority interests;

(iv) in calculating any amount all amounts owing by or to the Issuer and any Subsidiary to or by the Issuer and any Subsidiary shall be excluded; and

(v) in the event that accounts of any companies being compared are prepared on the basis of different generally accepted accounting principles, there shall be made such adjustments to any relevant financial items as are necessary to achieve a true and fair comparison of such financial items.

A report by the directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, shall (in the absence of manifest or proven error), be conclusive and binding on all parties.

"**Subsidiary**" means any corporation or other business entity of which the Issuer owns or controls (in either case, either directly or through another Subsidiary or other Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such corporation or other business entity (other than capital stock or other ownership interest of any other class or classes which has voting power only upon the occurrence of any contingency).

6. **Fixed Rate Note Provisions**

(a) *Application*: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 11 (*Payments—Bearer Notes*) and 12 (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note and Index-Linked Interest Note Provisions**

(a) *Application*: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 11 (*Payments—Bearer Notes*) and 12 (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) ISDA Determination: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest 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:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

(e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Dual Currency Note Provisions**

(a) *Application*: This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Conditions 11 (*Payments—Bearer Notes*) and 12 (*Payments—Registered Notes*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) 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 (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and

(C) in the case of Subordinated Notes, the prior approval of the FSS or any such other relevant regulatory authority in Korea shall have been obtained, if necessary,

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Principal Paying Agent (A) a certificate signed by one director 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 of and (B) 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. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's having (1) in the case of Subordinated Notes, obtained the prior approval of the FSS or any such other relevant regulatory authority in Korea, if necessary, and (2) given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 20 (Notices); and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date; **provided, however, that**, in the case of Subordinated Notes, such redemption shall be subject to the prior approval of the FSS pursuant to FSS regulations in effect at the applicable time relating to, *inter alia*, capital adequacy ratios, replacement capital and interest rates. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "*Selection Date*"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 (*Events of Default*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed

Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, **provided that**, such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 (Events of Default) at least five days prior to the Selection Date.

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Principal Paying Agent considers appropriate, subject to compliance with applicable law, the rules of each competent 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 notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption of the Senior Notes only at the option of the Noteholders*: If Put Option is specified in the applicable Pricing Supplement, upon the holder of any Senior Note giving to the Issuer in accordance with Condition 20 (*Notices*) not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Senior Note on the Optional Redemption Date (Put) and at the Optional Redemption Amount (Put) specified in, or determined in the manner specified in the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date (Put). Registered Notes that are Senior Notes may be redeemed under this Condition 10(e) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Senior Note the holder of this Senior Note must deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed Put Option Notice (for the time being current) in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes that are Senior Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 3(f) (*Transfers of Registered Notes*). If this Senior Note is in definitive form, the Put Option Notice must be accompanied by this Senior Note or evidence satisfactory to the Paying Agent concerned that this Senior Note will, following delivery of the Put Option Notice, be held to its order or under its control.

Any Put Option Notice given by a holder of any Senior Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note forthwith due and payable pursuant to Condition 14 (*Events of Default*).

(f) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(f) or, if none is so specified, a Day Count Fraction of 30E/360.

(g) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Senior Notes and, subject to obtaining the prior approval of the FSS or any such other relevant regulatory authority in Korea, if necessary, Subordinated Notes at any price (**provided that**, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) in the open market or otherwise and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer or, as the case may be, the relevant Subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation.

(h) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. Payments - Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal*: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or 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 of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*), and (ii) notwithstanding the provisions of Condition 13 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Internal Revenue Code (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or (without prejudice to the provisions of Condition 13 (*Taxation*) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (Redemption and Purchase—Redemption for tax reasons), Condition 10(c) (*Redemption and Purchase—Redemption at the option of the Issuer*), Condition 10(e) (*Redemption and Purchase—Redemption of the Senior Notes only at the option of the Noteholders*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. **Payments - Registered Notes**

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, 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 of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, 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 of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*), and (ii) notwithstanding the provisions of Condition 13 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or (without prejudice to the provisions of Condition 13 (Taxation) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. **Taxation**

(a) *Gross up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Korea or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction 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 in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(iii) held 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 EU; or

(iv) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

(b) *Taxing jurisdiction*: If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Korea, references in these Conditions to the Republic of Korea shall be construed as references to the Republic of Korea and/or such other jurisdiction.

14. **Events of Default**

(a) *Events of Default relating to Senior Notes*

If any of the following events occurs and is continuing with respect to any Senior Note:

(i) default is made in the payment of any principal or interest due in respect of the Senior Notes or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or

(ii) if the Issuer fails to perform or observe any of its other obligations under or in respect of the Senior Notes and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by any holder of a Senior Note on the Issuer of notice requiring the same to be remedied; or

(iii) any other notes, debentures, bonds or other Indebtedness having an aggregate principal amount of at least U.S.$10,000,000 (or its equivalent in any other currency) shall become prematurely repayable following a default in respect of the terms thereof or steps are taken to enforce any security therefor, or the Issuer or any Principal Subsidiary defaults in the repayment of any such Indebtedness at the maturity thereof or any guarantee of or indemnity in respect of any Indebtedness of others given by the Issuer or any Principal Subsidiary shall not be honoured when due and called upon in accordance with its terms; or

(iv) if any order is made by any competent court or resolution passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of the holders of the Senior Notes; or

(v) if the Issuer and its Subsidiaries, taken as a whole, ceases to carry on the whole or a substantial part of their business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders, or the Issuer or any of its Principal Subsidiaries stops payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent, the Issuer or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or dealers a moratorium in respect of any of its Indebtedness or any Surety given by it; or

(vi) if (A) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within l4 days; or

(vii) any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in paragraphs (iv) to (vi) above; or

(viii) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(ix) if the Issuer repudiates its obligations in respect of the Senior Notes or does or causes to be done any act or thing evidencing an intention to repudiate such obligations; or

(x) if at any time any act, condition or thing required to be done, fulfilled or performed in order (A) to enable the Issuer lawfully to enter into, exercise its rights under and perform the obligations expressed to be assumed by it under and in respect of the Senior Notes, (B) to ensure that those obligations are legal, valid, binding and enforceable or (C) to make the Senior Notes, the Receipts and the Coupons admissible in evidence in the courts of Korea (other than their translation into the Korean language) is not done, fulfilled or performed; or

(xi) if at any time it is or becomes unlawful for the Issuer to perform or comply with any or all of its obligations under or in respect of the Senior Notes or any of the obligations of the Issuer thereunder are not or cease to be legal, valid and binding; or

(xii) (A) all or any substantial part of the undertaking, assets and revenues of the Issuer and its Subsidiaries, taken as a whole, is condemned, seized or otherwise appropriated by any person acting or purporting to act under the authority of any national, regional or local government of Korea or (B) the Issuer and its Subsidiaries, taken as a whole, is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues,

then any Senior Note may, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

Notwithstanding above, any merger or reorganisation pursuant to an amendment to the National Agricultural Cooperative Federation Act, under which any successor bank, corporation or business entity assumes all of the Issuer's obligations under the Notes and the Deed of Covenant, and the Noteholders are provided the benefit of the creditor protection scheme under the Korean Commercial Code, shall not be deemed an Event of Default set forth in Conditions 14(a)(iv), (v), (vi), (vii), (viii), (ix) or (x) above.

(b) *Events of Default relating to Subordinated Notes*

(i) If any Subordination Event shall occur and be continuing then, in any such event, the holder of any Subordinated Note may by written notice to the Issuer declare such Note to be forthwith due and payable upon receipt of such notice by the Issuer whereupon such Note shall become due and repayable at its principal amount plus accrued interest (if any).

(ii) Except as expressly provided in this Condition 14(b), no holder of any Subordinated Note shall have any right to accelerate any payment of principal or interest in respect of the Subordinated Notes.

(iii) The only action the holder of a Subordinated Note may take in Korea against the Issuer on acceleration of the Subordinated Notes is to petition for the liquidation of, or for the commencement of reorganisation proceedings in relation to, the Issuer in Korea (subject to the satisfaction of the relevant requirements of applicable law) or to prove in the liquidation or other applicable proceedings in respect of the Issuer in Korea.

15. **Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that**:

(i) the Issuer shall at all times maintain a principal paying agent and a registrar; and

(ii) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC; and

(iii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU Service; and

(v) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or Noteholders holding not less than 5% of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing not less than 50% of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders of not less than 90% of the aggregate principal amount outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Meetings of more than one Series of Noteholders*: The provisions for meetings of Noteholders set out in Schedule 1 to the Agency Agreement include a provision whereby if and whenever the Issuer shall have issued and have outstanding Notes of more than one Series:

(i) a resolution which affects the Notes of more than one Series but does not give rise to a conflict of interest between the holders of Notes of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Notes of all the Series so affected; and

(ii) a resolution which affects the Notes of more than one Series and gives or may give rise to a conflict of interest between the holders of the Notes of one Series or group of Series so affected and the holders of the Notes of another Series or group of Series so affected shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the holders of the Notes of each Series or group of Series so affected.

(c) *Modification*: The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to modify any provision of a formal, minor or technical nature or to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

19. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

20. **Notices**

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, Luxembourg, DTC or any other clearing system (except as provided in (ii) below), 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 as required by the Conditions or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice.

21. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. **Rounding**

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% being rounded up to 0.00001%), (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.

23. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law except that in the case of Subordinated Notes, Condition 4(b) (*Status—Status of the Subordinated Notes and relevant provisions*) is governed by, and shall be construed in accordance with, Korean law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of its nullity.

(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 23(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 23 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) *Process agent*: 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 Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Principal Paying Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent. 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.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes or as may otherwise be disclosed in the applicable Pricing Supplement.

EXCHANGE RATES

The following table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate in Won per U.S.$1.00. No representation is made that the Won or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate, or at all.

Years ended 31 December	**Low**	**High**	**Average**[1]	**Period-end**[2]
	(Won per U.S.$1.00)			
2009	1,152.8	1,573.6	1,276.4	1,167.6
2010	1,104.0	1,261.5	1,156.3	1,138.9
2011	1,049.5	1,199.5	1,108.1	1,153.3
2012	1,071.1	1,181.8	1,126.9	1,071.1
2013	1,051.5	1,159.1	1,095.0	1,055.3
2014 (through 4 September)	1,008.9	1,086.1	1,042.0	1,018.9
January	1,050.4	1,084.1	1,064.8	1,079.2
February	1,060.5	1,086.1	1,071.3	1,067.7
March	1,062.6	1,080.3	1,070.9	1,068.8
April	1,031.7	1,066.1	1,044.6	1,031.7
May	1,021.6	1,032.2	1,025.0	1,021.6
June	1,014.4	1,024.3	1,019.4	1,014.4
July	1,008.9	1,032.7	1,019.0	1,024.3
August	1,013.6	1,037.4	1,025.4	1,013.6
September (through 4 September)	1,014.3	1,018.9	1,015.9	1,018.9

Source: Seoul Money Brokerage Services, Ltd.

Notes:

(1) Represents the average of the Market Average Exchange Rate over the relevant periods (or portion thereof).

(2) The Market Average Exchange Rate at the end of the relevant period.

CAPITALISATION

The following table sets forth the capitalisation of the Bank as of 30 June 2014. This information has been extracted without material adjustment from the Bank's unaudited but reviewed consolidated financial statements as of 30 June 2014.

	As of 30 June 2014	
	(Unaudited)	
	(in billions of Won and millions of U.S.$)	
Indebtedness: [1][2]		
Borrowings	₩14,737	$14,527
Debentures	8,534	8,413
Other liabilities	169,946	167,534
Sub total	₩193,217	$190,474
Equity:		
Capital stock[3]	₩2,074	$2,045
Other paid-in capital	9,338	9,204
Retained earnings	2,293	2,261
Other components of equity	140	138
Sub total	₩13,845	$13,648
Total capitalisation [4]	₩207,062	$204,122

Notes:

(1) Including current portion.

(2) As of 30 June 2014, the Bank had total outstanding provisions of Won 283 billion, which includes Won 106 billion of provision for acceptances and guarantees and Won 125 billion of provision for unused credit limits. See Note 18 of the Bank's unaudited consolidated financial statements as of 30 June 2013 and 2014 and for the six months ended 30 June 2013 and 2014.

(3) Issued and outstanding 414,791,122 fully paid common shares with par value per share of Won 5,000.

(4) Total capitalisation is equal to the sum of borrowings, debentures and total equity. Since 30 June 2014 and as of the date of this Offering Circular, there has been no material change in the long-term debt or share capital of the Bank.

SELECTED FINANCIAL INFORMATION

The following tables set forth statement of comprehensive income, statement of financial position and other financial information with respect to the Bank as of 31 December 2012 and 2013 and for the period from 2 March 2012 (inception) to 31 December 2012 and for the year ended 31 December 2013 and as of 30 June 2014 and for the six months ended 30 June 2013 and 2014.

Unless otherwise stated, the information presented below as of 31 December 2012 and 2013 and for the period from 2 March 2012 through 31 December 2012 and for the year ended 31 December 2013 have been extracted without material adjustment from the Bank's audited consolidated financial statements as of 31 December 2012 and 2013 and for the period from 2 March 2012 (inception) to 31 December 2012 and for the year ended 31 December 2013 (the "**Audited Consolidated Financial Statements**"), which have been presented in accordance with K-IFRS. The Audited Consolidated Financial Statements were audited by Deloitte Anjin LLC, whose report thereon is included elsewhere in this Offering Circular.

Unless otherwise stated, the information presented below as of 30 June 2014 and for the six months ended 30 June 2013 and 2014 have been extracted without material adjustment from the Bank's unaudited consolidated financial statements as of 30 June 2014 and for the six months ended 30 June 2013 and 2014 (the "**Unaudited Consolidated Financial Statements**"), which have been presented in accordance with the K-IFRS. The financial statements as of 30 June 2014 and for the six months ended 30 June 2014 have been reviewed by Ernst & Young Han Young, whose report thereon is included elsewhere in this Offering Circular. The financial statements as of 30 June 2013 and for the six months ended 30 June 2013 have been reviewed by Deloitte Anjin, whose report thereon is included elsewhere in this Offering Circular.

	For the period from 2 March 2012 through 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014	
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	
	(in billions of Won and millions of U.S.$, except per share data)				
Consolidated Statement of Comprehensive Income Information					
Interest income	₩7,506	₩8,105	₩4,086	₩3,865	$3,810
Interest expenses	3,856	3,906	2,002	1,802	1,777
Commission income	534	639	317	333	328
Commission expenses	235	319	159	177	174
Gain (loss) on trading financial assets, net	(151)	(39)	(61)	117	115
Gain (loss) on financial assets at fair value through profit or loss, net	(5)	2	0.3	0.5	0.5
Gain (loss) on financial investment assets, net	84	144	56	(76)	(75)
Other operating expenses, net	(308)	(427)	(246)	(352)	(347)
Operating income before credit losses and general and administrative expenses	3,569	4,199	1,991	1,908	1,881
Provision of allowances for losses on credit	745	1,148	558	434	428
Operating income before general and administrative expenses	2,824	3,051	1,433	1,474	1,453
General administrative expenses	1,933	2,406	1,150	1,209	1,192

	For the period from 2 March 2012 through 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014	
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	
	(in billions of Won and millions of U.S.$, except per share data)				
Operating income	891	645	283	265	261
Gain (loss) on valuation of equity method investments, net	1	7	6	(0.7)	(0.7)
Other expenses, net	(415)	(425)	(207)	(132)	(131)
Income before income tax expense	477	227	82	132	129
Income tax expense	91	53	16	12	12
Net income	386	174	66	120	117
Remeasurements of defined benefit pension plans	12	(74)	(70)	(3)	(3)
Gain (loss) on translation of available for sale financial assets, net	(16)	(6)	8	(7)	(7)
Loss on overseas business translation	—	(0.6)	—	(0.4)	(0.4)
Gain (loss) on valuation of available for sale financial assets, net	(8)	(133)	(104)	92	93
Share of other comprehensive gain of associates	(0.3)	0.2	0.5	(0.1)	(0.1)
Total comprehensive income	₩374	₩(39)	₩(99)	₩202	$200
Basic earnings per share	₩946	₩366	₩169	₩255	$0.3
Diluted earnings per share	₩946	₩366	₩169	₩255	$0.3

	As of 31 December		As of 30 June	
	2012	2013	2014	
	(Audited)	(Audited)	(Unaudited)	
	(in billions of Won and millions of U.S. dollars)			
Consolidated Statement of Financial Position Information				
Assets				
Cash and due from banks	₩9,403	₩9,216	₩10,622	$10,472
Trading financial assets	4,459	4,583	5,600	5,520
Financial assets at fair value through profit or loss	0.1	—	—	—
Derivative assets	1,200	736	752	741
Loans and receivables	154,981	156,023	164,770	162,432
Available-for-sale financial assets	11,504	13,561	15,357	15,139
Held-to-maturity financial assets	12,817	7,810	6,511	6,419
Investments in associates	38	26	58	57
Tangible assets	2,196	2,267	2,380	2,347
Investment properties	494	546	439	432
Intangible assets	204	263	321	316
Current income tax assets	—	111	—	—
Deferred income tax assets	64	54	108	106
Other assets	137	151	144	142
Non-current assets classified as held-for-sale	—	—	—	—
Total assets	₩197,497	₩195,347	₩207,062	$204,122

	As of 31 December		As of 30 June	
	2012	2013	2014	
	(Audited)	(Audited)	(Unaudited)	
	(in billions of Won and millions of U.S. dollars)			
Liabilities and Equity				
Deposits	₩142,712	₩144,919	₩155,670	$153,460
Trading financial liabilities	21	0	—	—
Financial liabilities at fair value through profit or loss	56	54	54	53
Derivatives liabilities	1,046	731	730	720
Borrowings	13,342	15,302	14,737	14,527
Debentures	10,194	10,994	8,534	8,413
Retirement benefit obligations	138	179	205	202
Provisions	242	314	283	279
Current income tax liabilities	104	0	12	12
Other liabilities	16,596	8,879	12,992	12,808
Total liabilities	₩184,451	₩181,372	₩193,217	$190,474
Capital stock	1,916	2,074	2,074	2,045
Other paid in capital	9,550	9,690	9,338	9,204
Retained earnings	1,309	2,153	2,293	2,261
Other component of equity	271	58	140	138
Total shareholder's equity	13,046	13,975	13,845	13,648
Total liabilities and shareholder's equity	₩197,497	₩195,347	₩207,062	$204,122

Selected Ratios on Separate Basis

Unless otherwise stated, the selected ratios set forth below of the Bank are calculated based on the separate financial statements of the Bank prepared in accordance the FSC Guidelines.

	As of 31 December or for the period from 2 March 2012 through 31 December 2012	As of or for the year ended 31 December 2013	As of or for the six months ended 30 June 2013	As of or for the six months ended 30 June 2014
Average return on assets[1]	0.2%	0.04%	0.0%	0.1%
Average return on equity[2]	3.1	0.6	0.0	1.7
Equity/total assets	6.6	7.3	6.6	6.3
Non-performing loans/total loans[3]	1.8	2.0	2.3	2.0
Allowance/non-performing loans[3]	82.0	73.0	67.7	61.4
Non-performing loans/total assets	1.4	1.6	1.8	1.5
Net interest margin[4]	2.3	2.1	2.1	2.0
Won	2.4	2.2	2.3	2.1
Foreign currency	(0.1)	(0.1)	(0.1)	0.2
Net interest spread[5]	2.2	2.0	2.1	2.0
Won	2.5	2.4	2.4	2.3
Foreign currency	0.1	0.4	0.1	0.8
Risk-weighted (Tier 1 and Tier 2) capital ratio[6][8]	14.4	14.8	14.0	14.3
Core capital (Tier 1) ratio[7][8]	11.3	12.1	11.4	12.0

Notes:

(1) Defined as net income after taxes divided by daily average balance of total assets. Total assets include total assets in the credit and banking business (excluding customers' liabilities on guarantees and acceptances and allowances for depreciation).

(2) Defined as net income after taxes divided by average balance of total equity. Average equity is the average of the equity at the beginning of the relevant year or period and the equity at the end of the relevant year or period.

(3) Non-performing loans (defined as loans greater than 90 days past due), total loans and allowance of the Bank excluding the trust accounts.

(4) Net interest income divided by average daily interest-earning assets.

(5) Represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(6) "**Risk-weighted capital ratio**" means the ratio of the sum of Tier 1 and Tier 2 capital to risk-weighted assets. For details, see "*Supervision and Regulation—Capital Adequacy and Allowances*".

(7) "**Core capital (Tier 1) ratio**" means the ratio of core capital (Tier 1) to risk-weighted assets. For details, see "*Supervision and Regulation—Capital Adequacy and Allowances*".

(8) Prepared on a consolidated basis.

The following tables set forth certain statistical information of the Bank as of 31 December 2012 and 2013 and for the period from 2 March 2012 (inception) to 31 December 2012 and for the year ended 31 December 2013, and as of 30 June 2013 and 2014 and for the six months ended 30 June 2013 and 2014. Unless otherwise stated, such information has been derived from information set forth in the Bank's monthly reports submitted to the FSC, which information is prepared on a separate basis and in accordance with the guidelines promulgated by the FSC based on Article 43-2 of the Banking Act of Korea. Unless otherwise stated herein, such information is referred herein as having been prepared "on a separate basis". Such information may differ in certain aspects from the information that would have been prepared in accordance with K-IFRS.

Average Balances, Interest and Rates

The following table sets forth the average balances of assets and liabilities of the Bank, on a separate basis, for the periods indicated and, for interest earning assets and interest bearing liabilities, provides the amount of interest earned or paid and the average yields and costs. For the purposes of this table, average balances have been determined based upon daily average balances. The average yield on interest earning assets is the ratio of interest income to average interest earning assets and the average cost on interest bearing liabilities is the ratio of interest expense to average interest bearing liabilities.

	For the six months ended 30 June 2013			For the six months ended 30 June 2014		
	Average Balance	Interest income/ expense(1)(2)	Average yield/ average cost	Average Balance	Interest income/ expense(1)(2)	Average yield/ average cost
	(in billions of Won, except percentages)					
Interest-earning assets:						
Loans:	₩144,800	₩3,345	4.66%	₩154,353	₩3,246	4.24%
Won-denominated Loans	136,880	3,290	4.85	147,047	3,199	4.39
Corporate	62,466	1,308	4.22	68,517	1,306	3.85
Retail(3)	63,259	1,480	4.72	66,362	1,434	4.36
Public(4)	4,293	91	4.27	7,728	148	3.87
Integrated(5)	1,702	19	2.25	1,492	14	1.84
Others(6)	5,160	392	15.32	2,948	297	20.29
Foreign Currency	7,920	55	1.39	7,306	47	1.30
Due from banks:	2,510	31	2.49	2,257	27	2.40
Won	2,298	31	2.72	2,083	27	2.59
Foreign Currency	212	0	0.01	174	—	0.10
Securities:	25,101	495	3.98	21,648	368	3.43
Won	24,607	488	4.00	21,257	364	3.45
Foreign Currency	494	7	2.84	391	4	2.09
Others:	—	—	0.00	—	4	—
Won	—	—	0.00	—	4	—
Foreign Currency	—	—	0.00	—	—	—
Total interest-earning-assets	₩172,411	₩3,871	4.53%	₩178,258	₩3,645	4.12%

	For the six months ended 30 June 2013			For the six months ended 30 June 2014		
	Average Balance	Interest income/ expense(1)(2)	Average yield/ average cost	Average Balance	Interest income/ expense(1)(2)	Average yield/ average cost
	(in billions of Won, except percentages)					
Interest-bearing liabilities:						
Deposits:	₩139,689	₩1,685	2.43%	₩146,693	₩1,519	2.09%
Deposits in Won	138,146	1,675	2.45	145,287	1,516	2.10
Demand deposit	14,377	40	0.56	17,124	36	0.43
Savings deposit	121,514	1,514	2.51	125,800	1,332	2.14
Other deposit	2,255	121	10.82	2,362	148	12.59
Deposits in foreign currencies	1,543	10	1.26	1,406	3	0.43
Borrowings:	15,737	113	1.45	14,500	100	1.39
Borrowings in Won	11,501	103	1.80	10,913	92	1.70
Borrowings in foreign currencies.	4,236	10	0.49	3,587	8	0.45
Debentures:	10,016	211	4.25	10,283	194	3.80
Won	6,870	167	4.91	7,344	161	4.42
Foreign currency	3,146	44	2.81	2,939	33	2.26
Others:	2,069	35	3.41	2,352	34	2.92
Won	2,049	35	3.44	2,308	34	2.97
Foreign currency	20	—	0.00	44	—	0.0
Total interest-bearing liabilities	₩167,511	₩2,044	2.46%	₩173,828	₩1,847	2.14%
Average asset liability ratio	102.9%			102.6%		
Net interest income and average interest rate spread		₩1,827	2.07%		₩1,798	1.98%
Net interest income as percentage of total average interest-earning assets			2.14%			2.03%

Notes:

(1) Interest income includes cash interest received on non-accruing loans. See "*Description of Assets and Liabilities — Asset Quality of Loans — Non-accrual Loans and Past Due Accruing Loans*".

(2) The Bank does not invest in any tax-exempt securities.

(3) Represents the "Household" category as stated in the financial statements included elsewhere in this offering circular.

(4) Primarily consists of loans to local governments, public enterprises and non-profit institutions, such as educational institutions.

(5) Consists of various policy loans offered to farmers in furtherance of the Government's agricultural policy.

(6) Represents the difference between loans classified in accordance with K-IFRS and those classified in accordance with the FSS asset classification.

	For the period from 2 March 2012 through 31 December 2012			For the year ended 31 December 2013		
	Average Balance	Interest income/ expense(1)(2)	Average yield/ average cost	Average Balance	Interest income/ expense(1)(2)	Average yield/ average cost
	(in billions of Won, except percentages)					
Interest-earning assets:						
Loans:	₩143,747	₩6,103	5.09%	₩146,391	₩6,639	4.54%
Won-denominated Loans	135,380	5,991	5.31	138,737	6,533	4.71
Corporate	61,722	2,329	4.53	63,615	2,618	4.12
Retail(3)	61,495	2,677	5.22	64,107	2,919	4.55
Public(4)	5,441	213	4.70	4,417	183	4.14
Integrated(5)	1,812	35	2.32	1,656	37	2.23
Others(6)	4,910	737	18.01	4,942	776	15.70
Foreign Currency Loans	8,367	112	1.61	7,654	106	1.38
Due from banks:	2,059	55	3.21	2,751	68	2.47
Won	1,979	55	3.34	2,583	68	2.63
Foreign Currency	80	0	0.03	168	0	0.08
Securities:	26,264	970	4.43	25,730	967	3.76
Won	25,781	958	4.46	25,251	960	3.80
Foreign Currency	483	12	2.98	479	7	1.49
Others:	0	0	0.00	0	0	0.00
Won	0	0	0.00	0	0	0.00
Foreign Currency	0	0	0.00	0	0	0.00
Total interest-earning-assets	₩172,070	₩7,128	4.97%	₩174,872	₩7,674	4.39%
Interest-bearing liabilities:						
Deposits:	139,105	3,259	2.81	140,619	3,254	2.31
Deposits in Won	137,467	3,238	2.83	138,999	3,238	2.33
Demand deposit	12,830	50	0.47	14,008	68	0.49
Savings deposit	123,219	3,005	2.93	121,849	2,902	2.38
Other deposit	1,418	183	15.49	3,142	268	8.53
Deposits in foreign currencies	1,638	21	1.54	1,620	16	0.97
Borrowings:	16,484	223	1.62	15,542	225	1.45
Borrowings in Won	12,103	199	1.97	11,489	205	1.78
Borrowings in foreign currencies.	4,381	24	0.66	4,053	20	0.48
Debentures:	10,187	381	4.49	10,387	433	4.17
Won	6,990	297	5.10	7,261	347	4.78
Foreign currency	3,197	84	3.15	3,126	86	2.75
Others:	1,306	47	4.32	2,325	72	3.10
Won	1,284	47	4.39	2,304	72	3.12
Foreign currency	22	0	0.00	21	0	0.00
Total interest-bearing liabilities	₩167,082	₩3,910	2.81%	₩168,873	₩3,984	2.36%
Average asset liability ratio	103.0%			103.6%		
Net interest income and average interest rate spread		₩3,218	2.18%		₩3,690	2.03%
Net interest income as percentage of total average interest-earning assets			2.24%			2.11%

Notes:

(1) Interest income includes cash interest received on non-accruing loans. See "*Description of Assets and Liabilities — Asset Quality of Loans — Non-accrual Loans and Past Due Accruing Loans*".

(2) The Bank does not invest in any tax-exempt securities.

(3) Represents the "Household" category as stated in the financial statements included elsewhere in this offering circular.

(4) Primarily consists of loans to local governments, public enterprises and non-profit institutions, such as educational institutions.

(5) Consists of various policy loans offered to farmers in furtherance of the Government's agricultural policy.

(6) Represents the difference between loans classified in accordance with K-IFRS and those classified in accordance with the FSS asset classification.

Analysis of Changes in Interest Income and Interest Expense - Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates of the Bank, on a separate basis, for the periods indicated. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	For the six months ended 30 June 2013 and 2014		
	Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate
		(in billions of Won)	
Interest income from:			
Loans:	₩(99)	₩240	₩(339)
Won	(91)	245	(336)
Corporate	(2)	255	(257)
Retail[1]	(46)	165	(211)
Public[2]	57	98	(41)
Integrated[3]	(5)	(2)	(3)
Others[4]	(95)	(271)	176
Foreign currency	(8)	(4)	(4)
Due from banks:	(4)	(3)	(1)
Won	(4)	(3)	(1)
Foreign currency	N/M[5]	N/M[5]	N/M[5]
Securities:	(127)	(68)	(59)
Won	(124)	(66)	(58)
Foreign currency	(3)	(2)	(1)
Others:	4	—	4
Won	4	—	4
Foreign currency	—	—	—
Total interest income	(226)	328	(554)
Interest expense on:			
Deposits:	(166)	164	(330)
Won	(159)	165	(324)
Demand deposit	(4)	17	(21)
Savings deposit	(182)	142	(324)
Other deposit	27	6	21
Foreign currencies	(7)	(1)	(6)
Borrowings:	(13)	(7)	(6)
Won	(11)	(6)	(5)
Foreign currencies	(2)	(1)	(1)
Debentures:	(17)	23	(40)
Won	(6)	26	(32)
Foreign currency	(11)	(3)	(8)
Others:	(1)	9	(10)
Won	(1)	9	(10)
Foreign currency	—	—	—
Total interest expense	(197)	199	(396)
Net interest income	₩(29)	₩129	₩(158)

Notes:

(1) Represents the "Household" category as stated in the financial statements included elsewhere in this offering circular.

(2) Primarily consists of loans to local governments, public enterprises and non-profit institutions, such as educational institutions.

(3) Consists of various policy loans offered to farmers in furtherance of the Government's agricultural policy.

(4) Represents the difference between loans classified in accordance with K-IFRS and those classified in accordance with the FSS asset classification

(5) Not material.

	For the period from 2 March 2012 through 31 December 2012 and the year ended 31 December 2013		
	Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate
		(in billions of Won)	
Interest income from:			
Loans:	₩536	₩112	₩424
Won-denominated	542	149	393
Corporate	289	71	218
Retail[1]	242	114	128
Public[2]	(30)	(40)	10
Integrated[3]	2	(3)	5
Others[4]	39	5	34
Foreign currency	(6)	(9)	3
Due from banks:	13	18	(5)
Won	13	17	(4)
Foreign currency	—	—	—
Securities:	(3)	(20)	17
Won	2	(20)	22
Foreign currency	(5)	0	(5)
Others:	0	0	0
Won	0	0	0
Foreign currency	0	0	0
Total interest income	546	116	430
Interest expense on:			
Deposits:	(5)	35	(40)
Won	—	36	(36)
Demand deposit	18	5	13
Savings deposit	(103)	(33)	(70)
Other deposit	85	222	(137)
Foreign currencies	(5)	—	(5)
Borrowings:	2	(13)	15
Won	6	(10)	16
Foreign currencies	(4)	(2)	(2)
Debentures:	52	7	45
Won	50	12	38
Foreign currency	2	(2)	4
Others:	25	37	(12)
Won	25	37	(12)
Foreign currency	0	0	0
Total interest expense	74	42	32
Net interest income	₩472	₩74	₩398

Notes:

(1) Represents the "Household" category as stated in the financial statements included elsewhere in this offering circular.

(2) Primarily consists of loans to local governments, public enterprises and non-profit institutions, such as educational institutions.

(3) Consists of various policy loans offered to farmers in furtherance of the Government's agricultural policy.

(4) Represents the difference between loans classified in accordance with K-IFRS and those classified in accordance with the FSS asset classification

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise specified, the following discussion and analysis is based on the Bank's audited consolidated financial statements as of 31 December 2012 and 31 December 2013 and for the period from 2 March 2012 (the date of the Bank's inception) to 31 December 2012 and for the year ended 31 December 2013 and the Bank's unaudited consolidated financial statements as of 30 June 2014 and for the six months ended 30 June 2013 and 2014. This discussion and analysis of the Bank's financial condition and results of operations should be read together with the Bank's audited consolidated financial statements and unaudited consolidated financial statements and the related notes and certain other statistical data, each included elsewhere in this Offering Circular. This discussion contains forward looking statements that involve risks and uncertainties and reflects our current views with respect to future events and financial performance. Actual results may differ materially from those contained in these forward looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" and elsewhere in this Offering Circular.

Unless otherwise stated, financial information in the following discussion has been presented on a consolidated basis in accordance with K-IFRS. However, as indicated below, the following discussion contains certain statistical information of the Bank which are derived from information set forth in the Bank's monthly reports submitted to the FSC, which information is prepared on a separate basis and in accordance with the guidelines promulgated by the FSC based on Article 43-2 of the Banking Act of Korea. Unless otherwise stated herein, such information is referred herein as having been prepared "on a separate basis". Such information may differ in certain aspects from the information that would have been prepared in accordance with K-IFRS.

Overview

The Bank was newly incorporated on 2 March 2012 by transferring NACF's credit and banking business (excluding the mutual credit business) to the Bank as a result of the Reorganisation described below. The Bank is a wholly-owned subsidiary of NH Financial Group, which is wholly owned by NACF.

NACF

NACF was established under the Constitution of Korea and the NACF Act passed on 29 July 1961 and was incorporated on 15 August 1961 to act as an umbrella organisation for agricultural co-operatives and provide financing for the development of the agricultural industry in Korea.

The NACF Act was enacted for the purpose of improving the economic, social and cultural status of farmers on the basis of autonomous co-operatives, to enhance the standard of living of farmers by strengthening the competitiveness of the agricultural industry and to contribute to the balanced development of Korea's economy. Under the NACF Act, NACF's purpose is to promote the mutual interests of its member co-operatives and their sound development. Specifically, NACF acts essentially as a central bank for, as well as a regulator of, its member co-operatives, effectively with the sole responsibility for monitoring the financial health of all agricultural co-operatives in Korea. Member co-operatives are engaged in the mutual credit business, which involves receiving deposits from farmers as well as the general public and using such deposits to offer loans to farmers and agriculture-related businesses and also are engaged in marketing, supply, processing and other businesses related to agricultural products and services.

Pursuant to the NACF Act as amended in September 1999, which are designed to enhance the efficiency and productivity of the domestic agricultural industry, under Government supervision, the mergers of the National Livestock Co-operative Federation ("**NLCF**") and the National Ginseng Co-operative Federation ("**NGCF**") were merged into NACF in 1999.

Reorganisation

On 29 March 2011, the NACF Act was amended (the "**NACF Amendment**") to restructure NACF's then current organisational structure for the purposes of enhancing the specialisation, core strengths and accountability of each business segment of NACF and increasing NACF's overall enterprise value. On 2 February 2012, the board of directors of NACF approved the reorganisation plan (the "**Reorganisation Plan**") setting forth the detailed schemes of reorganising NACF in accordance with the NACF Act Amendment, including splitting off its credit and banking business into NongHyup Bank, its life insurance business into NongHyup Life Insurance Co., Ltd. and its property insurance business into NongHyup Property & Casualty Insurance Co., Ltd., forming an intermediate financial holding company named NongHyup Financial Group Inc. to hold and invest in subsidiaries engaged in the financial business and forming an intermediate holding company named NongHyup Agribusiness Group Inc. to engage in the agricultural and livestock businesses as well as to act as the holding company and make investments in such businesses (the "**Reorganisation**"). The Reorganisation took effect on 2 March 2012. See "*Business — Reorganisation*".

The Reorganisation was completed in two steps in accordance with the NACF Act Amendment and the Korean Commercial Code. For the first step of the Reorganisation, NACF formed the Bank, NongHyup Life Insurance Co. ("**NH Life Insurance**") and NongHyup Property & Casualty Insurance Co., Ltd. ("**NH Non-Life Insurance**") and transferred its credit and banking business (excluding the mutual credit business) to the Bank, its life insurance business to NH Life Insurance and its property insurance business to NH Non-Life Insurance (the "**Phase I Split-off**"). For the second step of the Reorganisation, NACF formed NH Financial Group and NH Agri Business Group and transferred its financial businesses to NH Financial Group and transferred its agricultural and livestock businesses to NongHyup Agribusiness Group Inc. ("**NH Agri Business Group**") (the "**Phase II Split-off**"). Upon completion of the Phase I Split-off, NACF owned all the shares in the Bank, NH Life Insurance and NH Non-Life Insurance, and upon completion of the Phase II Split-off, all the shares in NH Bank, NH Life Insurance and NH Non-Life Insurance, in each case, all of which shares had been owned by NACF, were transferred to NH Financial Group, and NACF owned all the shares in NH Financial Group and NH Agri Business Group.

Basis of Presentation

As the Bank was newly incorporated on 2 March 2012 as a result of the Reorganisation, it does not have any audited financial statements prior to such date. Effective upon incorporation of the Bank as of March 2, 2012 following the Reorganisation, the Bank was required to adopt K-IFRS as its accounting principle, and the Bank's financial statements since its inception date have been prepared in accordance with K-IFRS, with consolidated financial statements as its principal financial statements.

Factors Affecting the Bank's Results of Operations

The Bank's financial condition and results of operations are affected by a number of external factors, including the following:

- the general Korean and global economic conditions,
- changes in securities values, exchange rates and interest rates relating to positions in respect of which the Bank has exposure,
- the continuance of support from the Government and NH Financial Group,
- payments to NACF and NH Financial Group, and
- the loan loss provisioning guidelines of the FSC.

The Bank's financial condition and results of operations are expected to, at least in the short term, depend primarily on the strength of risk management, availability and cost of funding, net interest margin and cost reduction.

The Korean and Global Economic Conditions

Most of the Bank's assets are located in, and the Bank generates most of its income from, Korea. According, the Bank's financial position and results of operations are significantly affected by the financial and economic conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the value of real estate and securities and other factors affecting the financial well-being of the Bank's customers.

Many Korean companies, including some of the Bank's borrowers, continue to face financial difficulties as a result of, among other things, sustained economic sluggishness in Korea and globally since the second half of 2008 despite mixed signs of recovery. In addition, substantial growth in lending in Korea to SMEs in recent years, coupled with financial difficulties faced by such enterprises, have led to substantial levels of delinquencies among SMEs and deterioration in overall asset quality in the credit exposures of Korean banks to SMEs. The Bank's loans to SMEs increased from Won 50,578 billion as of 31 December 2012 to Won 53,586 billion as of 31 December 2013 and Won 55,843 billion as of 30 June 2014, representing 35.5%, 35.4% and 35.8%, respectively, of the Bank's loan portfolio. Based on the FSC Guidelines, these loans had a delinquency ratio of 1.7%, 1.5% and 1.1% as of 31 December 2012, 31 December 2013 and 30 June 2014, respectively, and a non-performing loan ratio of 3.2%, 3.2% and 3.2% as of 31 December 2012, 31 December 2013 and 30 June 2014, respectively. Based on the FSC Guidelines, since the second half of 2011, market interest rates have declined in Korea. Interest rates of three-year Korean corporate bonds rated as A+ by Korean credit rating agencies declined from 4.49% per annum in June 2011 to 3.34% per annum in June 2014, which led to a decrease in the Bank's interest income.

The Bank's borrowers in the real estate development and construction industries continue to face financial challenges due to excessive investments in residential property development projects in prior years, prolonged stagnation of real estate prices and demand for residential real estate, especially in areas outside of Seoul. As of 30 June 2014, the total amount of the Bank's loans to construction and real estate development companies in Korea amounted to Won 4,950 billion, or 3.2% of the Bank's loans. In particular, the Bank has a significant amount of real estate project financing loans outstanding, a substantial amount of which were extended during the boom years of the Korean real estate market predating the global credit crisis that began in the second half of 2008. The Bank's real estate project financing loans amounted to Won 3,215 billion as of 31 December 2012 to Won 2,633 billion as of 31 December 2013 and Won 2,459 billion as of 30 June 2014, representing 2.3%, 1.7% and 1.6%, respectively, of the Bank's loan portfolio as of such dates. In the period from 2 March 2012 to December 31, 2012 and during 2013 and the first half of 2014, the Bank recorded charge-offs in respect of such loans in the amounts of Won 333 billion, Won 204 billion and Won 5 billion, and provision for loan losses of Won 559 billion, Won 436 billion and Won 420 billion as of 31 December 2012, 31 December 2013 and 30 June 2014, respectively.

In addition, the shipping and shipbuilding industries have continued to face a significant downturn due to the general slowdown in the global economy and a reduction in the volume of global trade. Some of the Bank's borrowers in these industries, including members of STX Group and Hanjin Shipping, have entered into workouts as a result of sustained financial difficulties. The Bank's credit exposure to members of STX Group and Hanjin Shipping in the aggregate amounted to Won 2,259 billion, Won 2,414 billion and Won 2,116 billion, as of as of 31 December 2012, 31 December 2013 and 30 June 2014, respectively. In the first three months of 2014, an aggregate of Won 487 billion of debt owed by members of the STX Group to us were converted into equity as part of their workout arrangements. While these troubled industries have recently shown mixed signs of recovery, there can be no assurance that they will not face further financial difficulties in the future.

In recent years, financial institutions in Korea (including commercial and other banks) have focused on retail lending (including mortgage and home equity loans), which has led to substantially increased competition in this segment. The rapid growth in retail loans, together with generally adverse economic conditions and the sustained downturn in the Korean real estate market (which negatively impacts the price of residential properties which collateralise a substantial portion of mortgage and home equity loans), has led to an increase in delinquencies and deterioration in the asset quality of retail loans**.** The Bank recorded charge-offs of Won 154 billion, Won 213 billion and Won 72 billion and provision for loan losses of Won 321 billion, Won 233 billion and Won 116 billion in the period from 2 March 2012 to December 31, 2012 and during 2013 and the first half of 2014, respectively, in relation to retail loans.

The Korean economy is also closely integrated with, and is significantly affected by, developments in the global economy and financial markets. While the global economy since the commencement of the global financial crisis in the second half of 2008 has shown mixed signs of stabilisation and recovery, the overall prospects for the Korean and global economy in the remainder of 2014 and beyond remain uncertain as a result of, among other things, military and political tensions in the Middle East, North Africa and former members of the Soviet Union, the continued fiscal difficulties faced by certain European governments, the slowdown of economic growth in major emerging market economies (including China), and concerns regarding the tighter monetary policy by the U.S. government in the form of reduced ''quantitative easing''. In light of the high level of interdependence between the Korean economy and the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on the Bank's business, financial condition and results of operations.

Overall, the Bank faces significant uncertainty and volatility surrounding the global and Korean economy and financial markets, and it will continue to focus on risk management, synergy creation and cost cutting to withstand the related challenges.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations in interest rates, stock prices and exchange rates, among other things, impact demand for the Bank's services, the value of and the rate of return on the Bank's assets, the availability and cost of funding and the financial condition of the Bank's customers. The following table shows, as of the dates and for the periods indicated, the stock price index of all equities listed on the Stock Market Division of the Korea Exchange as published in the Korea Stock Price Index ("**KOSPI**"), the Won to U.S. dollar exchange rate and benchmark Won borrowing interest rates for the dates indicated.

	As of or for the year ended 31 December		**As of or for the six months ended 30 June**
	2012	**2013**	**2014**
KOSPI	1,997.05	2,011.34	2,002.21
Won/US$ exchange rates(1)	₩1,071.1	₩1,055.3	₩1,014.4
Corporate bond rates per annum(2)	3.44%	3.64%	3.42%
Treasury bond rates per annum(3)	2.82%	2.86%	2.58%

Notes:

(1) Represents the Market Average Exchange Rate in effect on such dates.

(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by Korean credit rating agencies.

(3) Measured by the yield on three year treasury bonds issued by the Ministry of Strategy and Finance of Korea.

Support from the Government and NH Financial Group

The Government has historically provided the Bank with significant direct and indirect financial and other support (including interest payment support for policy loans, guarantees of borrowings and tax benefits, among others) in order to enable the Bank to support the Government's agricultural and livestock policies.

The Bank offers policy loans to farmers usually at concessionary interest rates set below market rates. A policy loan that the Bank offers to farmers may be funded by either the Government or the Bank. If a policy loan is funded by the Bank, the Government pays to the Bank the difference between the market rates and the concessionary interest rates offered by the Bank. The difference between the market and concessionary interest rates ranged from 1.40% to 4.40% during 2013 and from 1.07% to 4.07% For the first six months of 2014. The level of concessionary interest rate is agreed between the Bank and the Government every year. If a policy loan is funded by the Government, the Government usually pays to the Bank a spread in the range of 0.1% and 1.5% of the loan amount in consideration of the policy loan services provided by the Bank. As of 31 December 2012, December 31 2013 and 30 June 2014, policy loans provided by the Bank amounted in the aggregate to Won 13,503 billion, Won 13,486 billion and Won 13,780 billion, respectively, representing 9.5%, 8.9% and 8.8% of the Bank's total loans as of such dates, respectively. Of such amounts, as of 31 December 2012, December 31 2013 and 30 June 2014, policy loans funded by the Government amounted to Won 5,604 billion, Won 5,052 billion and Won 5,002 billion, respectively, while policy loans funded by the Bank amounted to Won 7,699 billion, Won 8,434 billion and Won 8,779 billion, respectively.

Repayment of policy loans is guaranteed by the Agricultural Credit Guarantee Fund, which is mostly funded by the Government. As of 30 June 2014, the total assets of the Agricultural Credit Guarantee Fund amounted to Won 2,575 billion.

In connection with the Reorganisation, the Government agreed to provide financial support to NACF. According to the Government's final plan dated 17 February 2012 regarding such support, the Government was to provide: (i) a Won 1 trillion in-kind capital contribution (in the form of securities held by the Government, such as shares in public enterprises) in exchange for preferred shares of NH Financial Group Inc., and (ii) payment of interest for five years in relation to up to Won 4 trillion of debt financing by NACF and/or the Bank, at a rate of up to 5% per annum. The accumulated interest support amount is expected to be a total of approximately Won 804 billion over the five-year period ending February 2017. As such in-kind capital contribution has not been provided as of the date of this offering circular, the Government has been providing financial support in the form of interest payments with respect to a loan made by NACF, which is expected to amount to approximately Won 500 billion for the period between 2013 and 2018. In addition, the Government amended the Special Tax Treatment Control Law (the "**STTCL**") to exempt NACF from certain taxes that would have arisen as a result of, or in connection with, the Reorganisation and to ensure that NACF and its subsidiaries, including the Bank, would not be subject to additional tax liabilities following the Reorganisation.

Under the NACF Act, the Government has a statutory basis under which it may guarantee the bonds issued by the Bank and NACF, although to-date the Bank has not needed and therefore has not received a Government guarantee for any of its bonds.

In addition to the Government's support, NH Financial Group from time to time makes capital contributions to the Bank in order to, among other things, support the Bank's capital adequacy. The Bank received capital contributions from NH Financial Group of Won 450 billion, Won 500 billion and Won 400 billion in March 2012, September 2013 and May 2014, respectively.

There is no assurance that the Government or NH Financial Group will continue to provide funding or other forms of subsidy at levels similar to the past. Any reduction in support from the Government or NH Financial Group may adversely affect the Bank's results of operations and financial condition.

Payments to NACF and NH Financial Group

Prior to the Reorganisation, the credit and banking business of NACF supported various activities of NACF, such as education, administrative and other support services, which did not generate income. One of the purposes of the Reorganisation was to enhance the expertise and effectiveness of such operations and to improve transparency. In line with such objective, the Bank has simplified the support it provides to NACF and its other activities. Under the NACF Act, as amended to enable the Reorganisation, NACF may impose on its for-profit subsidiaries brand fees of up to 2.5% of the operating income or revenue with the imposed rate determined at a general meeting of NACF for the purpose of raising funds to support NACF's educational and support activities in relation to its agribusiness. Since the inception of the Bank on 2 March 2012, the brand fee rate has been 1.8% of the average of the Bank's operating profit during the most recent three fiscal years. In the period from 2 March 2012 to 31 December 2012, the year ended 31 December 2013 and for the six months ended 30 June 2014, brand fees paid by the Bank amounted to Won 410 billion, Won 424 billion and Won 146 billion, respectively.

The Bank also pays dividends to NH Financial Group. The amount of such dividend is determined annually based on consideration of the Bank's results of operations from the prior year relative to those of other subsidiaries of NH Financial Group and therefore varies from period from period. The Bank paid dividends of Won 308 billion in respect of 2012 and paid no dividends in respect of fiscal year 2013.

Other than the brand fees and the dividend payments, the Bank does not pay or intend to make payments to NACF or NH Financial Group or otherwise support their activities outside the scope of the Bank's ordinary business.

FSC Guidelines for Loan Loss Provisions

The FSC sets the minimum required provisioning levels applicable to loans and other credits. See "*Supervision and Regulation — Capital Adequacy and Allowances*". Any changes in such provisioning levels may result in an increase in the Bank's allowance for loan losses, allowance for acceptances and guarantees and other allowances for unused lines of credit under K-IFRS, which could negatively impact the Bank's operational results.

Critical Accounting Policies, Estimates and Judgments

The Bank's financial statements are prepared in accordance with K-IFRS. The preparation of these financial statements requires the Bank to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. The notes to the audited consolidated financial statements and the unaudited consolidated financial statements contain a summary of its significant accounting policies. Certain of these policies are critical to the portrayal of the Bank's financial condition, since they require management to make difficult, complex and subjective judgments, some of which may relate to matters that are inherently uncertain and because of the possibility that future events affecting the estimates may differ significantly from the management's current judgment.

While the Bank believes that its financial statements should be considered in its entirety in assessing its current and expected financial condition and results of operations, it believes the following critical accounting policies warrant particular attention.

Allowance for Loan Losses

The allowance for loan loss is calculated based on management's estimate of probable losses in the Bank's lending portfolios.

All corporate loans over a certain principal amount are subject to individual reviews and assigned to specific risk categories.

The Bank applies the Corporate Credit Evaluation Criteria ("**CCEC**") (also known as the Forward Looking Criteria) in evaluating the quality of its loans. The CCEC system considers a variety of factors including, but not limited to, financial and non-financial risks, loan types, collateral and/or guarantees. The CCEC system does not evaluate small commercial, consumer and credit card loans. Alternatively, the Bank classifies loans by considering current financial status including delinquent period, bankruptcy status and the value of collateral.

Under the CCEC system, the Bank assigns its corporate loans into 10 categories (grade 1 to 10), with certain categories being further divided into two or three sub-categories (A, B or C) as described below:

Risk Category	CCEC Grade
Normal	Loans to borrowers of credit grades 1 to 6C
Precautionary	Loans to borrowers of credit grades 7 (A, B)
Substandard	Loans to borrowers of credit grade 8 to collectible amount loans borrowers of credit grades 9 and 10
Doubtful	Amount exceeding collectible amount of loans to borrowers of credit grade 9
Estimated loss	Amount exceeding collectible amount of loans to borrowers of credit grade 10

Troubled debt restructuring loans, which are modified with respect to their outstanding principal amount, interest rates, and/or maturity, under restructuring programmes, such as workout, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value. When estimating the present value of loans, the Bank applies the interest rate at the inception of the loans, except for the interest rate of floating rate loans. When estimating the present value of floating rate loans, the Bank applies the basic interest rate and the credit spread rate as of the date of a restructuring agreement to discount the future cash flows. The difference between the book value and the present value is recorded as bad debt expense.

In addition, differences between the nominal value and the present value are accounted for as allowances for loan loss and subtracted from the nominal value. The aforementioned allowances for loan loss are reversed and recognised as interest income by applying the effective interest rate method.

The total allowance for losses on credit of the Bank amounted to Won 2,221 billion and Won 2,270 billion as of 31 December 2012 and 2013, respectively, and Won 1,989 billion as of 30 June 2014.

Securities

The Bank classifies securities on its balance sheet as trading, available-for-sale or held-to-maturity securities, based on their marketability, the Bank's intent of acquisition and ability to hold these securities. In addition, the Bank classifies its securities as trading securities when those securities are bought and held principally for sale in the near term to generate profits from short-term price differences and traded frequently. Debt securities that have a fixed or determinable payment amount and a fixed maturity date are classified as held-to-maturity only if the Bank has both the positive intent and ability to hold such securities to maturity. The Bank's investment in affiliated companies, over which it exercises significant control or influence, is recorded as equity method investments. All other securities are classified as available-for-sale.

Set forth below is a brief description of each class of securities.

- *Trading securities*: Trading securities are carried at fair value and unrealised gains or losses are charged to current operations.

- *Available-for-sale securities*: Available-for-sale securities are carried at fair value, except for non-marketable equity securities, which are carried at cost, unless the fair value of non-marketable securities can be determined using the reasonable valuation methods. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at the reasonable interest rate determined by considering the credit ratings given by the independent credit rating agencies. Unrealised valuation gains or losses on available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related available-for-sale securities are sold, or when an impairment loss on the available-for-sale securities is recognised. Impairment losses are recognised in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of securities or adjusted cost of debt securities for the amortisation of discounts or premiums.

- *Held-to-maturity securities*: Held-to-maturity securities are, generally, carried at cost or adjusted value reflecting the amortisation of discounts or premiums. Premiums and discounts on debt securities are amortised over the term of the debt using the effective interest rate method.

- *Equity method investments*: The Bank's investments in affiliated companies, over which it exercises significant control or influence, are recorded as equity method investments. Under the equity method accounting, the Bank records changes in its proportionate ownership of the book value of the investees in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investees. The Bank discontinues the equity method of accounting for investments in equity method investees when the Bank's share of accumulated losses equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognised during the periods when the equity method was suspended. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investees are amortised over five years using the straight-line method. Unrealised profit arising from sales by the Bank to equity method investees is fully eliminated. The Bank's proportionate unrealised profit arising from sales by the equity method investees to the Bank or sales between equity method investees is also eliminated.

Deferred Income Tax Expenses

The Bank recognises deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognised when it is more likely that such deferred tax assets will be realised. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred tax assets and liabilities during the period.

Results of Operations

Six months ended 30 June 2014 Compared to Six months ended 30 June 2013

The following table sets out the principal components of the Bank's results of operations for the six months ended 30 June 2013 and 30 June 2014.

	Six months ended 30 June		
	2013	2014	% Changes
	(in billions of Won, except percentages)		
Interest income	₩4,086	₩3,865	(5.4)%
Interest expenses	2,002	1,802	(10.0)
Commission income	317	333	5.0
Commission expenses	159	177	11.2
Gain (loss) on trading financial assets, net	(61)	117	N/M
Gain on financial assets at fair value through profit or loss, net	0.3	1	59.0
Gain (loss) on financial investment assets, net	56	(76)	N/M
Other operating expenses, net	(246)	(352)	42.9
Provision for allowances for losses on credit	558	434	(22.3)
General and administrative expenses	1,150	1,209	5.1
Operating income	283	265	(6.2)
Loss on valuation of equity method investments, net	6	(1)	(112.2)
Other expenses, net	(207)	(132)	(35.8)
Income tax expense	16	12	(23.9)
Net income	₩66	₩120	81.5

N/M = not meaningful

Net Interest Income

The following table shows, for the periods indicated, the principal components of the Bank's net interest income.

	Six months ended 30 June		
	2013	2014	% Changes
	(in billions of Won, except percentages)		
Interest income:			
Due from banks	₩33	₩28	(14.7)%
Loans and other receivables	3,197	3,097	(3.1)
Financial assets at fair value through profit and loss	77	81	5.7
Available-for-sale financial assets	194	194	0.1
Held-to-maturity financial assets	287	159	(44.6)
Others	298	305	2.5
Total interest income	4,086	3,865	(5.4)
Interest expenses:			
Deposits	1,641	1,472	(10.3)
Debentures	211	193	(8.4)
Borrowings	115	102	(11.0)
Financial liabilities at fair value through profit or loss	2	1	(13.2)
Others	33	33	1.2
Total interest expenses	2,002	1,802	(10.0)
Interest income, net	₩2,084	₩2,062	(1.1)

Interest Income

Interest income decreased by 5.4% from Won 4,086 billion in the first six months of 2013 to Won 3,865 billion in the first six months of 2014, primarily due to a 44.6% decrease in interest on held-to-maturity financial assets from Won 287 billion in the first six months of 2013 to Won 159 billion in the first six months of 2014, as well as a 3.2 % decrease in interest on loans and other receivables from Won 3,197 billion in the first six months of 2013 to Won 3,097 billion in the first six months of 2014. On a separate basis, the average yield on interest earning assets decreased by 41 basis points from 4.53% in the first six months of 2013 to 4.12% in the first six months of 2014, primarily as a result of an overall decrease in market interest rates following a decrease in the base interest rate set by the Bank of Korea in the first half of 2014 as well as ample liquidity in the Korean financial sector. On a separate basis, the average balance of the Bank's interest earning assets increased by 3.4% from Won 172,411 billion in the first six months of 2013 to Won 178,258 billion in the first six months of 2014 due to increases in the average balance of corporate and retail loans and loans to the public sector.

The decrease in interest on held-to-maturity financial assets was due to decreases in both the average yield on and the average balance of such securities. On a separate basis, the average yield on securities decreased by 55 basis points from 3.98% in the first six months of 2013 to 3.43% in the first six months of 2014 and the average balance of securities decreased by 13.8% from Won 25,101 billion in the first six months of 2013 to 21,648 billion in the first six months of 2014. The decrease in the average yield of securities was primarily due to the continued general decrease in market interest rates in Korea. The decrease in the average balance of securities was largely due to a decrease in holdings of held-to-maturity securities as part of the Bank's asset liability management as well as resulting from the maturation of a significant portion of held-to-maturity securities.

The decrease in interest on loans and receivables was primarily the result of a 3.1% decrease in interest on retail loans, on a separate basis, from Won 1,480 billion in the first six months of 2013 to Won 1,434 billion in the first six months of 2014 and a 0.5% decrease in interest on corporate loans, on a separate basis, from Won 1,308 billion in the first six months of 2013 to Won 1,306 billion in the first six months of 2014.

The Bank's interest on loans and receivables principally consist of interest on corporate loans and interest on retail loans. The decrease in interest on retail loans was primarily the result of a 36 basis point decrease in the average yield on such loans, on a separate basis, from 4.72% in the first six months of 2013 to 4.36% in the first six months of 2014, which was partially offset by a 4.9% increase in the average balance of such loans, on a separate basis, from Won 63,259 billion in the first six months of 2013 to Won 66,362 billion in the first six months of 2014. The decrease in the average yield on such loans mainly reflected the continued general decrease in the market interest rates in Korea. The increase in the average balance of retail loans was primarily due to a modest growth in demand for mortgage and home equity loans among Korean households.

The decrease in interest on corporate loans was primarily due to a 37 basis point decrease in the average yield on such loans, on a separate basis, from 4.22% in the first six months of 2013 to 3.85% in the first six months of 2014, which was partially offset by a 9.69% increase in the average balance of such loans, on a separate basis, from Won 62,466 billion in the first six months of 2013 to Won 68,517 billion in the first six months of 2014. The decrease in the average yield on corporate loans reflected a continued general decrease in the market interest rates in Korea. The increase in the average balance of corporate loans was primarily due to an increase in SME loans extended by the Bank to creditworthy manufacturers in line with the Bank's strategic focus to increase lending to this sector.

Interest Expenses

Interest expenses decreased by 10.0% from Won 2,002 billion in the first six months of 2013 to Won 1,802 billion in the first six months of 2014, primarily due to a 10.3% decrease in interest expenses on deposits from Won 1,641 billion in the first six months of 2013 to Won 1,472 billion in the first six months of 2014. On a separate basis, the average cost of interest bearing liabilities decreased by 32 basis points from 2.46% in the first six months of 2013 to 2.14% in the first six months of 2014, which was driven mainly by a 34 basis points decrease in the average cost of deposits, on a separate basis, from 2.43% in the first six months of 2013 to 2.09% in the first six months of 2014, reflecting a general decrease in market interest rates. The effect of this decrease was partially offset by a 0.3% increase in the average balance of interest bearing liabilities, on a separate basis, from Won 167,511 billion in the first six months of 2013 to Won 173,828 billion in the first six months of 2014, principally due to an increase in the average balances of deposits.

The decrease in interest expenses on deposits resulted mainly from an 12.0% decrease in interest expenses on savings deposits (which constitutes the substantial majority of time deposits), on a separate basis, from Won 1,514 billion in the first six months of 2013 to Won 1,332 billion in the first six months of 2014. The decrease in interest expenses on saving deposits resulted from a 37 basis point decrease in the average cost of such deposit, on a separate basis, from 2.51% in the first six months of 2013 to 2.14% in the first six months of 2014, which was partially offset by a 3.5% increase in the average balance of savings deposits, on a separate basis, from Won 121,514 billion in the first six months of 2013 to Won 125,800 billion in the first six months of 2014. The decrease in the average cost of savings deposit mainly resulted from the continued general decrease in the market interest rates in Korea. The increase in the average balance of savings deposits reflected customers' continuing preference for low-risk depositary products in light of the continued sluggishness of the Korean stock market.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. On a separate basis, the Bank's overall net interest margin decreased by 11 basis points from 2.14% in the first six months of 2013 to 2.03% in the first six months of 2014 primarily as a result of a 1.1% decrease in net interest income, on a separate basis, from Won 1,827 billion in the first six months of 2013 to Won 1,798 billion in the first six months of 2014, as well as a 1.6% increase in the average balance of its interest earning assets, on separate basis, from Won 172,411 billion in the first six months of 2013 to Won 178,258 billion in the first six months of 2014. On a separate basis, net interest spread, which represents the difference between the average yield on the Bank's interest earning assets and the average cost of its interest bearing liabilities, also decreased by 9 basis points from 2.07% in the first six months of 2013 to 1.98% in the first six months of 2014, largely as a result of the continued general decrease of market interest rate. In general, variable interest rates for loans (constituting income earning assets) are reset on a more frequent basis than those for deposits (constituting income bearing liabilities) and therefore a general decrease in market interest rates tends to narrow the net interest spread.

Net Commission Income (Expense)

The following table shows, for the periods indicated, the Bank's commission income, commission expense and net commission income.

	Six months ended 30 June		
	2013	**2014**	**% Changes**
	(in billions of Won, except percentages)		
Commission income	317	333	5.0
Commission expenses	158	177	11.2
Total Commission income, net	₩159	₩157	(1.2)%

Net commission income decreased by 1.2% from Won 159 billion in the first six months of 2013 to Won 157 billion in the first six months of 2014, as a result of a 11.2% increase in commission expenses from Won 158 billion in the first six months of 2013 to Won 177 billion in the first six months of 2014, which more than offset a 5.0% increase in commission income from Won 317 billion in the first six months of 2013 to Won 333 billion in the first six months of 2014. The increase in commission expenses was mainly the result of a 17.4% increase in commission expense from the credit card business from Won 115 billion in the first six months of 2013 to Won 135 billion in the first six months of 2014 primarily as a result of additional expenses, such as notice fees in relation to the leakage of cardholder information in January 2014. The increase in commission income was mainly the result of a 37.5% increase in commission income from trust accounts from Won 16 billion in the first six months of 2013 to Won 22 billion in the first six months of 2014 and a 4.5% increase in other commission income from Won 89 billion in the first six months of 2013 to Won 93 billion in the first six months of 2014.

Gain (loss) on trading financial assets

The Bank recorded net gain on trading financial assets of Won 117 billion in the first six months of 2014 compared to net loss of Won 61 billion in the first six months of 2013, primarily due to net gain on disposal of trading derivatives (primarily related to currency swaps and interest rate swaps) of Won 88 billion in the first six months of 2014 compared to net such loss of Won 37 billion in the first six months of 2013, in each case, largely due to a combination of the volatility of the exchange rate of Korean Won against major foreign currencies, particularly the U.S. dollar, and the mix of the Bank's positions for trading derivatives.

Gain (loss) on financial investment assets

The Bank recorded loss on financial investment assets of Won 76 billion in the first six months of 2014 compared to such gain of Won 56 billion in the first six months of 2013, primarily due to net impairment loss on loans made to members of the STX Group relating to the equity conversion of such loans in the first half of 2014.

Other operating income (expenses)

Net other operating expenses increased by 42.5% from Won 247 billion in the first six months of 2013 to Won 352 billion in the first six months of 2014, primarily due to recording net loss from changes in foreign exchange rate of Won 84 billion in the first six months of 2014 compared to net gain from changes in foreign exchange rate of Won 17 billion in the first six months of 2013 due to the general appreciation of Korean Won against the U.S. dollar which negatively impacted the valuation of the Bank's derivative holdings.

Provision of allowances for loss on credit

Provision of allowances for losses on credit includes provision for loan losses, provision for unused loan commitments, provision for acceptances and guarantees, provision for financial guarantee contracts and provision for other financial assets, in each case net of reversal of provisions. For a discussion of the Bank's loan loss provisioning policy, see "*Description of Assets and Liabilities—Loan Portfolio—Loan Loss Provisioning Policy*."

Provision of allowances for losses on credit decreased by 22.3% from Won 559 billion in the first six months of 2013 to Won 434 billion in the first six months of 2014, primarily due to a decrease in the average balance of real estate project financing loans that require a relatively high level of provisioning, the equity conversion of non-performing loans provided to members of the STX Group as part of workout and an improvement in the asset quality of corporate loans in general reflecting a decrease in delinquency rates for such loans.

The Bank's write-offs for total loans and receivables, net of recoveries, decreased 24.1% from Won 357 billion in the first six months of 2013 to Won 271 billion in the first six months of 2014, primarily due to a decrease in write-offs of retail loans largely as a result of improvements in the asset quality of retail loans.

The Bank recorded provision for acceptances and guarantees and unused loan commitments of Won 28 billion in the first six months of 2014, compared to reversal of such provision of Won 62 billion in the first six months of 2013, due primarily as a result of provision for refund guarantees largely as a result of deterioration of asset quality for borrowers in the shipbuilding industry since the second half of 2013.

General and administrative expenses

General and administrative expenses increased by 5.1% from Won 1,150 billion in the first six months of 2013 to Won 1,209 billion in the first six months of 2014. Such increase was primarily attributable to a 8.2% increase in employee benefits from Won 755 billion in the first six months of 2013 to Won 817 billion in the first six months of 2014 and a 58.2% increase in depreciation and amortisation expenses from Won 72 billion in the first six months of 2013 to Won 113 billion in the first six months of 2014, which was partially offset by a 13.9% decrease in other selling and administrative expenses from Won 324 billion in the first six months of 2013 to Won 279 billion in the first six months of 2014. The increases in employee benefits and depreciation and amortisation expenses were mainly due to the transfer of the information technology unit (including employees and related assets) from NACF to the Bank in January 2014 as part of the Reorganisation. The decrease in other selling and administrative expenses was mainly due to the decrease of the fees payable for technology services following the transfer of the IT division to the Bank from the NACF.

Other Expenses, Net

Net other expenses decreased by 35.9% from Won 206 billion in the first six months of 2013 to Won 132 billion in the first six months of 2014, primarily due a 32.5% decrease in other expenses from Won 255 billion in the first six months of 2013 to Won 172 billion in the first six months of 2014, which was partially offset by a 18.4% decrease in other income from Won 49 billion in the first six months of 2013 to Won 40 billion in the first six months of 2014. The decrease in other expenses was attributable mainly to a 31.1% decrease in brand fee (which amount payable in a particular year is fixed as a percentage of the average of the Bank's operating profit during the most recent three fiscal years) for the use of the NongHyup brand from Won 212 billion in the first six months of 2013 to Won 146 billion in the first six months of 2014, as a result of the decrease in operating profit of the Bank in 2013. The decrease in other income was attributable mainly to a 58.6% decrease in miscellaneous other income from Won 29 billion in the first six months of 2013 to Won 12 billion in the first six months of 2014, which was largely due to a decrease in refunds for taxes other than corporate income tax received from Won 17 billion in the first six months of 2013 to Won 0.3 billion in the first six months of 2014. Such decrease was partially offset by a significant increase in gain on sale of write-offs from Won 2 billion in the first six months of 2013 to Won 16 billion in the first six months of 2014.

Income before income tax expense

As a cumulative result of the above factors, income before income tax expense increased 61.1% from Won 82 billion in the first six months of 2013 to Won 132 billion in the first six months of 2014.

Income tax expense

Income tax expense decreased by 25.1% from Won 16 billion in the first six months of 2013 to Won 12 billion in the first six months of 2014 primarily as a result of an increase in adjustments for non-taxable income, which was partially offset by a decrease in adjustments for non-deductible expenses as well as a decrease in adjustments for other adjustments. The Bank's effective tax rate decreased from 19.2% in the first six months of 2013 to 9.0% in the first six months of 2014.

Net income

As a result of the above factors, the Bank's net income for the period increased by 81.8% from Won 66 billion in the first six months of 2013 to Won 120 billion in the first six months of 2014.

Comparison of full year 2013 and the period from 2 March 2012 to 31 December 2012

For the purpose of this section, the reference to "2012" refers to the period from 2 March 2012 to 31 December 2012 while the reference to "2013" refers to the full year ended 31 December 2013.

The following table sets out the principal components of the Bank's results of operations for 2012 and 2013.

	For the period from 2 March 2012 through 31 December 2012	**For the year ended 31 December 2013**	**% Changes**
	(in billions of Won, except percentages)		
Interest income	₩7,506	₩8,105	8.0%
Interest expenses	3,856	3,906	1.3
Commission income	534	639	19.7
Commission expenses	235	319	35.7
Loss on trading financial assets, net	(151)	(39)	(74.2)
Gain (loss) on financial assets at fair value through profit or loss, net	(5)	2	(140)
Gain (loss) on financial investment assets, net	84	144	71.4
Other operating income (expenses), net	(308)	(427)	38.6
Provision for allowances for losses on credit	745	1,148	54.1
General and administrative expenses	1,933	2,406	24.5
Operating income	891	645	(27.6)
Share of net income of associates	1	7	600.0
Other expenses, net	(415)	(425)	2.4
Income tax expense	91	53	(41.8)
Net income	₩386	₩174	(54.9)

Net Interest Income

The following table shows, for the periods indicated, the principal components of the Bank's net interest income.

	For the period from 2 March 2012 through 31 December 2012	For the year ended 31 December 2013	% Changes
	(in billions of Won, except percentages)		
Interest income:			
Due from banks	₩60	₩73	21.7%
Loans and receivables	6,347	6,938	9.3
Financial assets at fair value through profit or loss	139	145	4.3
Available-for-sale financial assets	382	403	5.5
Held-to-maturity financial assets	561	535	(4.6)
Others	16	11	(35.3)
Total interest income	7,505	8,105	8.0
Interest expenses:			
Deposits	3,192	3,175	(0.5)
Debentures	380	431	13.4
Borrowings	232	227	(2.2)
Financial liabilities at fair value through profit or loss	3	4	33.3
Others	49	69	40.8
Total interest expenses	3,856	3,906	1.3
Interest income, net	₩3,649	₩4,199	15.1%

Interest Income

Interest income increased by 8.0% from Won 7,505 billion in 2012 to Won 8,105 billion in 2013, primarily due to a 9.3% increase in interest on loans and receivables from Won 6,347 billion in 2012 to Won 6,938 billion in 2013. The average balance of interest earnings assets, on a separate basis, increased by 1.6% from Won 172,070 billion in 2012 to Won 174,872 billion in 2013, while the average yield on interest earning assets, on a separate basis, decreased by 58 basis points from 4.97% in 2012 to 4.39% in 2013.

The increase in interest income on loans and receivables was largely due to a 12.4% increase in interest on corporate loans, on a separate basis, from Won 2,329 billion in 2012 to Won 2,618 billion in 2013 and a 9.0% increase in interest on retail loans, on a separate basis, from Won 2,677 billion in 2012 to Won 2,919 billion in 2013.

The increase in interest on corporate loans was primarily the result of a 3.1% increase in the average balance of such loans, on a separate basis, from Won 61,722 billion in 2012 to Won 63,615 billion in 2013, which was partially offset by a 41 basis point decrease in the average yield on such loans, on a separate basis, from 4.53% in 2012 to 4.12% in 2013. The increase in the average balance of corporate loans was primarily due to an increase in SME loans extended by the Bank to creditworthy manufacturers in line with the Bank's strategic focus to increase lending to this sector while the decrease in the average yield on such loans reflected a general decrease in the market interest rates in Korea.

The increase in interest on retail loans was primarily the result of a 4.2% increase in the average balance of such loans, on a separate basis, from Won 61,495 billion in 2012 to Won 64,107 billion in 2013, which was partially offset by a 67 basis point decrease in the average yield on such loans, on a separate basis, from 5.22% in 2012 to 4.55% in 2013. The increase in the average balance of retail loans was primarily due to increased demand for mortgage loans in 2013 primarily due to a modest growth in demand for mortgage and home equity loans among Korean households. The decrease in the average yield on such loans mainly reflected the continued general decrease in the market interest rates in Korea.

Interest Expenses

Interest expenses increased slightly by 1.3% from Won 3,856 billion in 2012 to Won 3,906 billion in 2013, primarily due to a 13.4% increase in interest expenses on debentures from Won 380 billion in 2012 to Won 431 billion in 2013, which was partially offset by a 0.5% decrease in interest expenses on deposits from Won 3,192 billion in 2012 to Won 3,175 billion in 2013. On a separate basis, the average balance of interest bearing liabilities increased slightly by 1.1% from Won 167,082 billion in 2012 to Won 168,873 billion in 2013, principally due to a an increase in the average balances of deposits. On a separate basis, the average cost of interest bearing liabilities decreased by 45 basis points from 2.81% in 2012 to 2.36% in 2013, which was driven mainly by the general decrease in the market interest rates in Korea.

The increase in interest expense on debentures was primarily due to a 2.0% increase in the average balance of debentures, on a separate basis, from Won 10,187 billion in 2012 to Won 10,387 billion in 2013, which was partially offset by a decrease by 32 basis points of the average cost of debentures, on a separate basis, from 4.17% in 2013 compared to 4.49% in 2012. The increase in the average balance of debentures was attributable mainly to additional funding needs as a result of increase in lending. The average cost of debentures decreased mainly due to the general decrease in the market interest rates in Korea.

The decrease in interest expenses on deposits resulted mainly from a 3.4% decrease in interest expenses on savings deposits, on a separate basis, from Won 3,005 billion in 2012 to Won 2,902 billion in 2013. The decrease in interest expense on savings deposits primarily resulted from a 55 basis point decrease in the average cost of such deposit, on a separate basis, from 2.93% in 2012 to 2.38% in 2013 as well as a decrease by 1.1% in the average balance of savings deposits, on a separate basis, from Won 123,219 billion in 2012 to Won 121,849 in 2013. The decrease in the average cost of savings deposits was mainly due to the general decrease in the market interest rates in Korea. The decrease in the average balance of savings deposits was attributable mainly to a decrease in the average balance of treasury accounts for local governments and public agencies due to a general rise in public expenditures in 2013.

Net interest margin. On a separate basis, net interest margin decreased by 14 basis points from 2.26% in 2012 to 2.12% in 2013 principally due to an increase in the average balance of its interest earning assets from Won 172,070 billion in 2012 to Won 174,872 billion in 2013, despite a 14.7% increase in net interest income from Won 3,218 billion in 2012 to Won 3,690 billion in 2013. On a separate basis, net interest spread, which represents the difference between the average yield on the Bank's interest earning assets and the average cost of its interest bearing liabilities, also decreased by 15 basis points from 2.18% in 2012 to 2.03% in 2013 largely as a result of the general decrease of market interest rate over these two periods. In general, variable interest rates for loans (constituting income earning assets) are reset on a more frequent basis than those for deposits (constituting income bearing liabilities) and therefore a general decrease in market interest rates tends to narrow the net interest spread.

Net Commission Income (Expense)

The following table shows, for the periods indicated, the Bank's commission income, commission expenses and net commission income.

	For the period from 2 March 2012 through 31 December 2012	For the year ended 31 December 2013	% Changes
	(in billions of Won, except percentages)		
Commission income	534	639	19.7
Commission expenses	235	319	35.7
Total Commission income, net	₩299	₩320	7.0%

The Bank's net commission income increased by 7.0% from Won 299 billion in 2012 to Won 320 billion in 2013, largely as a result of a 19.7% increase in commission income from Won 534 billion in 2012 to Won 639 billion in 2013, which was partially offset by a 35.7% increase in commission expenses from Won 235 billion in 2012 to Won 319 billion in 2013. The increase in commission income mainly resulted from a 39.0% increase in commission income from the agency business, which largely involves the sale of bancassurance and investment fund products and whose income increased largely as a result of the Bank's efforts to diversify its revenue sources by expanding revenues from fees in addition to interest income, from Won 123 billion in 2012 to Won 171 billion in 2013 and a 13.9% increase in other commission income from Won 158 billion in 2012 to Won 180 billion in 2013 related to the difference in lengths of the periods being compared (namely, approximately ten months for 2012 from 2 March 2012 to 31 December 2002) compared to the full year for 2013). The 35.7% increase in commission expenses was mainly the result of a 39.2% increase in commission expense from the credit card business from Won 166 billion in 2012 to Won 231 billion in 2013, which was mainly due to an increase in marketing and other expenses following regulatory changes designed to promote customer protection, as well as the difference in lengths of the periods being compared.

Gain (loss) on trading financial assets

Net loss on trading financial assets decreased by 74.2% from Won 151 billion in 2012 to Won 39 billion in 2013, primarily due to a 78.5% decrease of net loss on disposal of trading derivatives from Won 130 billion in 2012 to Won 28 billion in 2013, which resulted largely a combination of the volatility of the exchange rate of Korean Won against major foreign currencies, particularly the U.S. dollar, and the mix of the Bank's positions for trading derivatives.

Gain (loss) on financial investment assets

Net gain on financial investment assets increased by 71.4% from Won 84 billion in 2012 to Won 144 billion in 2013, primarily due to a 32.2% increase in gain on disposal of available-for-sale financial assets from Won 115 billion in 2012 to Won 152 billion in 2013 mainly related to the maturation of a significant portion of the Bank's financial investment assets in 2012 and a 33.9% decrease in impairment loss on available-for-sale financial assets from Won 127 billion in 2012 to Won 84 billion in 2013 related to debt-to-equity conversion in 2012 of a significant amount of debt extended to corporate borrowers as part of their workout processes.

Other operating income (expenses)

Net other operating expenses increased by 39.1% from Won 307 billion in 2012 to Won 427 billion in 2013, primarily due to recording net loss from changes in foreign exchange rate of Won 51 billion in 2013 to net such gain of Won 129 billion in 2012 and a 23.4% increase in fund contribution from Won 367 billion in 2012 to Won 453 billion in 2013, which was partially offset by a 90.9% decrease in net miscellaneous other operating expense from Won 55 billion in 2012 to Won 5 billion in 2013, a 291.7% increase in net loss on derivatives from Won 12 billion in 2012 to Won 47 billion in 2013 and a significant increase in gain on fair value hedge from Won 14 billion in 2012 to Won 42 billion in 2013. Net loss from changes in foreign exchange rate, the decrease in net loss on derivatives and the gain on fair value hedge were largely due to a combination of the appreciation of the Korean Won against the U.S. dollar, fluctuations in the exchange rate of the Korean Won against major foreign currencies and the mix of the Bank's positions for derivative holdings.

Provision for allowances for loss on credit

Provision of allowances for losses on credit increased by 54.1% from Won 745 billion in 2012 to Won 1,148 billion in 2013, primarily due to an increase in provision of allowances for loan losses in respect of the Bank's corporate loans, particularly the loans extended to members of the STX Group which entered into workouts in 2013, as well as the durational difference of the periods being compared.

The Bank's write-offs for loans decreased by 8.6% from Won 853 billion in 2012 to Won 780 billion in 2013, primarily due to a decrease in write-offs of corporate loans relating to real estate project financing loans following an improvement in asset quality of such loans.

The Bank had provision for acceptances and guarantees and unused loan commitments of Won 74 billion in 2013 compared to reversal of provision for acceptances and guarantees and unused loan commitments of Won 24 billion in 2012, due primarily to an increase in provision relating to refund guarantees for shipbuilding companies as a result of deterioration of asset quality for borrowers in the shipbuilding industry since the second half of 2013.

General and administrative expenses

General and administrative expenses increased by 24.5% from Won 1,934 billion to Won 2,407 billion. Such increase was primarily attributable to a 28.3% increase in employee benefits from Won 1,185 billion to Won 1,520 billion, which resulted largely from increased hiring in the aftermath of the Reorganisation as well as the difference in lengths of the periods being compared, and a 17.7% increase in other selling and administrative expenses from Won 623 billion to Won 733 billion, which was mainly attributable to the difference in lengths of the periods being compared.

Other Expenses, Net

Net other expenses increased by 2.4% from Won 415 billion in 2012 to Won 425 billion in 2013, primarily due to a 10.8% decrease in other income from Won 102 billion in 2012 to Won 91 billion in 2013. Other income, which principally included rent, miscellaneous income and sundry other income in 2012 and 2013, decreased from 2012 to 2013, largely as a result of a 34.1% decrease in sundry other income from Won 41 billion in 2012 to Won 27 billion in 2013. Other expenses, which principally included brand fees, miscellaneous expenses and sundry other expenses in 2012 and 2013, remained largely stable from Won 515 billion in 2012 to Won 517 billion in 2013.

Income before income tax expense

As a cumulative result of the above factors, income before income tax expense decreased 52.6% from Won 477 billion in 2012 to Won 226 billion in 2013.

Income tax expense

Income tax expense decreased by 41.8% from Won 91 billion in 2012 to Won 53 billion in 2013 primarily as a result of the decrease in the Bank's taxable income. The Bank's effective tax rate increased from 19.0% in 2012 to 23.3% in 2013.

Net income

As a result of the above factors, net income for the period decreased by 55.0% from Won 386 billion in 2012 to Won 174 billion in 2013.

Financial Condition

Assets

The following table sets out the principal components of the Bank's assets on a consolidated basis as of 31 December 2012 and 2013 and 30 June 2014.

	As of 31 December		As of 30 June	% Change	
	2012	2013	2014	2012/2013	2013/2014
	(in billions of Won)			*(percentage)*	
Cash and due from banks	₩9,403	₩9,216	₩10,622	(2.0)%	15.3%
Trading financial assets	4,459	4,583	5,600	2.8	22.2
Financial assets at fair value through profit or loss	0.1	—	—	N/M	N/M
Derivative assets	1,200	736	752	(38.7)	2.1
Available-for-sale financial assets	11,504	13,561	15,357	17.9	10.4
Held-to-maturity financial assets	12,817	7,810	6,511	(39.1)	(16.6)
Loans and receivables	154,981	156,023	164,767	0.7	5.6
Investment in associates	38	26	58	(31.6)	125.7
Tangible assets	2,196	2,267	2,380	3.2	5.0
Investment properties	494	546	439	10.5	(19.7)
Intangible assets	204	263	321	28.9	22.1
Current income tax assets	—	111	—	N/M	N/M
Deferred income tax assets	64	54	108	(15.6)	98.9
Other assets	137	151	144	10.2	(4.5)
Non-current assets classified as held for sale	N/M	N/M	15	—	N/M
Total assets	₩197,497	₩195,347	₩207,062	(1.1)%	6.0%

N/M = not meaningful.

Comparison as of 30 June 2014 and 31 December 2013

Total assets increased by 6.0% from Won 195,347 billion as of 31 December 2013 to Won 207,062 billion as of 30 June 2014, principally due to a 5.6% increase in loans and receivables from Won 156,023 billion as of 31 December 2013 to Won 164,767 billion as of 30 June 2014.

Comparison as of 31 December 2013 and 31 December 2012

Total assets decreased by 1.1% from Won 197,497 billion as of 31 December 2012 to Won 195,347 billion as of 31 December 2013, principally due to a 39.1% decrease in held-to-maturity financial assets from Won 12,817 billion as of 31 December 2012 to Won 7,810 billion as of 31 December 2013, which was substantially offset by a 17.9% increase in available-for-sale financial assets from Won 11,504 billion as of 31 December 2012 to Won 13,561 billion as of 31 December 2013 and a 0.7% increase in loans and receivables from Won 154,981 billion as of 31 December 2012 to Won 156,023 billion as of 31 December 2013.

Liabilities and Equity

The following table sets out the principal components of the Bank's liabilities and equity on a consolidated basis as of 31 December 2012 and 2013 and 30 June 2014.

	As of 31 December		As of 30 June	% Change	
	2012	2013	2014	2012/2013	31 December 2013/30 June 2014
	(in billions of Won)			(percentage)	
Liability:					
Deposits	₩142,712	₩144,919	₩155,670	1.5%	7.4%
Trading financial liabilities	21	—	—	N/M	N/M
Financial liabilities at fair value through profit or loss	56	54	54	(3.6)	(1.0)
Derivative liabilities	1,046	731	730	(30.1)	(0.2)
Borrowings	13,342	15,302	14,737	14.7	(3.7)
Debentures	10,194	10,994	8,534	7.8	(22.4)
Provisions	242	314	283	29.8	(9.8)
Deferred income tax liabilities	104	—	12	N/M	N/M
Retirement benefit obligations	138	179	205	29.7	14.7
Other liabilities	16,596	8,879	12,992	(46.5)	46.3
Total Liabilities	184,451	181,372	193,217	(1.7)	6.5
Shareholder's Equity:					
Capital stock	1,916	2,074	2,074	8.2	0.0
Other paid-in capital	9,550	9,690	9,337	1.5	(3.8)
Retained earnings	1,309	2,153	2,293	64.5	6.1
Other component of equity	271	58	140	(78.6)	58.6
Non-controlling interests	—	—	—	N/M	N/M
Total shareholder's equity	13,046	13,975	13,845	7.1	(0.9)
Total Liabilities and Shareholder's Equity	₩197,497	₩195,347	₩207,062	(1.1)%	5.7%

N/M = not meaningful.

Comparison as of 30 June 2014 and 31 December 2013

The Bank's total liabilities increased by 6.5% from Won 181,372 billion as of 31 December 2013 to Won 193,217 billion as of 30 June 2014, primarily due to a 7.4% increase in deposits from Won 144,919 billion as of 31 December 2013 to Won 155,670 billion as of 30 June 2014 and, to a lesser extent, a 46.5% increase in other liabilities from Won 8,879 billion as of 31 December 2013 to Won 12,992 billion as of 30 June 2014, which was partially offset by a 22.4% decrease in debentures from Won 10,994 billion as of 31 December 2013 to Won 8,534 billion as of 30 June 2014.

The Bank's shareholder's equity remained largely stable from Won 13,975 billion as of 31 December 2013 to Won 13,845 billion as of 30 June 2014.

Comparison as of 31 December 2013 and 31 December 2012

The Bank's total liabilities decreased by 1.7% from Won 184,451 billion as of 31 December 2012 to Won 181,372 billion as of 31 December 2013, primarily due to a 46.5% decrease in other liabilities from Won 16,596 billion as of 31 December 2012 to Won 8,879 billion as of 31 December 2013. The effect of this decrease was partially offset by a 1.5% increase in deposits from Won 142,712 billion as of 31 December 2012 to Won 144,919 billion as of 31 December 2013 and a 14.7% increase in borrowings from Won 13,342 billion as of 31 December 2012 to Won 15,302 billion as of 31 December 2013.

The Bank's shareholder's equity increased 7.1% from Won 13,046 billion as of 31 December 2012 to Won 13,975 billion as of 31 December 2013, primarily due to a 64.5% increase in retained earnings, which was attributable to the profit the Bank generated in 2013.

Liquidity

The Bank's primary source of funding has historically been, and continues to be, customer deposits, particularly savings deposits. Deposits amounted to Won 142,712 billion as of 31 December 2012, Won 144,919 billion as of 31 December 2013, and Won 155,670 billion as of 30 June 2014, which represented 86.2%, 84.7% and 87.0% of the Bank's total funding (consisting of deposits, borrowings and debentures), respectively. The Bank benefits from having a substantial majority of local governments and other public entities deposit their treasury accounts at the Bank, for which the Bank typically pays lower rates of interest compared to the market interest rates it pays to non-governmental depositors. As of 30 June 2014, the treasury deposits placed by local governments and other public entities at the Bank amounted to Won 35,682 billion, which represented 25.2% of the total deposits placed with the Bank.

The Bank also obtains funding through borrowings and issuance of debentures. Borrowings amounted to Won 13,342 billion as of 31 December 2012, Won 15,302 billion as of 31 December 2013, and Won 14,737 billion as of 30 June 2014, representing 7.8%, 8.9% and 8.2%, respectively, of the Bank's total funding. Debentures amounted to Won 10,194 billion as of 31 December 2012, Won 10,994 billion as of 31 December 2013, and Won 8,534 billion as of 30 June 2014, representing 6.0%, 6.4% and 4.8%, respectively, of the Bank's total funding. From time to time, the Bank issues other securities, such as subordinated debt and hybrid securities, in order to further bolster the Bank's liquidity, and the Bank will continue to explore other capital raising opportunities subject to prevailing market and regulatory conditions. For example, in 2013 the Bank issued hybrid securities in the amount of Won 350 billion and subordinated debt of Won 500 billion.

In addition, the Bank also receives from time to time capital contributions from NH Financial Group to further support the Bank's capital adequacy, including capital contributions of Won 450 billion, Won 500 billion and Won 400 billion in March 2012, September 2013 and May 2014, respectively.

The Bank's liquidity risks arise from withdrawals of deposits and maturities of its borrowings and debentures, as well as the Bank's need to fund its lending, trading and investment activities and to manage its trading positions. The Bank believes it has a stable level of deposits, including as a result of the treasury deposits of local governments which tend to stay with the Bank notwithstanding fluctuations in market conditions.

The Bank's goal in managing its liquidity is to be able, even under adverse conditions, to meet all of its liability repayments on time and to fund all investment opportunities. For a discussion of how the Bank manages its liquidity risk, see "*Risk Management — Liquidity Risk Management*".

The FSC requires each bank in Korea to maintain specific Won and foreign currency liquidity ratios. These ratios require the Bank to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see "*Supervision and Regulation —Liquidity*".

Commitments and Off-Balance Sheet Obligations

The Bank has various commitments that are not reflected on its balance sheet, which primarily consist of acceptances and guarantees, bills endorsed with recourse, insurance guarantees, credit lines for asset-backed securities and commitment on purchase of asset backed securities. Guarantees and acceptances include credit derivatives and letters of credit.

The following table sets forth the Bank's off-balance sheet commitments as of the dates indicated.

	As of 31 December		As of 30 June
	2012	2013	2014
	(in billions of Won)		
Confirmed Acceptance and Guarantees:	₩6,534	₩6,461	₩6,409
Local Currency	577	512	624
Foreign Currency	5,957	5,949	5,785
Acceptances	227	150	163
Guarantees in acceptance of imported goods	34	43	41
Others	5,696	5,756	5,581
Unconfirmed Acceptance and Guarantees:	4,803	4,257	3,741
Issuance of local letter of credit	359	334	306
Issuance of import letter of credit	1,809	1,720	1,595
Other	2,635	2,203	1,840
Endorsed notes in foreign currencies	16	5	31
ABS Credit Lines	174	307	408
Commitments on Purchase of ABS	454	336	413

Capital Adequacy

The Bank is subject to FSC capital adequacy requirements applicable to Korean banks. The requirements applicable prior to December 2013 were formulated based on Basel II, which was first published by the Basel Committee on Banking Supervision, Bank for International Settlements in 2004. The requirements applicable commencing in December 2013 pursuant to amended Regulation on Supervision of Banking Business promulgated by the FSC in July 2013 were formulated based on Basel III, which was first introduced by the Basel Committee on Banking Supervision, Bank for International Settlements in December 2009. Under the amended Regulation on Supervision of Banking Business, all banks in Korea are required to maintain certain minimum ratios of Tier I common equity capital, total Tier I capital and total Tier I and Tier II capital to risk-weighted assets. See "*Supervision and Regulation—Capital Adequacy and Allowances.*"

The following table sets forth a summary of the Issuer's capital and capital adequacy ratios as of 31 December, 2012 and 2013 and 30 June, 2014.

	As of 31 December		As of 30 June
	2012[1]	2013	2014
	(in billions of Won, except percentages)		
Tier I capital	₩11,139	₩12,453	₩12,240
Tier I common equity capital	—	11,823	11,891
Tier II capital	3,109	2,695	2,329
Total core and supplementary capital	14,248	15,148	14,569
Risk-weighted assets	98,728	102,595	101,747
Credit risk	88,479	93,040	92,325
Market risk	2,279	1,941	2,080
Operational risk	7,970	7,614	7,342
Total Tier I and Tier II capital adequacy ratio	14.43%	14.76%	14.32%
Tier I capital adequacy ratio	11.28%	12.14%	12.03%
Tier I common equity capital adequacy ratio	N/A	11.52%	11.69%
Tier II capital adequacy ratio	3.15%	2.62%	2.29%

N/A = not applicable

Note:

(1) With effect from December 1, 2013, the FSC adopted amended guidelines that implemented capital adequacy requirements in Korea based on Basel III. Amounts and ratios as of 31 December 2012 were computed in accordance with previously applicable guidelines based on Basel II and therefore are not directly comparable to corresponding amounts and ratios as of 31 December 31, 2013 and 30 June, 2014.

Overview

Ownership and Control

The Bank's shares of the common stock are 100.0% owned by NongHyup Financial Group Inc., which is in turn 100.0% owned by NACF.

NACF's shares are 100.0% owned by its member co-operatives, which are comprised of 1,158 regional and commodity co-operatives representing nearly all of the farmers in Korea. Regional co-operatives consist of agricultural co-operatives, which are engaged in raising certain crops such as rice, and livestock co-operatives, which are engaged in raising cattle. Commodity co-operatives consist of agricultural co-operatives, which specialise in certain products such as vegetables, fruits and ginseng, and livestock co-operatives, which are engaged in raising livestock other than cattle. Pursuant to the NACF Act and NACF's articles of incorporation, each member co-operative must own at least 1,000 shares (Won 10,000 par value per share) in NACF, and the ownership by each member co-operative is restricted to less than 10.0% of NACF. Each member co-operative possesses the right of one to three votes as to matters affecting NACF regardless of the number of shares held by it in accordance with the NACF Act.

Relationship with the Government

NACF's relationship with the Government is based on the following express provisions of the Constitution of Korea and the NACF Act:

- in order to foster the self-help organisation of farmers, the Government assures their autonomy of activity and development (Article 123, Clause 5 of the Constitution of Korea);

- the Government and public organisations in Korea are required to positively co-operate in the businesses of NACF and its member co-operatives. In this case, the Government or the relevant public organisation may subsidise or furnish necessary expenses (Article 9, Clause 2 of the NACF Act);

- the business operations of NACF and its member co-operatives are exempted from levies other than taxes imposed by the Government or local authorities (Article 8 of the NACF Act); and

- the Government and NACF may provide funds within each of their respective budgets for the promotion of amalgamation of the regional agricultural co-operatives when it is deemed necessary (Article 76 of the NACF Act).

The NACF Group has a close relationship with the Government as it assists the Government in forming its agricultural and livestock policy. NACF presents agricultural and livestock policy to the Government, and once ratified, the NACF Group will implement such policy to the extent it is approved. The Bank is responsible for allocating a significant portion of Government policy loans to farmers and keepers of livestock. The Bank believes that the Government regards the Bank as essential to the effective implementation of domestic agricultural and livestock policy and as vital to Korea's national security and self-sufficiency.

The Bank is required to present its annual financial results to the Governor of the FSS to ensure compliance with applicable corporate governance standards.

The Bank has authority to issue debentures in an aggregate amount of up to five times its total capital, with or without the express unconditional and irrevocable guarantee of the Government. Any such guarantee would be subject to the approval of the National Assembly, the chief legislative body of Korea. The Bank has not had the need to receive, and has not received, any Government guarantees up to the date of this Offering Circular.

The Bank also maintains close ties with local governmental bodies as it works with over 182 local government districts, which represent approximately 69.7% of the total number of districts in Korea. A substantial majority of these local governments deposit their treasury accounts with the Bank., and the Bank typically offers interest rates on these accounts that are lower than the market rates.

Strengths

Relationship with the Government and NACF, which provides stable source of funding

The Government has historically provided, and continues to provide, NACF, of which the Bank is an indirect wholly-owned subsidiary, with significant direct and indirect financial and other support (including interest payment support for policy loans, potential guarantees for borrowings, and tax benefits) in order to enable the NACF Group, including the Bank, to carry out the Government's agricultural and livestock policies. A substantial portion of such government support flows through the Bank, including in the form of capital contributions from NH Financial Group, which amounted in the aggregate to Won 1.35 trillion since the Bank's inception on 2 March 2012.

At the time of the Reorganisation on 2 March 2012, the Government initially agreed to provide Won 5 trillion to NACF over the next five years to shore up the capital of its operating subsidiaries in the forms of (i) a Won 1 trillion in-kind capital contribution in the form of the equity securities in public enterprises held by the Government, respectively and (ii) payment of interest for five years on up to Won 4 trillion of debt securities issued by NACF and/or the Bank, at a rate of up to 5% per annum.

Based on the above plan, the Bank issued bonds in the aggregate principal amount of Won 4 trillion in February 2012, and as of 30 June 2014, the Bank has received effectively a subsidy of Won 362 billion as compensation for interest payments under such bonds. In January 2013, in lieu with the in-kind capital contribution, the National Assembly approved additional payment of interest for five years on up to Won 1 trillion of debt securities issued by NACF and/or the Bank, at a rate of up to 5.0% per annum.

The Bank believes that the NACF Group's strong relationship with the Government will serve as a key factor in the Bank's business growth and provide the Bank with a stable source of funding.

Extensive branch network and diverse product portfolio

The Bank has an extensive branch network throughout Korea. As of 30 June 2014, the Bank operated 1,192 branches and had operational access to an additional 4,592 branches operated by member co-operatives of NACF, which are linked by an online system enabling the Bank's customers to access their accounts with the Bank from any of NACF's or its member co-operatives' branches. The Bank's extensive branch network allows it to provide banking services to customers throughout Korea, including customers in rural locations where other banks in Korea have limited branch coverage, as well as to a wide variety of customers, including commercial, agricultural and retail customers. In addition, the Bank offers a wide range of banking and other services, including demand and time deposits, secured and unsecured loans, credit card services, agricultural finance products and policy loans to farmers. A substantial majority of the local governments also use the Bank to deposit their treasury accounts. The Bank's extensive network and product and service offerings enable it to satisfy its customers' diverse financial needs.

Well recognised brand name

The Bank has a well-recognised brand name in Korea. The Bank is one of the five largest banks in Korea in terms of the total amount of deposits as of 30 June 2014. The Bank is generally recognised in Korea as a bank through which the Government carries out policies that seek to support farmers in Korea and is dedicated to improving the competitiveness of the Korean agricultural and livestock sectors.

Strategy

The Bank's strategic priority is to continue to enhance its competitiveness through maximising operational efficiency. More specifically, the Bank is committed to the following objectives:

Maximise profit while maintaining asset quality. The Bank is continually focused on maximising profit mainly through optimisation of its funding portfolios, diversification of revenue streams by strengthening its non-interest income business, such as bancassurance, investment product sales and credit card businesses, and preemptive regulatory and other risk management. The Bank is also committed to achieving strong asset quality through effective credit risk management. The Bank plans to realise the goal of becoming a "clean bank" by decreasing non-performing loans.

Enhance customer confidence. The Bank plans to create greater value and more reliable service for its customers by ramping up a stable IT system (including by taking over the informational technology system which was previously serviced at the NACF level), reducing customer complaints, strengthening its customer protection policies, bolstering internal control and taking measures to prevent disruptions to its services. The Bank also seeks to increase the brand value of "Nonghyup." The Bank is actively taking measures to lower the number of customer complaints and to strengthen internal control.

Build a dynamic working culture. The Bank believes a talented and dedicated workforce is critical to offer its customers the highest quality service. Toward that goal, the Bank is striving to cultivate a performance-based culture for its employees, allocate greater resources to employee training to further nurture their financial expertise and engage in other activities that will induce further innovation and productivity among its employees.

Secure new growth opportunities. The Bank seeks to foster the growth in its revenues and profitability. To that end, the Bank plans to strengthen corporate lending, expand its customer base in the Greater Seoul metropolitan area (whose residents on average have higher income and net worth than those in other areas), attract a greater number of relatively young customers that will form a loyal customer base over the long term, and selectively enter into business opportunities overseas. The Bank is also seeking ways to create cross-selling (including in relation to fund and other non-depositary investment products) and other synergy opportunities arising from the recent acquisition by NH Financial Group of Woori Securities & Investment and other former members of Woori Financial Group.

Offer differentiated services. The Bank intends to distinguish itself from its competitors by focusing on specialised services for target customer segments, including retirees and senior citizens, regional and rural customers and customers in the agricultural sector. The Bank also seeks to leverage its relationship with various cooperatives to facilitate its marketing and synergy creation efforts.

Business

The Bank was formed on 2 March 2012 following the split-off of the credit and banking business of NACF as part of NACF's reorganisation. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Reorganisation*". As has been the case prior to the split-off, the Bank's principal business activities involve providing specialised agricultural and commercial credit and banking services to customers primarily in Korea. The Bank is a nation-wide commercial bank operating under the Banking Act of Korea (the "**Banking Act**") and a specialised bank for agricultural and rural finance operating under the NACF Act. The Bank was one of the five largest banks in Korea based on deposits taken as of 30 June 2014, according to the FSS. As of 30 June 2014, the Bank had approximately 19.4 million deposit customers, and the Bank's distribution network consisted of 17 regional head offices and 1,192 branches, coupled with an additional 4,592 branches operated by member co-operatives of NACF. As of the date of the Offering Circular, the Bank also has one branch office in New York, United States, one representative office in Hanoi, Vietnam and one representative office in Beijing, China.

The Bank's headquarter is located at 120, Tongil-ro, Jung-gu, Seoul, 100-707, Korea. Its registration number with the Companies Registry of Korea is 110111-4809385.

The Bank's shares are 100.0% owned by NongHyup Financial Group Inc., which is in turn 100.0% owned by NACF.

As of 30 June 2014, the total assets, loans and deposits of the Bank were Won 207,062 billion, Won 157,793 billion and Won 155,670 billion, respectively. In 2013, the Bank's operating income and net income amounted to Won 645 billion and Won 174 billion, respectively, and for the six months ended 30 June 2014, the Bank's operating income and net income amounted to Won 265 billion and Won 120 billion, respectively.

As of 30 June 2014, the Bank's capital adequacy ratio, as reported to the FSS and determined in accordance with FSC requirements in effect as of that date which have been formulated in light of Bank For International Settlement ("**BIS**") standards, was 14.32% See "*Supervision and Regulation—Capital Adequacy and Allowances*".

Branch Network and Other Distribution Channels

Branch Network

As of 30 June 2014, the Bank's domestic banking network consisted of 1,192 branches operated by the Bank itself, coupled with an additional 4,592 branches operated by member co-operatives, which are linked by an on-line system that enables the Bank's customers to access their accounts with the Bank from any one of the Bank's or NACF's member co-operatives' branches. The Bank has branch offices in many central Government offices, local government offices, national universities and the National Assembly.

The following table sets forth the number of the Bank's branches by region:

Area	Number of Branches[1]
Seoul	202
Busan	65
Daegu	48
Incheon	44
Gwangju	32
Daejeon	31
Ulsan	31
Sejong	11
Jeju	21
Gyeonggi	226
Gangwon	65
Chungbuk	52
Chungnam	66
Jeonbuk	53
Jeonnam	65
Gyeongbuk	80
Gyeongnam	100
Total	1,192

Note:

(1) Includes representative offices.

Other Distribution Channels

The Bank's Internet banking services enable fund transfers, balance and transaction inquiries, on-line bill payments and processing of loan applications.

The Bank offers a variety of phone banking services, including inter-account fund transfers, balance and transaction inquiries and customer service inquiries. The Bank also has call centres, which it primarily uses to advise clients with respect to deposits and loans, transfers or payments, opening or closing accounts and processing loans.

Mobile banking services enable customers to use mobile phones and other telecommunication devices for, among others, inter-account transfers and balance and other transaction inquiries. The Bank provides its services in association with all three mobile phone service providers in Korea, SK Telecom, KT Corporation and LG Uplus.

Deposit-Taking Activities

The Bank offers many deposit products, which target different customer segments with features tailored to each segment's financial and other profiles. The Bank offers a range of interest rates on its deposit products depending on the rate of return on its interest earning assets, average funding costs and interest rates offered by other nationwide commercial banks. Deposit products offered by the Bank include principally the following:

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a fixed or variable rate depending on the period and the amount of deposit.

- *Time deposits*, which generally require the customer to maintain deposit for a fixed term during which the deposit accrues interest at a fixed or variable rate based on certain financial indexes, including the COFIX. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term of time deposits typically ranges from one month to three years. Time deposits offered by the Bank generally take the form of savings deposits and instalment deposits.

    - *Savings deposits*, which constitute the substantial majority of the Bank's time deposits, allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate. Such interest rate is generally lower than that for time or instalment deposits.

    - *Instalment deposits*, which generally require the customer to make periodic deposits of a fixed amount over a fixed term during which the deposit accrues interest at a fixed rate. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term of instalment deposits typically ranges from one year to three years.

- *Certificates of deposit*, whose interest rates are determined based on the length of deposit and prevailing market interest rates. Certificates of deposits are sold at a discount to their face values, which effectively serves as additional interest payments. Certificates of deposit have a term of at least 30 days and require a minimum deposit of Won 10 million.

- *Foreign currency deposits*, which accrue interest at adjustable rates and are available to Korean residents, non-residents and overseas immigrants. The Bank offers demand, time deposit and checking and passbook accounts in 14 currencies.

As of 30 June 2014, the Bank had approximately 19.4 million deposit customers, consisting of approximately 19.0 million retail deposit customers and approximately 0.3 million corporate deposit customers. As of 30 June 2014, deposits made by the Bank's retail customers, corporate customers and other customers amounted to Won 68,596 billion, Won 42,295 billion and Won 48,596 billion, respectively. Other customers consist of local governments and other government related organisations.

The Monetary Policy Committee of the BOK imposes a reserve requirement on Won currency deposits of commercial banks of up to 7.0%, based generally on the term to maturity and the type of deposit instrument. The Depositor Protection Act provides for a deposit insurance system under which Korea Deposit Insurance Corporation ("**KDIC**") guarantees to depositors the repayment of eligible bank deposits up to a total of Won 50 million per depositor per bank. See *"Supervision and Regulation—Liquidity"* and *"Supervision and Regulation—Deposit Insurance System"*.

Retail Banking Services

Overview

Retail banking services offered by the Bank include mortgage, small business and consumer lending as well as demand, savings, fixed deposit-taking and checking account, electronic banking, ATM, bill paying, payroll, check-cashing, currency exchange and wire fund transfer services. The Bank believes that providing modern and efficient retail banking services is important in terms of both maintaining its public profile and as a source of fee-based income.

The Bank offers various retail loan products, which target various segments of the population with features tailored to each segment's financial profile and other characteristics, including each customer's employment status, age, loan purpose, collateral requirements and the length of time a borrower has been its customer. Retail loans consist principally of the following:

- *Mortgage and home equity loans*, mostly comprised of mortgage loans which are loans to finance home purchases and are generally secured by the home being purchased; and

- *Other retail loans*, which are loans (other than mortgage and home equity loans) made to retail customers and the terms of which vary based primarily upon the characteristics of the borrower and which may be unsecured or secured or guaranteed by deposits or by a third party.

For secured loans, including mortgage and home equity loans, the Bank's policy is to lend between 40% and 60% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that ranks senior to the Bank's security interest (other than petty claims). Under the currently applicable regulations, the maximum loan-to-value ratio allowed for loans secured by residential properties located in areas designated by the Government as "high speculation" is 60% (in cases including those where a loan has a maturity over ten years and is secured by an apartment with a secured value not exceeding Won 600 million), and, subject to certain restrictions as set forth under the Regulation on Supervision of Banking Business, the required debt-to-income ratio must not exceed 40% if the loans fall within the following categories: (i) a loan extended to a married borrower secured with an apartment located in a high speculation area if such borrower's spouse has taken out at least one home mortgage loan; (ii) a loan extended to an unmarried borrower secured with an apartment located in a high speculation area; and (iii) a loan secured with an apartment located in a high speculation area or an excessive investment area designated by the Government, and whose market value exceeds Won 600 million if the borrower takes out such loan to purchase the apartment to be offered as a security. As of 30 June 2014, most of the Bank's mortgage and home equity loans were secured by residential property, and the Bank's loan-to-value ratio of mortgage and home equity loans was 60%.

Substantially all of the Bank's retail loans are denominated in Korean Won.

The following table sets forth the portfolio of the Bank's retail loans, on a separate basis, as of the dates indicated.

	As of 31 December 2012	As of 31 December 2013	As of 30 June 2014
	(in billions of Won, except percentages)		
Retail loans [1]			
Mortgage and home-equity	₩38,768	₩41,756	₩43,479
Other [2]	27,894	27,709	24,255
Total	₩66,662	₩69,465	₩70,734
Percentage of retail loans to total gross loans	46.8%	44.0%	45.4%

Notes:

(1) Before allowance for loan losses.

(2) It is common practice in Korea for construction companies to require buyers of new homes (particularly apartments under construction) to make instalment payments of the purchase price well in advance of the title transfer of the home being purchased. In connection with this common practice, the Bank provides advance loans, on an unsecured basis for the time being, to retail borrowers where the use of proceeds is restricted to financing the purchases of such home. A significant portion of these loans are guaranteed by third parties, which may include the construction company receiving the instalment payment, until construction of the home is completed. Once construction is completed and the title to such home is transferred to the borrower, which may take several years, the loan becomes secured by the new home purchased by such borrower.

Pricing

The interest rates on the Bank's mortgage and home equity loans are generally based on periodic floating rates (which are based on base rates determined for three-month, six-month or twelve-month periods derived using the Bank's lending rate decision system, which reflects the Bank's internal cost of funding, further adjusted to account for the Bank's expenses related to lending). The Bank's interest rates also incorporate a margin based on, among other things, the type of collateral, the loan-to-value ratio, the credit score of the borrower and the estimated loss on the security. The Bank may also adjust the price to reflect the borrower's current and/or expected future contribution to it. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay the Bank an early termination fee in addition to the accrued interest.

The interest rates on the Bank's other retail loans (including overdraft loans) are determined on the same basis as the Bank's mortgage and home equity loans, except that, for unsecured loans, the borrower's credit score as determined during the Bank's loan approval process is also taken into account. When providing collective housing loans or evaluating extension of such loans, the Bank reviews the probability of the sale of the housing unit, the borrower's creditworthiness and the adequacy of the intended use of proceeds. Furthermore, the Bank takes a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, the Bank also takes a guarantee from the Housing Finance Credit Guarantee Fund as security. The interest rates on the Bank's collective housing loans are based on periodic floating rates, which in turn are based on base rates determined for three-month, six-month or twelve-month periods derived using the Bank's lending rate decision system.

Corporate Banking Services

Overview

The Bank provides corporate banking services to SMEs and large corporations, including corporations that are affiliated with *chaebols* or Government-controlled companies. The Bank's corporate banking operations consist mainly of lending to and taking deposits from its corporate customers. The Bank also provides ancillary services on a fee basis, such as cross-border inter-account and intra-company transfers.

The following table sets forth the balances and percentage of the Bank's total lending, on a separate basis, attributable to each category of its corporate lending business as of the dates indicated.

	As of 31 December 2012		**As of 31 December 2013**		**As of 30 June 2014**	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(in billions of Won, except percentages)					
SME loans[1]	₩50,578	72.6%	₩53,586	73.4%	₩55,843	74.1%
Large corporate loans	18,483	26.5	18,769	25.7	18,851	25.0
Other	598	0.9	656	0.9	617	0.8
Total corporate loans	₩69,659	100.0%	₩73,011	100.0%	₩75,311	100.0%

Note:

(1) Represents the principal amount of loans extended to corporations meeting the definition of a small- to medium-sized enterprise under the Basic Act on Small and Medium-sized Enterprises and its Presidential Decree. Certain loans to sole proprietorships are included under retail lending.

SME Banking

The Bank's SME loans as of 30 June 2014 amounted to Won 55,843 billion, which represented 74.1% of the total corporate loans, on a separate basis. Under the Basic Act on Small and Medium-sized Enterprises and its Presidential Decree, an SME is defined as a company which (i) does not have employees and assets exceeding the number or the amount, as the case may be, specified in accordance with their types of businesses in the Presidential Decree; (ii) does not have any stockholder, whose total assets as set forth in the stockholder's balance sheet for the immediately preceding fiscal year are not less than Won 500 billion and who directly or indirectly owns at least 30% of the issued and outstanding shares of the SME (excluding shares without voting rights) and is the largest stockholder and (iii) do not belong to a conglomerate as defined in the Monopoly Regulations and Fair Trade Act.

The Bank's principal loan products for the Bank's SME customers are working capital loans and facilities loans. Loans to SMEs may be secured by properties or deposits or may be unsecured. The Bank evaluates creditworthiness and collateral for the Bank's SME loans in essentially the same way as it does for large corporate loans.

Large Corporate Banking

Large corporate customers consist primarily of member companies of *chaebols*, financial institutions and Government-controlled companies. Large corporate loans of the Bank denominated in Won amounted to Won 15,462 billion as of 30 June 2014, which represented 20.5% of the Bank's total corporate loans, on a separate basis.

The Bank's principal loan products for its large corporate customers are:

- working capital loans, which are loans used for general working capital purposes, typically with a maturity of one year or less, including notes discounted and trade finance; and

- facilities loans, which are loans to finance the purchase of materials, equipment and facilities, typically with a maturity of three years or more.

When evaluating the extension of working capital loans and facilities loans, the Bank can take personal guarantees and credit guarantee letters from other financial institutions and use time and savings deposits that the borrower has with the Bank as collateral.

Pricing

The Bank establishes the price for its corporate loan products based principally on transaction risk, the Bank's cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower, the value and type of collateral and any affiliate or third-party guarantee.

Policy Loans

One of the principal tasks of the Bank's business is to extend agricultural policy loans which may be funded by the Bank or the Government. If funded by the Bank, policy loans are typically offered to farmers at concessionary interest rates set below market rates, and, the Government pays to the Bank the difference between the market and concessionary interest rates. The difference between the market and concessionary interest rates ranged from 1.40% to 4.40% during 2013 and from 1.07% to 4.07% for the six months ended 30 June 2014. The level of concessionary rate is agreed between the Bank and the Government every year. If a policy loan is funded by the Government, the Government usually pays the Bank an interest payment in the range of 0.1% and 1.5% of the loan amount. Repayment of policy loans is guaranteed by the Agricultural Credit Guarantee Fund, which is funded almost entirely by the Government. As of 30 June 2014, policy loans provided by the Bank amounted in the aggregate to Won 13,780 billion, representing 8.8% of the Bank's total loans, which consisted of policy loans funded by the Government of Won 5,002 billion and policy loans funded by the Bank of Won 8,779 billion.

Credit Card Business

The Bank's credit card business has stagnated in recent years, with approximately 6.1 million credit card users as of 30 June 2014 compared to 6.3 million as of 31 December 2012. The total value of credit card transactions amounted to Won 39,092 billion for the period from 2 March 2012 through 31 December 2012, Won 40,236 billion for the year ended 31 December 2013 and Won 18,965 billion for the six months ended 30 June 2014. Revenue from credit card business consists principally of annual membership fees paid by cardholders, transaction fees paid by merchants, cardholder purchase fees, cash advance fees and interest charges on deferred and late payments. Interest and fee income from the Bank's credit card business amounted to Won 580 billion for the period from 2 March 2012 through 31 December 2012, Won 682 billion for the year ended 31 December 2013 and Won 341 billion for the six months ended 30 June 2014.

The Bank offers a diverse range of credit card products under various brands. Factors that determine which type of card a particular cardholder may receive include such customer's net worth, age, location, income level and the particular programmes or services that may be associated with a particular card.

The following table sets forth certain data relating to the Bank's credit card operations (which does not include the Bank's off-balance sheet securitised receivables portfolios), on a separate basis, as of and for the periods indicated.

	As of 31 December and for the period from 2 March 2012 through 31 December 2012	**As of and for the year ended 31 December 2013**	**As of and for the six months ended 30 June 2013**	**As of and for the six months ended 30 June 2014**
	(in billions of Won, except percentages)			
Credit card interest and fees:				
Instalment and cash advance interest	₩171	184	92	₩90
Annual membership fees	8	12	5	7
Merchant fees	379	465	223	232
Other fees	22	21	9	12
Total	₩580	₩682	₩329	₩341
Outstanding balances[1] (at period end):				
General purchase	₩1,544	1,793	1,482	₩1,679
Instalment purchase	877	962	767	859
Cash advance	637	523	572	533
Card loan	321	394	319	417
Total	₩3,379	₩3,672	₩3,140	₩3,488
Delinquent balances[2]	₩64	53	68	₩100.1
Delinquency ratios[3]	1.80%	1.4%	2.1%	2.9%
Less than 1 month	0.7	0.5	0.9	1.4
From 1 month to 3 months	0.6	0.5	0.6	0.6
From 3 months to 6 months	0.4	0.3	0.5	0.6
Over 6 months	0.1	0.1	0.1	0.3
Total	₩64	₩53	₩68	₩100.1
Non-performing loan ratio[4]	1.0%	0.7%	0.9%	0.3%
Charge-offs (gross)	100	101	52	263.3
Recoveries	18	20	10	12.3
Net charge-offs	82	81	42	251
Gross charge-off ratio[5]	2.7%	2.7%	1.4%	6.9%
Net charge-off ratio[6]	2.2%	2.1%	1.1%	6.6%

Notes:

(1) Includes credit card loans, the interest on which is classified as fee income of the bank accounts.

(2) Represents balances that are overdue for more than one month.

(3) Equals the total delinquency balances divided by total credit card balances.

(4) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant period.

(5) Represents the ratio of gross charge-offs to average outstanding balances for the period.

(6) Represents the ratio of net charge-offs to average outstanding balances for the period.

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

Payments on amounts outstanding on credit cards must be made (at the cardholder's election at the time of purchase) either in full on each monthly payment date, in the case of lump-sum purchases, or in equal monthly instalments over a fixed term from two months to thirty-six months, in the case of instalment purchases. Cardholders may prepay instalment purchases at any time without penalty. Payment for cash advances must be made on a lump-sum basis. Payments for card loans must be made on an equal principal instalment basis over a fixed term from three months up to a maximum of 60 months.

In February 2014, the FSC suspended the new credit card issuance and other related activities of the Bank for three months from February to May 2014, in response to an incident involving the misappropriation of the personal information of a large number of its customers by an employee of an external credit information company, which incident involved several other financial institutions in Korea. See "*Business—Legal Proceedings*."

Capital Markets Activities

Through the Bank's capital markets operations, the Bank invests and trades in debt and equity securities and, to a lesser extent, engages in derivatives and asset securitisation transactions and makes call loans.

Securities Investment and Trading

The Bank invests in and trades securities for the Bank's own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of 30 June 2014, the Bank's investment portfolio, which consists primarily of held-to-maturity securities and available-for-sale securities, and the Bank's trading portfolio had a combined total book value of Won 27,468 billion, which represented 13.3% of the Bank's total assets.

The Bank's trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions.

Derivatives Trading

The Bank provides and trades a range of derivatives products, including:

- Won interest rate swaps, relating to Won interest rate risks;
- cross-currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;
- foreign exchange forwards, swaps and options, relating to foreign exchange risks; and
- equity options on the KOSPI index.

The Bank's derivatives operations focus on addressing the needs of the Bank's corporate clients to hedge their risk exposure and to hedge the Bank's risk exposure that results from such client contracts. The Bank also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposure that arises from the Bank's own assets and liabilities. In addition, the Bank engages in proprietary trading of derivatives within the Bank's regulated open position limits.

The following tables set out the fair value of the Bank's derivatives contracts as of the dates indicated.

	As of 31 December 2012		As of 31 December 2013		As of 30 June 2014	
	Fair value of assets	Fair value of liabilities	Fair value of assets	Fair value of liabilities	Fair value of assets	Fair value of liabilities
			(in billions of Won)			
Currency derivatives	₩644	₩524	₩415	₩404	₩479	₩445
Interest rate derivatives	544	522	312	312	272	271
Equity derivatives	12	0.1	9	15	0.5	15
Total	₩1,200	₩1,046	₩736	₩731	₩751.5	₩731

Investment Banking

The Bank has focused on selectively expanding its investment banking activities in order to increase its fee income and diversify its revenue base. The Bank's principal investment banking services include:

- project finance and financial advisory services for social overhead capital projects such as highway, port, power, water and sewage projects;
- financing and financial advisory services for real estate development projects; and
- structured finance and venture financing.

During 2013 and for the six months ended 30 June 2014, the Bank generated investment banking revenues of Won 110 billion and Won 48 billion, respectively, which were consisted of Won 57 billion of interest income and Won 53 billion of non-interest income, and Won 32 billion of interest income and Won 16 billion of non-interest income, respectively.

Trust Account Management Business

Trust funds managed by the Bank consist primarily of money trusts. In Korea, a money trust is a discretionary trust which (except in the case of specified money trusts) gives the trustee broad discretion in investing the assets of the trust. Trust account customers of the Bank are typically individuals seeking higher rates of return than those offered by bank account deposits. Because there are fewer regulatory restrictions on trust accounts than on bank account deposits, including no deposit reserve requirements, the Bank has historically offered higher rates of return on trust account products than on bank account deposits. Trust account products, however, generally require higher minimum deposit amounts and longer deposit periods compared with comparable bank account deposit products. Similar to those of the bank accounts, assets of the trust accounts are invested primarily in debt securities and loans, except that a greater percentage of the assets of the trust accounts are invested in debt securities compared to those of the bank accounts mainly because trust accounts generally require more liquid assets due to their more limited funding sources compared to bank accounts.

Except for specified money trusts and certain other trust accounts, the Bank has investment discretion (subject to applicable law) over all money trusts, which are commingled and managed jointly for each type of trust account. The specified money trusts, which are generally managed individually and on a performance basis, are established on behalf of customers, typically corporations, which specifically direct the Bank as to the investment of trust assets. As of 30 June 2014, specified performance-based money trust products accounted for substantially all of the total balance of the Bank's money trusts.

Under Korean law, assets accepted in trust accounts by the Bank are required to be segregated from other assets of the Bank and are not available to satisfy the claims of depositors or other creditors of the Bank. Trust accounts are regulated by the Trust Act and FSCMA of Korea, and most nation-wide commercial banks offer similar trust account products.

The Bank earns income from trust account management services which generally comprise a percentage of the total assets under management by the trust. Income from trust account services is reflected in the Bank's bank accounts as trust management fees and commissions.

As of 30 June 2014, the Bank had total trust assets of Won 1,448 billion comprised principally of securities investments of Won 370 billion, all of which were in variable rate trust accounts (also known as performance-based trust accounts).

Variable rate trust accounts are trust accounts for which the return on the trust account is not guaranteed, but the principal of the trust account, in limited instances as described below, may be guaranteed. The Bank is permitted to guarantee the principal of only three types of variable rate trust account products: old age pension trusts, pension trusts and retirement trusts. The Bank receives a fixed fee for such accounts the amount of which varies depending principally upon the assets under management of such accounts. None of the Bank's trust accounts guarantees a fixed rate of interest. As of 30 June 2014, total securities of Won 5,515 billion were in principal or interest guaranteed variable trust accounts. Securities investments primarily consist of bonds issued by financial institutions, corporate bonds, Government-related bonds and other securities, primarily commercial paper. As of 30 June 2014, debt securities of Won 3,930 billion accounted for 15.4% of the Bank's total trust assets and equity securities of Won 208 billion accounted for 0.8% of the Bank's total trust assets. Loans made by trust accounts are similar in type to those made by the Bank from its bank accounts, except that trust account loans are made only in Won. As of 30 June 2014, substantially all of the amount of loans from the trust accounts were collateralised or guaranteed.

The Bank may receive commissions upon the termination of trust accounts prior to the end of their maturity. Currently, banks are required by the FSC to (i) provide special reserves by deducting the required amounts from trust fees for accounts whose principal or interest is guaranteed by the bank account and (ii) appraise the fair value of the assets that cannot be marked to market. Such provisions reduced the return to customers and the Bank's trust fees. If income from a principal-guaranteed trust account is insufficient to pay the guaranteed amount, such deficiency must be satisfied first from the special reserves maintained in the trust accounts, then from the trust fees, and finally from the funds transferred from the bank accounts of the Bank.

Competition

The Bank competes principally with nation-wide commercial banks in Korea but also faces competition from other market participants, including regional banks, development banks, specialised banks and branches of foreign banks operating in Korea. The Bank also competes for customer funds with other types of financial services institutions, including savings institutions (such as mutual savings and finance companies, credit unions and credit co-operatives), investment institutions (such as merchant banking corporations) and life insurance companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

In the area of the Bank's core banking operations, most Korean banks have been focusing on targeting SMEs and retail customers in recent years as well as developing fee income businesses, including bancassurance and investment products, as increasingly important sources of revenue. In recent years, some banks have also expanded their exposure to large corporate borrowers. In the area of credit cards, Korean banks and credit card companies in the past engaged in aggressive marketing activities and made significant investments, contributing to lower profitability and asset quality problems. The resulting competition and market may make it more difficult for the Bank to secure SMEs and retail customers with the credit quality and on credit terms necessary to maintain or increase the Bank's income and profitability.

Regulatory reforms in the Korean financial industry, which are generally designed to enhance liberalisation and competition, have generally increased competition among banks and other financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than the Bank, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with the Bank in providing financial and related services.

Information Technology

The Bank's mainframe-based IT system is designed to ensure continuity of services even where there is a failure of the host data centre due to a natural disaster or other accidents by utilising backup systems in its disaster recovery data centres. In addition, through the implementation of a "multi-central processing unit system", the system is designed and operated to be able to process transactions without material interruption in the event of a central processing unit failure.

The integrity of the Bank's IT systems, and their ability to withstand potential catastrophic events (such as natural calamities and internal system failures), is crucial to its continuing operations. The Bank currently tests its disaster recovery systems on a quarterly basis.

The Bank believes that continuous improvement of its IT system is crucial to supporting its operations management and providing high-quality customer service. Accordingly, the Bank has recently upgraded and improved its system by taking the following initiatives:

- developing its next generation IT system which includes the reconstruction of its IT system for its core banking system and internet banking system; and

- strengthening its security system by periodically consulting with security experts, centralising control and management of the security system, researching and developing a public key encryption system and improving its firewall and virus prevention system.

On 20 March 2013, there was a massive network shutdown affecting certain financial institutions including the Bank and two of the Bank's insurance affiliates, which were suspected to be caused by North Korea. The FSS conducted a special inspection on the Bank regarding the cause of this network shutdown and the adequacy of the Bank's internal control systems. On 10 April 2013, the Bank suffered another network shutdown of its internet banking services for an unknown reason. Prior to 2013, the Bank also from time to time experienced temporary IT disruptions lasting from several hours to several days, which led to suspension of financial transactions over ATMs, Internet and phone banking as well as deletion or leaks of customer records and transactional data.

To prevent future IT disruptions, the Bank upgraded its IT infrastructure and security systems by establishing a Next Generation Electronic Financial System in cooperation with NACF and the Livestock Cooperative Federation. Furthermore, in order to enhance management of its overall security system, the Bank has recently created a new position of Chief Information Security Officer. In addition, as of 1 January 2014, the IT division which was previously stationed in and under the control of NACF was transferred to the Bank and was placed under the Bank's control. The Bank plans to install a separate IT system for the Bank by the end of 2017.

Properties

The Bank's principal establishment is its headquarters building located in Seoul. The Bank owns or leases various land and buildings for its branches. Certain of the properties of the Bank are subject to security interests and encumbrances in favour of third parties, arising in the ordinary course of its and their businesses. However, the Bank does not consider these security interests and encumbrances to be material to its business.

As of 30 June 2014, the Bank had a nationwide network of 1,192 branches. Approximately 33% of the facilities used by these branches were located in sites owned by the Bank, while the remaining branches were located on leased properties.

The net book value of all properties owned by the Bank as of 30 June 2014 was Won 2,596 billion. The Bank does not own any material properties outside of Korea.

Legal Proceedings

The Bank is involved in various legal actions arising in the normal course of its business. As of 30 June 2014, the Bank was a defendant in 299 cases with related claims amounting to Won 100 billion in the aggregate. The Bank is unable to estimate with reasonable certainty the outcome of any of these lawsuits. The Bank provided allowances of Won 4 billion for probable losses arising from certain of these claims as of 30 June 2014.

In addition, in July 2013, the FSS issued an institutional caution to the Bank and censured 28 employees for irregular investment practices and breach of banking regulations between 2007 and 2011. In the same month, the FSS also issued a disciplinary warning against the Bank for providing loans in the amount of Won 6.35 trillion to NACF at excessively low interest rates and levied a fine of Won 25.0 million against the Bank.

In February 2014, the FSC suspended the new credit card issuance and other related activities of our credit card business, for three months from February to May 2014, in response to an incident involving the misappropriation of the personal information of a large number of its customers by an employee of an external credit information service provider, which incident involved several other financial institutions in Korea. Specifically, during such suspension period, the Bank was prohibited from engaging in the following activities:

- adding new subscribers for credit cards, prepaid cards and debit cards or issuing such types of cards (except as permitted by the chairman of the FSC for public policy purposes); and

- providing new or additional credit lines to credit card customers.

This suspension resulted in loss of customers for the Bank, as well as additional expenses to the Bank in terms of providing notice to customers and issuing replacement cards, among others, which adversely affected the Bank's results of operation. Furthermore, in connection with the misappropriation incident, a number of customers have filed lawsuits against the Bank seeking damages in the aggregate claim amount of approximately Won 15 billion, and the Bank could become subject to additional litigation and/or regulatory sanctions in relation to which the Bank may also incur significant costs.

The following discussion describes the assets and liabilities of the Bank presented on a consolidated basis unless otherwise indicated. The following information should be read together with the Bank's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Statements included in this Offering Circular as well as "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Loan Portfolio

As of 30 June 2014, the Bank had loans and receivables (net of allowances for losses and discounts) of Won 164,777 billion, which accounted for 79.6% of total assets of the Bank. As of 30 June 2014, loans in Korean Won accounted for 87.6% of total loans, and loans in foreign currencies (including offshore loans) accounted for 1.3% of total loans. Guarantees are not categorised as loans unless and until the Bank has made a payment on behalf of a customer in relation to the guarantee.

The following table sets forth a summary of the Bank's loans by type of borrower as of the dates indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances.

	As of 31 December 2012		As of 31 December 2013		As of 30 June 2014	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Loans in Won						
Retail	₩63,838	48.1%	₩66,611	47.0%	₩68,133	46.7%
Corporate	62,517	47.2	66,408	46.8	67,988	46.6
Public(1)	4,471	3.4	7,304	5.1	8,361	5.7
Integrated(2)	1,735	1.3	1,534	1.1	1,456	1.0
Sub-total (3)	₩132,561	100.0%	₩141,857	100.0%	₩145,938	100.0%
Loans in Foreign currencies:						
General	₩2,686	99.1	₩2,277	99.9	₩2,255	99.0%
Offshore	19	0.7	—	0.0	21	0.9
Credit	4	0.2	2	0.1	2	0.1
Sub-total (3)	₩2,709	100%	₩2,279	100%	₩2,278	100.0%
Others						
Credit card receivables	3,466	15.9%	3,661	26.1%	₩3,488	19.0%
Bills purchased	47	0.2	59	0.4	49	0.3
Foreign exchange purchased	955	4.4	1,182	8.4	1,440	7.8
Private placement bond	279	1.3	194	1.4	206	1.1
Payment for acceptances and guarantees	47	0.2	53	0.4	59	0.3
Domestic import usance	2,624	12.0	2,264	16.2	2,614	14.2
Others	3,594	16.5	3,551	25.4	3,669	20.0
Receivables	10,802	49.5	3,036	21.7	6,847	37.3
Sub-total (3)	₩21,814	100.0%	₩14,000	100.0%	₩18,372	100.0%
Total	₩157,084		₩158,136		₩166,588	

Notes:

(1) Primarily consists of loans to local governments, public enterprises and non-profit institutions, such as educational institutions.

(2) Consists of various policy loans offered to farmers in furtherance of the Government's agricultural policy.

(3) Excludes deferred loan origination fees and loan origination costs.

Loan Concentration by Industry

The following table sets forth the Bank's loan portfolio according to industry sector in which the borrower operates, as of the dates indicated.

	As of 31 December 2012		As of 31 December 2013		As of 30 June 2014	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Manufacturing	₩14,086	9.6%	₩15,355	9.9%	₩16,462	10.3%
Construction	5,001	3.4	4,805	3.1	4,950	3.1
Retail & wholesale	3,394	2.3	3,941	2.5	4,225	2.6
Financing & insurance	7,381	5.0	6,396	4.1	5,635	3.5
Member co-operatives	15,102	10.3	14,912	9.6	14,648	9.2
Others(1)	101,318	69.4	109,691	70.8	113,821	71.3
Total (2)(3)	₩146,282	100.0%	₩155,100	100.0%	₩159,741	100.0%

Notes:

(1) Include loans to households and public and others.

(2) Includes policy loans.

(3) Excludes deferred loan origination fees and loan origination costs.

Loan Concentrations by Borrower

Under the Banking Act, the Bank's aggregate credit exposures to single individuals, juridical persons or business groups that exceed 10.0% of the sum of its Tier I and Tier II capital (less any capital deductions) when totalled must not exceed five times the sum of the Bank's Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. In addition, subject to certain exceptions, the Bank is not permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions that directly or indirectly create credit risk) in excess of 20.0% of the sum of its Tier I and Tier II capital (less any capital deductions) to any single individual or juridical person, and the Bank may not grant credit in excess of 25.0% of the sum of its Tier I and Tier II capital (less any capital deductions) to any single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act.

10 Largest Exposures by Borrower

The following table sets forth, on a separate basis, the Bank's total exposures (excluding trust accounts) to its ten largest borrowers as of 30 June 2014.

	Loans(1)	Securities(2)	Total Exposure(1)	Total credit ratio(1)(3)
	(in billions of Won, except percentages)			
National Agricultural Cooperative Federation	₩866	₩0	₩866	0.6%
STX Offshore & Shipbuilding Co., Ltd.	794	0	794	0.5
Hyundai Heavy Industries Co., Ltd.	694	1	695	0.4
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	623	0	623	0.4
Samsung Heavy Industries Co., Ltd.	571	4	575	0.4
Hyundai Steel Company	527	12	539	0.3
Korean Airlines Co., Ltd.	451	0	451	0.3
Shinhan Card Co., Ltd.	103	313	416	0.3
Hanjin Energy.	351	0	351	0.2
Hyundai Samho Heavy Industries Co., Ltd.	347	0	347	0.2

Notes:

(1) Classification is based on the FSC's asset classification criteria and includes payment guarantees and unused credit lines.

(2) Represents equity securities and debt securities.

(3) Represents total exposure to the relevant borrower as a percentage of the Bank's total exposure.

10 Largest Exposures to Chaebols

As of 30 June 2014, on a separate basis, the total amount of the Bank's exposure to the 30 largest *chaebols* was Won 15,366 billion with the Bank's largest single credit (based on outstanding balances) to a *chaebol* member company amounting to Won 1,695 billion, which represented 1.1% of total credits. The following table sets forth the Bank's ten largest exposures to *chaebols* as of 30 June 2014.

	Loans(1)	Securities	Total Exposure	Total credit ratio(2)
	(in billions of Won, except percentages)			
Hyundai Motors	₩1,660	₩35	₩1,695	1.1%
Samsung	1,329	227	1,556	1.0
Hyundai Heavy Industries.	1,509	21	1,530	1.0
Hanjin	1,165	0	1,165	0.7
SK	909	215	1,124	0.7
STX Offshore & Shipbuilding	794	0	794	0.5
POSCO	537	180	717	0.4
LG	453	177	630	0.4
Daewoo Shipbuilding & Marine Engineering	626	0	626	0.4
Doosan	556	20	576	0.4

Notes:

(1) Classification is based on the FSC's asset classification criteria and includes payment guarantees and unused credit lines.

(2) Represents total exposure to the relevant borrower as a percentage of the Bank's total exposure.

Loan Analysis

Maturity Analysis

The following table sets forth an analysis of loans (excluding delinquent loans) in the Bank's accounts by scheduled maturity as of 30 June 2014 on a separate basis.

	Less than 1 year		Over 1 year but not more than 5 years		Over 5 years		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)							
Loans in Won	61,508	88.5%	34,118	97.1%	48,441	98.8%	144,067	93.7%
Loans in Foreign currencies	3,553	5.1%	854	2.4%	613	1.2%	5,020	3.3%
Others	4,475	6.4%	156	0.4%	0	0.0%	4,631	3.0%
Total	69,535	100.0%	35,128	100.0%	49,054	100.0%	153,717	100.0%

The concentration of loans with maturities of one year or less is intended to reduce the Bank's credit risk by allowing the Bank to re-evaluate the creditworthiness of the borrower. Historically, a substantial portion of loans with initial maturities of one year have typically been renewed at maturity.

Loan Interest Rates

The following table sets forth the total amount of Won-denominated loans (excluding trust accounts) due after one year with fixed interest rates and the total amount of loans (excluding trust accounts) due after one year with floating interest rates as of 30 June 2014.

	As of 30 June 2014	
	Amount	**%**
	(in billions of Won, except percentages)	
Fixed rate loans[1]	₩12,009	16.4%
Floating rate loans	49,424	67.5
Others	11,799	16.1
Total	₩73,232	100.0%

Note:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

Value of Collateral to Loan

As of 30 June 2014, on a separate basis, 59.6% of the Bank's total loans were secured loans. As of that date, such secured loans were secured by collateral or guarantees, the aggregate value of which exceeded the aggregate principal amount of such secured loans. The type of collateral or credit support provided includes real estate, personal property, marketable securities, deposits and payment guarantees from other banks or institutions, with real estate constituting the largest source.

Loans are considered to be made on a guaranteed basis if the loans are guaranteed by banks (other than merchant banks), Government related funds or privately capitalised funds that the Bank considers to have a low credit risk. Loans with cross guarantees by affiliates of the borrower or officers or shareholders of the borrowers or guarantees made by merchant banks are not considered to be made on a guaranteed basis.

The following table shows, on a separate basis, loans by collateral type (including guarantees by third parties) as of the dates indicated.

	As of 31 December		As of 30 June
	2012	**2013**	**2014**
	(in billions of Won, except percentages)		
Secured Loans:			
Real estate & property	₩63,483	₩68,106	₩71,210
Securities	3,565	3,265	2,829
Payment Guarantees	9,662	10,956	11,442
Others	3,402	4,287	4,596
Sub-total	80,112	86,614	90,077
Unsecured loans	57,950	59,948	60,941
Secured loans as a percentage of total loans of credit and banking	58.0%	59.1%	59.6%
Total	₩138,062	₩146,562	₩151,018

Depending on the type and the risk of the collateral or guarantees, loans are disbursed up to a maximum proportion (generally between 40.0% to 60.0%) of the appraised value (which at the time of the appraisal is 10.0% to 20.0% below fair market value) of the collateral or guarantees. The value of the collateral is reassessed at the time of a loss of the collateral or a significant drop in its value. The value of collateral is also reassessed from time to time depending on market conditions by independent appraisers or when the underlying loan is reclassified into a new category under loan classification or when the Bank makes loan loss provisions for such loans. When the Bank decides that the repayment of the loan is in doubt, it generally requires further security or prepayment of a considerable portion of the loan to the extent that such actions are feasible.

Asset Quality of Loans

Loan Classifications

The FSC generally requires banks in Korea to analyse and classify their loans and other credit (including confirmed acceptances and guarantees and trust account loans) into one of five asset quality categories for K-IFRS reporting purposes. In making such classifications, banks take into account a number of factors, including the financial position, profitability and transaction history of the borrower and the value of any collateral or guarantee taken as security for the extension of credit. The method of classifying loans and provisioning for loan losses are intended to fully reflect the capacity to repay and not solely past performance. The FSC guidelines require, amongst other things, that:

(i) the credit exposures classification criteria reflect customers' ability to repay their credits as well as their credit histories, including whether customers are in arrears or default in any payments;

(ii) banks devise and operate credit evaluation and classification models to analyse customers' capability to repay the credits extended by them; and

(iii) banks operate independent credit review units.

The following is a summary of the asset classification criteria that the Bank applies for corporate and retail loans, based on the asset classification guidelines of the FSC. Credit card receivables are subject to classification based on the number of days past due, as required by the FSC. The Bank also applies different criteria for other types of credits such as loans to the Government or to Government-related or controlled entities, certain bills of exchange and certain receivables. The Bank believes that its method of classifying credit exposures and providing reserves for credit losses meets or exceeds the FSC guidelines described above.

Normal	Credits extended to customers which, in consideration of their business and operations, financial condition and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits extended to customers (i) which, in consideration of their business and operations, financial condition and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although any immediate risks of default in repayment have not occurred; or (ii) which are in arrears for one month or more but less than three months.

Substandard . . . . Either:

- credits extended to customers that, based on the Bank's consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or
- the portion that the Bank expects to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (c) extended to customers who have outstanding loans that are classified as "doubtful" or "estimated loss".

Doubtful . . . . Credits exceeding the amount that the Bank expects to collect of total credits to customers that:

- based on the Bank's consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or
- have been in arrears for three months or more but less than twelve months.

Estimated Loss . . . . Credits exceeding the amount that the Bank expects to collect of total credits to customers that:

- based on the Bank's consideration of their business, financial position 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;
- have been in arrears for twelve months or more; or
- have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

Credit classified as "doubtful" or "estimated loss" are considered to be "non-performing" credits under the Banking Act. The FSC allows banks some degree of discretion in the specific application of these guidelines. In classifying Bank's credits into the five asset quality categories, the Bank applies both historical criteria and forward-looking criteria (in the case of corporate borrowers), in accordance with the FSC guidelines.

The Bank considers loans to be impaired if: (i) the loan is classified as "substandard" or below according to the FSC's asset classification guidelines, (ii) the loan is over 30 days past due or (iii) the corporate borrower has received a warning from the Korea Federation of Banks indicating that it has exhibited difficulties in making timely payments of principal and interest.

Loan Loss Provisioning Policy

Troubled debt restructuring loans, which are modified with respect to their outstanding principal amount, interest rates, and/or maturity, under restructuring programmes, such as workout, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value. When estimating the present value of loans, the Bank applies the interest rate at the inception of the loans, except for the interest rate of floating rate loans. When estimating the present value of floating rate loans, the Bank applies the basic interest rate and the credit spread rate as of the date of a restructuring agreement to discount the future cash flows. The difference between the book value and the present value is recorded as bad debt expense.

In addition, differences between the nominal value and the present value are accounted for as allowances for loan loss and subtracted from the nominal value. The aforementioned allowances for loan loss are reversed and recognised as interest income by applying the effective interest rate method.

The following table sets out the loan loss provisioning requirements for loans classified as "normal" (as a percentage of outstanding credit).

	Corporate Borrowers					
	Old Requirements	New Requirements				
Loan classification	All Corporate Loans	General	Construction and Property	Wholesale and Retail	Accommodations and Restaurants	Real Estate and Leasing Business
			(percentages)			
Normal....................	0.7 or above	0.85 or above	0.9 or above	0.9 or above	0.9 or above	0.9 or above

Loans are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful or estimated loss. The Bank is required to establish provisions for loan losses for the bank accounts and trust accounts as of the end of each fiscal year. The allowance for possible loan losses is established based on the classification of the loans, using the following percentages prescribed by the FSC as the minimum percentage of the outstanding principal amount of the relevant loans that the sum of such allowance and reserve must cover.

Loan classifications	Corporate	Consumer	Credit card
Normal	0.85[(1)]% or above	1.0% or above	2.5% or above
Precautionary	7.0% or above	10.0% or above	50.5% or above
Substandard	20.0[(2)]% or above	20.0% or above	65.0% or above
Doubtful	50.0[(3)]% or above	55.0% or above	75.0% or above
Estimated loss..	100.0[(4)]%	100.0%	100.0%

Notes:

(1) or, in the case of corporate borrowers classified to be in the "construction and property" business, the "wholesale and retail" business, "accommodations and restaurants" business and "real estate and leasing" business, 0.9%

(2) or, 10% in the case of substandard credits attached with the priority rights of the Bank under the New Corporate Restructuring Act or Debtor Rehabilitation and Bankruptcy Act of Korea.

(3) or, 25% in the case of substandard credits attached with the priority rights of the Bank under the New Corporate Restructuring Act or Debtor Rehabilitation and Bankruptcy Act of Korea.

(4) or, 50% in the case of substandard credits attached with the priority rights of the Bank under the New Corporate Restructuring Act or Debtor Rehabilitation and Bankruptcy Act of Korea.

The Bank does not accrue interest on loans where interest payments have not been made. Interest is generally paid in advance for loans to corporate borrowers and interest is generally paid in arrears on a monthly basis for loans to other borrowers.

The Bank establishes specific loan loss allowances for loans based on whether a particular loan is identified as impaired or not. See "— *Loan Classifications*" above. Loan loss allowances are established for impaired loans, in general, by discounting the estimated future cash flow (both principal and interest) the Bank expects to receive on a particular loan. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain foreign corporate loans which are considered impaired, the fair value is determined by reference to observable market prices, when available. The Bank also establishes allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical migration and loss information.

The following table below sets forth, as of the dates indicated and on a separate basis, a summary of the Bank's loan portfolio (excluding trust accounts).

	As of 31 December 2012		As of 31 December 2013		As of 30 June 2014	
	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans
	(in billions of Won, except percentages)					
Normal	₩137,189	96.3%	₩145,650	96.2%	₩150,336	96.4%
Precautionary	2,736	1.9	2,708	1.8	2,502	1.6
Non-performing Loans						
Substandard	1,733	1.2	1,893	1.2	1,877	1.2
Doubtful	555	0.4	849	0.6	958	0.6
Estimated loss	337	0.2	336	0.2	265	0.2
Subtotal	2,625	1.8	3,078	2.0	3,100	2.0
Total (1)	₩142,550	100.0%	₩151,436	100.0%	₩155,938	100.0%

Note:

(1) Calculated on a present value basis.

Loan Aging Schedule

The following table sets forth, on a separate basis, the loan aging schedule (excluding accrued interest) as of the dates indicated.

	Normal		1 to 3 Months		3 to 6 Months		More than 6 Months		Total	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%
	(in billions of Won, except percentages)									
As of 31 December 2012	₩140,874	98.8%	₩371	0.3%	₩286	0.2%	₩1,019	0.7%	₩142,550	100.0%
As of 31 December 2013	149,962	99.0	254	0.2	100	0.1	1,120	0.7	151,436	100.0
As of 30 June 2014	154,569	99.1	256	0.2	224	0.1	889	0.6	155,938	100.0

Non-accrual Loans and Past Due Accruing Loans

The Bank generally places loans on non-accrual status when payments of interest and/or principal become past due by one month. Interest is no longer recognised on these loans from the date the loan is placed on non-accrual status. Loans are reclassified as accruing when both interest and principal payments are up to date and future payments of principal and interest are reasonably assured. The Bank generally does not recognise interest income on non-accrual loans unless collected.

Interest foregone is the interest due on non-accrual loans that has not been accrued in the Bank's books of account. The total non-accrual loans of the Bank amounted to Won 1,460 billion as of 30 June 2014.

The category "accruing but past due one day" includes loans on which principal or interest payments are contractually past due one day or more. The Bank continues to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, Korea Deposit Insurance Corporation or certain financial institutions.

The following table sets out, as of the dates indicated on a separate basis, the amount of loans that were placed on a non-accrual basis and loans which were accruing but past due one day or more.

	As of 31 December		As of 30 June
	2012	**2013**	**2014**
	(in billions of Won)		
Loans accounted for on a non-accrual basis (generally past due one month or more as to principal or interest)	₩1,784	₩1,541	₩1,460
Accruing loans which are contractually past due one day or more as to principal	1,927	1,685	1,503

Potential Problem Loans

As of 30 June 2014, on a separate basis, the Bank had Won 2,502 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future. Such loans are classified by the Bank as precautionary (See "—*Non-performing Loans*").

Non-performing Loans

Non-performing loans are defined by the Bank as loans greater than 90 days past due. These loans are generally rated "substandard" or below under the Financial Service Commission guidelines.

The following table sets out, as of the dates indicated, on a separate basis, the Bank's total loans and total non-performing loans by the type of borrowing. The Bank does not have any non-performing credits.

	As of 31 December 2012		As of 31 December 2013		As of 30 June 2014		
	Total Loans	Non-Performing Loans	Total Loans	Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans
	(in billions of Won, except for percentages)						
Won	₩137,218	₩2,519	₩146,833	₩2,920	₩151,046	₩3,057	2.0%
Corporations	64,364	1,968	68,485	2,458	70,444	2,447	3.5
Retail	66,625	542	69,438	457	70,710	531	0.8
Public and others	6,229	9	8,960	5	9,892	79	0.8
Foreign currencies	5,332	106	4,553	159	4,892	119	2.4
Total	₩142,550	₩2,625	₩151,436	₩3,079	155,938	3,176	2.0%

The following table sets out, on a separate basis, the Bank's total non-performing loans according to industry sector in which the borrower operates, as of the dates indicated.

	As of 31 December 2012	As of 31 December 2013	As of 30 June 2014
	(in billions of Won)		
Manufacturing	₩273	₩317	₩308
Construction	429	486	451
Real estate and rental	749	979	1,155
Retail and wholesale	116	268	196
Service and others	521	610	481
Total	₩2,088	₩2,660	₩2,591

10 Largest Non-Performing Loans

As of 30 June 2014, the Bank's largest non-performing loan outstanding was Won 162 billion, and the ten largest non-performing loans totalled Won 944 billion. The following table sets out certain information regarding the ten largest non-performing loans of the Bank as of 30 June 2014.

Borrower	Industry	Gross Principal Outstanding
		(in billions of Won)
1	Real estate and rental	₩162.0
2	Real estate and rental	161.6
3	Real estate and rental	89.9
4	Real estate and rental	85.7
5	Manufacturing	77.5
6	Retail and wholesale	77.4
7	Finance and insurance	74.4
8	Real estate and rental	73.3
9	Real estate and rental	72.8
10	Real estate and rental	69.3
Total		₩944.0

Non-performing Loan Strategy. The Bank's credit rating systems are designed to prevent its loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. The Bank's early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of its loan officers, who then closely monitor such loans. Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower's assets, send a notice demanding payment or a notice that the Bank will take legal action and prepare for legal action.

At the same time, the Bank will also initiate its non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying loans subject to normalisation efforts based on the cash flow situation of the borrower.

Once the details of a non-performing loan are identified, the Bank pursues early solutions for recovery. While the overall process is the responsibility of the Credit Management Department, actual recovery efforts on non-performing loans are handled by its regional non-performing loan management teams. Methods for resolving non-performing loans include the following:

- for loans in arrears for more than three months but less than six months and for loans to bankrupt companies:
  - non-performing loans are transferred from the operating branch or call centre to the Bank's regional non-performing loan management centres;
  - a demand note is dispatched by mail if payment is generally two months past due;
  - calls and visits are made by the Bank's regional non-performing loan management staff to customers encouraging them to make payments;
  - borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans;
  - preparations are made to use judicial means, including foreclosure and auction of the collateral; and
  - credit card loans are prepared for collection procedures.
- for loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:
  - for mortgage loans other than individual housing loans, foreclosure and auction proceedings are commenced;
  - for unsecured loans other than credit card loans, the loans are prepared for collection; and
  - borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans.

- for loans in arrears for over one year:
  - for individual housing loans, foreclosure and auction proceeding are commenced;
  - in the case of unsecured loans, the loans are treated as loan losses; and
  - charged off loans are prepared for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

In order to promote speedy recovery on loans subject to foreclosures and litigation, the Bank's policy is to permit the branch responsible for handling these loans to transfer them to its Credit Management Department or to one of its regional credit management centres.

Sales and Securitisation of Non-Performing Loans

From time to time, the Bank may undertake to reduce the level of the Bank's non-performing loans by selling to and by entering into asset securitisation transactions with special purpose companies in respect to its non-performing loans. The Bank has not sold or entered into securitisation transactions of non-performing loans since 2010.

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which the Bank, together with a borrower and other creditors, restructures the borrower's credit terms. Previously, workouts were regulated under the Corporate Restructuring Promotion Act, which was expired on 31 December 2013. In December 2013, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act (the "**New Corporate Restructuring Promotion Act**"), which became effective on 1 January 2014. Workouts that had been initiated under the Corporate Restructuring Promotion Act are also governed by the New Corporate Restructuring Promotion Act effective from such date. Under the New Corporate Restructuring Promotion Act, which is similar to the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower are required to participate in a creditors' committee which is authorised to prohibit such creditor financial institutions from exercising their rights against the borrower, commencing workout procedures or approving a reorganisation plan prepared by the borrower. In principle, any decision of the creditors' committee requires the approval of creditor financial institutions holding interests as creditor in 75% or more of the total debt outstanding of a borrower. An additional approval of creditor financial institutions holding interests as creditor in 75% or more of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all the creditor financial institutions of the borrower.

Creditor financial institutions that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditor financial institutions that voted in favour of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, the Mediation Committee for Creditor Financial Institutions (the "**Mediation Committee**") consisting of experts would determine the terms. The creditor financial institutions that oppose a decision made by the Mediation Committee may request a court to change such decision. The New Corporate Restructuring Promotion Act is scheduled to expire on 31 December 2015.

Korean law also provides for corporate rehabilitation proceedings, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. That restructuring plan is subject to court approval.

As of 30 June 2014, Won 944 billion, or 0.6%, of the Bank's total loans were in workout, restructuring or rehabilitation. As of the same date, the Bank's allowances for possible loan losses on these loan exposures amounted to Won 297 billion, or 31.4% of these loans. Upon approval of a workout or restructuring plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, the Bank takes the status of the borrower into account in valuing its loans to and collateral from that borrower for purposes of establishing the Bank's allowances for possible loan losses.

The following table sets forth certain information regarding the Bank's 10 largest credits, which were or had previously been subject to workout, restructuring or rehabilitation as of 30 June 2014.

Borrower	**Industry**	**Classification**	**Total Outstanding Credits**	**Allowance for credit Losses**	**Coverage Ratio(1)**
			(in billions of Won, except percentages)		
1	Construction	Construction of residential buildings	₩128	₩4	3.2%
2	Manufacturing	Manufacturing of broadcasting and telecommunication equipment	78	64	82.3
3	Manufacturing	Manufacturing of tires and tubes	77	5	6.6
4	Real estate	Real estate development and supply	73	7	9.6
5	Real estate	Real estate development and supply	69	7	10.2
6	Arts and Sports Leisure	Golf club management	56	31	55.6
7	Construction	Construction of residential buildings	52	6	11.1
8	Arts and sports leisure	Golf and Ski resort management	47	5	10.1
9	Construction	Construction of office and commercial buildings	45	28	61.6
10	Construction	Construction of residential buildings	41	10	24.0
Total			₩666	₩166	

Note:

(1) Ratio of allowance for credit losses to total credits.

Credit Rehabilitation Programme for Delinquent Consumer Borrowers

In light of the rapid increase in delinquencies in consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of the Bank's collections and recoveries on its delinquent consumer credits.

For example, in March 2009, the FSC requested Korean banks, including the Bank, to establish a ''pre-workout program,'' including a credit counselling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout programme has been in operation since April 2009 and, following successive extensions by the Government, is expected to continue indefinitely. Under the preworkout program, maturity extensions and/or interest rate adjustments are provided for retail borrowers with total loans of Won 1.5 billion or less (consisting of no more than Won 500 million of unsecured loans and Won 1 billion of secured loans who are in arrears on their payments for more than 30 days but less than 90 days or for retail borrowers with an annual income of Won 40 million or less who have been in arrears on their payments for more than 30 days on an aggregate basis for the 12 months prior to their application.

In March 2013, in order to support low income consumer borrowers experiencing difficulty in repaying their unsecured long-term debt, the FSC announced the establishment of a "National Happiness Fund" to provide one-time relief to such borrowers by:

- purchasing from creditors unsecured loans of individual borrowers not exceeding Won 100 million in principal amount in the aggregate, which loans have been in arrears for a period of six months or more as of 28 February 2013 and, if requested by the borrower, reducing the balance of such loans by up to 50% and/or extending the maturity of such loans to up to ten years based on the borrower's expected ability to repay;

- purchasing from certain creditors student loans of individual borrowers, which loans have been in arrears for a period of six months or more as of 28 February 2013 and, if requested by the borrower, restructuring the balance and/or extending the maturity of such loans based on the borrower's expected ability to repay or extending the maturity of such loans until the borrower is employed; and

- for individuals with annual income of Won 40 million or less with loans of a principal amount not exceeding Won 30 million in the aggregate and with an interest rate of 20% or higher, facilitating the refinancing of such loans at lower interest rates, provided that such loans have not been in default during the six months prior to the application for relief.

A large number of Korean financial institutions and private lenders, including the Bank, have signed a memorandum of understanding with the National Happiness Fund to sell eligible loans to the fund. The price and volume of such loans to be sold are subject to further negotiations between the National Happiness Fund and such financial institutions and lenders. The National Happiness Fund accepted applications from individual borrowers to participate in such relief programmes until October 2013 and until January 2014 for individual borrowers of student loans from the Korea Student Aid Foundation.

Analysis of the Allowance for Loan Losses

The Bank establishes specific loan loss allowances for loans based on whether a particular loan is identified as impaired or not. See "*—Asset Quality of Loans—Loan Classifications*" above. Loan loss allowances are established for impaired loans, in general, by discounting the estimated future cash flow (both principal and interest) the Bank expects to receive on a particular loan. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain foreign corporate loans which are considered impaired, the fair value is determined by reference to observable market prices, when available. The Bank also establishes allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical migration and loss information. Provisions for loan losses (excluding trust accounts) which are required to be made by the FSC are tax deductible up to the amount required under the FSC guidelines. Pursuant to the Korean Bank Accounting Guidelines, the Bank, like all other banks in Korea, provides for possible losses from guarantees and acceptances which are classified as substandard, doubtful or uncollectible, using the same method as that used to provide for possible losses on the Bank's corporate loans.

The following table presents information regarding the asset quality of the Bank's loan by type of borrower and the allocation of allowances for loan losses.

	As of 30 June 2014				
	Corporate loans[1]	Retail loans[2]	Others[1]	Total	Allowances for loan losses[1]
	(in billions of Won)				
Neither overdue nor impaired	₩43,442	₩84,789	₩27,050	₩155,282	₩(745)
Overdue but not impaired	117	748	0.4	866	(36)
Impaired loans	2,678	736	179	3,593	(1,166)
Total	₩46,237	₩86,274	₩27,229.4	₩159,741	₩(1,948)

Notes:

(1) Deferred loan origination fees and loan origination costs is not included.

(2) Receivables are not included.

The Bank's allowance for possible loan losses compared to total loans as of 31 December 2012 and 2013 and 30 June 2014 was as follows:

	Total Loans	Allowance for Possible Loan Losses	Percentage
	(in billions of Won, except percentages)		
31 December 2012	₩146,282	₩2,184	1.5%
31 December 2013	155,100	2,230	1.4%
30 June 2014	159,742	1,948	1.2%

The following table summarises, on a separate basis prepared in accordance with K-IFRS, the changes in the allowance for loan losses for each period indicated.

	For the period from 2 March 2012 through 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2014
	(in billions of Won)		
Allowance at beginning of the period	₩2,402	₩2,122	₩2,185
Provision for allowance for losses on credit	784	1,085	461
Transactions during the period	(940)	(863)	(684)
Foreign exchange translation	(5)	(2)	(6)
Unwinding effect	(103)	(111)	(55)
Other changes	0	(46)	2
Allowance at end of the period	₩2,122	₩2,185	₩1,902
Allowance of loan losses[1] as a percentage of:			
Average loans outstanding for the period	0.5%	0.7%	0.3%

Note:

(1) Based on period-end non-performing loans for each of the period indicated.

Loan Charge-Offs

The Bank's credit approval process includes assessing credit risk before extending loans and monitoring outstanding loans, in order to minimise loans that must be charged off. To the extent charge-offs are required, the Bank follows charge-off policies aimed at maximising accounting transparency, minimising any waste of resources in managing loans that have a low probability of being collected and reducing its non-performing loan ratio.

Loans To Be Charged Off

The Bank charges off loans that are deemed to be uncollectible by virtue of their falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganisation, dissolution or the shutting down of the business of the debtor;

- loans for which collection is not foreseeable due to the death or disappearance of the debtor;

- loans for which expenses of collection exceed the collectable amount;

- loans on which collection is not possible through legal or any other means;

- payments outstanding on corporate and retail loans (other than credit card receivables) that have been overdue for more than 12 months, and those on unsecured retail loans that have been overdue for more than six months; or

- the portion of loans classified as "estimated loss," net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

In order to charge off corporate loans, an application for a charge-off must be submitted by a branch to the Credit Management and Collection Department promptly and, in any event, within one month after the corporate loan is classified as estimated loss. The relevant department or team evaluates and approves the application. Then, the Bank must seek an approval from the FSS for its charge-offs, which is typically granted. At the same time, the Bank refers the approval of the charge-off by the Credit Management and Collection Department to its Audit Committee for that committee's review to ensure compliance with the Bank's internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Once the Bank receives approval from the FSS, it must also obtain approval from the Bank's senior management to charge off those loans.

With respect to unsecured retail loans, the Bank follows a different process to determine which unsecured retail loans should be charged off, based on the length of time those loans are past due. The Bank charges off unsecured retail loans which are 12 months overdue and have been classified as expected loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge-off is not possible due to Korean regulations).

Treatment of Loans Charged Off

Once loans are charged off, the Bank classifies them as charged-off loans. These loans are then transferred an affiliated company, Agricultural Cooperative Asset Management Corporation, which is in charge of collections. Agricultural Cooperative Asset Management Corporation will attempt to recover amounts owed or to sell these loans to third parties.

In the case of collateralised loans, the Bank's general policy is to petition a court to foreclose and sell the collateral through a court-supervised auction if a collateralised loan becomes overdue for more than three months. If a debtor still fails to repay and the court grants its approval for foreclosure, the Bank will sell the collateral, net of expenses incurred from the auction.

Securities Investment Portfolio

Investment policy and types of securities investment

In making securities investments, the Bank's principal objectives are to maintain the stability and diversification of the Bank's assets and match the maturity of its funding and investments. The securities portfolio of the Bank is managed primarily by the Bank's Fund Management Department.

The following table sets out the definitions of the four types of securities investments the Bank holds under K-IFRS:

Category	Classification
Financial assets at fair value through profit and loss	Financial assets bought and held for trading or otherwise designated as at fair value through profit and loss.
Available-for-sale financial assets ("**AFS financial assets**")	Non-derivative financial assets not classified as held-to-maturity, at fair value through profit and loss or loans and receivables.
Held-to-maturity financial assets ("**HTM financial assets**")	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity.
Investments in associates	Equity investments in entities over which the Bank has significant influence but does not have direct or indirect control over.

For a description of the method by which the Bank values its securities for purposes of its financial statements under K-IFRS, see Note 3 of the notes to the Bank's consolidated interim financial statements included elsewhere in this Offering Circular.

The Bank's securities investment is also subject to a number of limitations prescribed under the Banking Act. Under such limitations, banks must limit their investments in both equity securities and in certain other securities with a redemption period of over three years (other than Monetary Stabilisation Bonds issued by the BOK, national Government bonds, certain stocks and debentures referred to in the Act on the Improvement of the Structure of the Financial Industry) to an amount not exceeding 60.0% of the bank's equity capital (the sum of Tier I and Tier II capital). Except under limited circumstances, banks are also prohibited from purchasing or retaining ownership permanently in more than 15.0% of the voting shares issued by any corporation.

Under the applicable Korean law, funds from the credit and banking accounts of the Bank cannot be used to cover losses in the trust accounts of the Bank. Commercial paper, privately-placed corporate bonds and guaranteed notes are not subject to the above valuation method. Instead, they are classified as loans and are subject to corresponding loan loss provisioning.

Investments in securities denominated in foreign currencies are subject to certain limits and restrictions specified in the Bank's guidelines relating to country exposure, a single issuer and type of security exposure, and total investments by a branch.

At 30 June 2014, total investment in securities amounted to Won 27,468 billion, representing 13.3% of total assets of the Bank.

Book Value and Market Value

The following table sets forth the book value and market value of the securities portfolio of the Bank at the dates indicated.

Classification	As of 31 December 2012			As of 31 December 2013			As of 30 June 2014		
	Fair Value	Book Value	%[1]	Fair Value	Book Value	%[1]	Fair Value	Book Value	%[1]
	(in billions of Won, except percentages)								
Trading securities:									
Equity securities	₩288	₩288	100.0%	₩205	₩205	100.0%	₩246	₩246	100.0%
Debt securities:									
Government and public bond	1,235	1,235	29.6%	1,334	1,334	30.47%	1,341	1,341	25.0%
Financial bonds	1,968	1,968	47.2	2,023	2,023	46.21	2,616	2,616	48.9
Corporate bonds	863	863	20.7	765	765	17.47	649	649	12.1
Public corporation bonds	—	—	0.0	144	144	3.29	364	364	6.8
Others	64	64	1.5	53	53	1.21	10	10	0.2
Securities lent pledged as collateral	41	41	1.0	59	59	1.35	374	374	7.0
Subtotal	4,171	4,171	100.0%	4,378	4,378	100.0%	5,354	5,354	100.0%
Total trading securities	4,459	4,459		4,583	4,583		5,600	5,600	
AFS financial assets:									
Equity securities	₩2,468	₩2,468	100.0%	₩2,327	₩2,327	100.0%	₩2,453	₩2,453	100.0%
Debt securities:									
Government and public bond	1,679	1,679	18.6%	3,596	3,596	32.0%	3,261	3,261	25.3%
Financial bonds	3,786	3,786	41.9	3,760	3,760	33.5	5,138	5,138	39.8
Public bonds	1,661	1,661	18.4	1,523	1,523	13.6	1,973	1,973	15.3
Corporate bonds	1,450	1,450	16.0	1,025	1,025	9.1	961	961	7.4
Foreign currency	431	431	4.8	339	339	3.0	370	370	2.9
Securities lent pledged as collateral	29	29	0.3%	991	991	8.8	1,201	1,201	9.3
Subtotal	9,036	9,036	100.0%	11,234	11,234	100.0%	12,904	12,904	100.0%
Total AFS financial assets	11,504	11,504		13,561	13,561		15,357	15,357	
HTM financial assets:									
Debt securities:									
Government and public bond	₩259	₩246	1.9%	₩211	₩210	2.7%	₩125	₩122	1.9%
Financial bonds	2,002	1,950	15.2	913	895	11.5	505	492	7.6
Public bonds	5,153	5,022	39.2	1,327	1,298	16.6	901	880	13.5
Corporate bonds	1,116	1,093	8.5	721	715	9.2	549	541	8.3
Foreign currency	70	70	0.5	48	44	0.6	46	42	0.6
Securities lent pledged as collateral	4,605	4,436	34.6	4,767	4,649	59.5	4,564	4,434	68.1
Total HTM financial assets	13,205	12,817	100.0%	7,987	7,811	100.0%	6,690	6,511	100.0%
Total of AFS financial assets and HTM financial assets	₩24,709	₩24,321		₩21,548	₩21,372		₩22,047	₩21,868	
Total	₩29,168	₩28,780		₩26,131	₩25,955		₩27,647	₩27,468	

Note:

(1) Represents percentage of the book value.

The Bank's investments in debt securities include primarily Government bonds and finance debentures as well as corporate bonds (other than merchant banks), Government-related funds or privately-capitalised funds that the Bank considers to have a low credit risk. A significant portion of investments in debt securities have a current maturity of three years or less. When deciding on buying a specific stock, the Bank uses external broker analysis as well as internal assessments of the issuer's capital, dividend pay-out and price/earnings ratios, the stock's technical history (volumes traded and current price), issuer's business prospects, industry demand and supply characteristics and the overall political and economic environment.

Maturity Analysis

The following table set forth an analysis of the residual maturity profile of the Bank's debt securities as of 30 June 2014 on a separate basis.

	As of 30 June 2014			
	Within 1 year	**Over 1 but within 5 years**	**Over 5 but within 10 years**	**Over 10 years**
	(in billions of Won)			
Trading securities:				
Debt securities:				
Government and public bond	₩653	₩186	₩26	₩10
Financial bonds	—	—	—	—
Corporate bonds	—	—	—	—
Securities lent pledged as collateral	51	10	—	—
Subtotal	₩704	₩196	₩26	₩10
Available-for-sale securities:				
Government and municipal bonds	₩982	₩2,269	₩11	₩—
Debentures issued by financial institution	2,165	2,973	—	—
Corporate bonds	40	921	—	—
Public bonds	219	1,754	—	—
Beneficiary certificates [(1)]	—	—	—	—
Securities lent pledged as collateral	51	637	513	—
Investments in foreign currency	72	255	43	—
Subtotal	₩3,529	₩8,809	₩567	₩-
Held-to-maturity securities:				
Government and municipal bonds	₩10	₩108	₩—	₩—
Debentures issued by financial institution	222	70	—	200
Corporate bonds	130	411	—	—
Public bonds	300	580	—	—
Investments in foreign currency	—	—	321	—
Securities lent pledged as collateral	497	3,527	411	—
Sub Total	₩1,159	₩4,696	₩732	₩200
Total	₩5,392	₩13,701	₩1,325	₩210

Note:

(1) Beneficiary certificates are instruments that are issued by and represent an ownership interest in an investment trust. Investment trusts, which operate like mutual funds in the United States, are managed by investment trust management companies and invest in portfolios of securities and/or other financial instruments, such as certificates of deposit. Beneficiary certificates give the holder beneficial rights to both the relevant investment trust and the trust property in which the investment trust has invested.

Risk Concentration

As of 30 June 2014, the Bank held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of its total ownership interest as at such date, which was Won 48.9 billion.

	As of 30 June 2014		
	Market Value	Book	Percentage share of issuer's total ownership interest
	(in billions of Won)		
Name of Issuer:			
NH Agri Best 1st	2	2	70.3%
NH Kolon Green 1st	3	3	57.5%
NH SG Privately placed fund 1st	9	9	29.8%
NH QCP Global	5	5	25.0%
IBK NH Small Giant	—	—	45.0%
NH Glenwood	30	30	95.2%

Funding

The Bank's sources of funding consist mainly of deposits and other borrowings. Deposits, made by individuals, corporates, local governments and others, include demand deposits, time and savings deposits, mutual installments and certificates of deposit. The Bank's other sources of funding consist of borrowings from Government-related entities such as the MOAF, the MAFRA and local governments. The Bank is able to issue debentures which carry the guarantee of the Government ("**Agricultural Bonds**") but it has not relied on this source of funding to any significant extent historically.

The Bank's borrowings are generally short-term in maturity with 42.87% of such borrowings maturing within six months as of 30 June 2014. Most of the Bank's borrowings in foreign currencies are in U.S. dollars and Japanese Yen, and have maturities less than three years.

In its foreign currency funding, the Bank is required to make reports to the MOSF regarding borrowings in excess of U.S.$50 million with maturities over one year. As of 30 June 2014, foreign currency borrowings by the Bank amounted to Won 3,878 billion.

Deposits

As of 30 June 2014, 94.96% of the Bank's deposits had current maturities of one year or less or were payable on demand. In the Bank's experience, however, a substantial portion of such customer deposits are rolled over upon maturity or are maintained with the Bank in the case of deposits payable on demand, and have been, over time, a stable source of funding. There can be no assurance, however, that such deposits will continue to be rolled over in the future. To the extent that such deposits are not rolled over, the Bank will be required to obtain other sources of funding.

The Bank sets the rate of interest which it pays on deposits according to market conditions, except with respect to those deposits which remain subject to regulation by the BOK.

The following table sets forth the principal sources of the Bank's funding (based on daily average balances) and the average annual interest rate paid, on a separate basis, for the periods indicated and.

	For the period from 2 March 2012 through 31 December 2012		For the year ended 31 December 2013		For the six months ended 30 June 2014	
	Average Amount	**Average Rate**	**Average Amount**	**Average Rate**	**Average Amount**	**Average Rate**
	(in billions of Won, except percentages)					
Deposits:						
Demand deposits	₩12,830	0.47%	₩14,008	0.49%	₩17,124	0.43%
Savings deposits	123,219	2.93%	121,849	2.38%	125,800	2.14%
Certificates of deposit	542	3.26%	1,297	2.79%	1,345	2.69%
Deposits in foreign currency	1,638	1.54%	1,620	0.97%	1,406	0.48%
Other deposits	876	23.01%	1,845	12.56%	2,808	3.00%
Total	₩139,105	2.81%	₩140,619	2.31%	₩148,484	1.94%

Maturities of Certificates of Deposit and Other Time Deposits

The following table summarises the Bank's certificates of deposits and other time deposits by maturity as of 30 June 2014.

	Deposits in Won		Deposits in foreign currencies		Total	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
	(in billions of Won, except percentages)					
Certificates of deposit:						
Due in 3 months or less	₩474.1	36.0%	₩—	—%	₩474	36.0%
Due between 3 months and 6 months	123.1	9.3	—	—	123	9.3
Due between 6 months and 1 year	712.7	54.2	—	—	713	54.2
Due after 1 year	6.3	0.5	—	—	6	0.5
Sub-total.	₩1,316.2	100.0%	₩—	100.0%	₩1,316	100.0%
Other time deposits:						
Due in 3 months or less	₩7,708.8	7.8%	₩0.1	27.5%	₩7,709	7.8%
Due between 3 months and 6 months	9,853.1	9.9	0.1	30.4	9,853	9.9
Due between 6 months and 1 year	64,606.3	65.1	0.2	41.9	64,607	65.1
Due between 1 year and 5 years	15,914.8	16.0	0.0	0.2	15,915	16.0
Due after 5 years	1,118.9	1.1	—	—	1,119	1.1
Sub-total	99,201.9	100.0%	0.5	100.0%	99,203	100.0%
Total	₩100,518.1		₩0.5		₩100,519	

Long term Contractual Obligations and Commitments

The following table set forth the aggregate amount of contractual maturities of all of the Bank's Won-denominated long-term debt (comprising debentures and borrowings) as of 30 June 2014 on a separate basis prepared in accordance with K-IFRS.

	As of 30 June 2014
	(in billions of Won)
Due in 30 June 2015	3,092
Due in 30 June 2016	1,520
Due in 30 June 2017	1,195
Thereafter	8,981
Total long term debt	₩14,789

Short term borrowings

The following table presents information regarding the Bank's Won-denominated short terms borrowings (borrowings with an original maturity of one year or less) as of and for the periods indicated.

	As of and for the year ended 31 December		As of and for the six months ended 30 June
	2012	2013	2014
	(in billions of Won, except percentages)		
Call money:			
Period end balance	₩4	₩2,936	₩1,247
Average balance(1)	1,534	1,588	1,636
Average interest rate(2)	2.71%	2.46%	2.3%
Period end interest rate	2.69%	2.45%	2.43%
Other short term borrowings(3):			
Period end balance	₩238	₩390	₩863
Average balance(1)	256	341	549
Average interest rate(2)	1.21%	1.06%	0.98%
Period end interest rate	1.25%	1.0%	1.0%

Notes:

(1) Average outstanding balances have been calculated using daily averages.

(2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.

(3) Other short term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short term secured borrowings and foreign currency debentures.

RISK MANAGEMENT

The Bank's goal in risk management is to control and effectively manage the risk of all of its departments in their general management activities, and promote stability and soundness of its management and ensure sustainable growth of the Bank. The Bank ensures that it understands, measures and monitors the various risks that arise from its business activities, and it adheres strictly to the policies and procedures which are established to address these risks.

Risk Management Units

Risk Management Committee: The Risk Management Committee is a committee under the Board of Directors and comprises five members including the President. The Risk Management Committee is the highest decision-making body regarding risk management and makes determinations on all issues relating to the Bank's comprehensive risk management function. In order to ensure the Bank's stable financial condition, this committee monitors the Bank's overall risk exposure and reviews its compliance with risk policies and risk limits. In addition, this committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, reviews risk-based capital allocations and reviews the plans and evaluation of internal control. This committee holds regular meetings every quarter.

Risk Management Council: The Risk Management Council consists of the head of the Risk Management Headquarters and the division heads of the Bank. The Risk Management Council establishes detailed risk management practices based on the risk policies established by the Risk Management Committee, analyses risks and establishes risk management measures, sets allowances for risk limit by each risk type and decides and amends risk measurement standards and methods. This council convenes at least once a month as well as on ad-hoc basis.

Risk Management Working Party Meeting: The Risk Management Working Party Meeting is a meeting amongst the team leaders of the relevant departments. The Risk Management Working Party Meeting evaluates and reviews the specific issues relating to risk management. This meeting is held on a monthly basis as well as on ad-hoc basis.

Risk Management Department: The Risk Management Department consists of the Risk Policy Team, the Credit Risk Team, the Market Risk team, the Operational Risk team, the Industry Analysis team and the Middle Office team. Each team assists the Risk Management Committee and the Risk Management Council and performs various tasks such as risk measurement, risk monitoring, risk control and risk reporting as well as establishing risk management strategies.

Chief Risk Officer: The Chief Risk Officer is a member of the Risk Management Council and also serves as the chairperson of the Total Exposure Setting Committee and the head of the Credit Management Division. The Chief Risk Officer is responsible for overseeing all risk related issues concerning the Bank.

The business of the Bank is primarily exposed to counter-party credit risk, market risk, liquidity risk, interest rate risk and foreign exchange risk. The measures put in place by the Bank to monitor risks across all significant areas are set forth below:

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. The Bank determines the creditworthiness of each type of borrower or counterparty through reviews conducted by its credit experts and through its credit rating systems, and the Bank sets a credit limit for each borrow or counterparty.

The Bank believes it has comprehensive risk management procedures in place for approving and monitoring the quality of its loan portfolio.

Credit Evaluation

The Bank's credit evaluation model reflects the requirements of Basel II, and is operated separately by its Credit Scoring System ("**CSS**"), which is used for consumer-related credit evaluation, and its NongHyup Integrated Credit Rating System ("**NICS**"), which is used for non-consumer-related credit evaluation.

Under the NICS, the Bank uses a number of corporate risk assessment models to analyse credit risk of corporate loans. The Bank classifies corporate borrowers into six categories: general corporate, financial institutions, public institutions, non-profit organisation, special financings and securitisation exposure. Certain categories are further divided into 24 sub-categories, with a separate corporate risk assessment model being used to analyse the risk of corporate loans under each category or, if applicable, sub-category.

Under each of the Bank's corporate risk assessment models, borrowers are classified into ten risk categories, with certain risk categories being further divided into two or three sub-categories, based on financial and business risk of the borrower and the relevant borrower's ability to repay debt.

The table below sets forth a brief description of the borrowers under each of the ten categories.

Risk Categories	Description of borrowers under each risk categories
1	Very large corporate borrower with high level of competitiveness in the market it operates and strong capability to repay its debt.
2	Large corporate borrower with excellent management skills, financial stability and cash flows, and ability to repay its debts.
3	Large corporate borrower with strong ability to repay its debt but which may be adversely affected by foreseeable economic conditions.
4	A corporate borrower that is able to recover from a general slowdown of its industry but may be adversely affected by economic conditions.
5	A corporate borrower with low probability of defaulting on repayment of its debt in the near future but its ability to repay debt may be adversely affected if economic conditions deteriorate.
6	A corporate borrower that currently has the ability to repay its debt but has a probability of defaulting on its debt if the economic and/or market conditions deteriorate.
7	A corporate borrower that does not have an immediate risk of default taking into factors such as its management status, financial status, future cash flows status, but has potential weaknesses that may lead to a weakening of the ability to repay its debt and increase the risk of default if the management does not address and correct these potential weaknesses.

Risk Categories	Description of borrowers under each risk categories
8	A corporate borrower that has a weakness that will adversely affect the corporate borrower's ability to repay debt, taking into factors such as its management status, financial status, future cash flows status, and may bring losses to the Bank if these weaknesses are not corrected.
9	A corporate borrower with very high probability of default taking into factors such as the management status, financial status, future cash flows status. A corporate borrower that has loans outstanding that are overdue by 90 days or more.
10...	A corporate borrower that does not have the capability to repay its debt, and the Bank would be required to write-off the loans to that corporate borrower. A corporate borrower that has outstanding loans overdue by one year or more. A corporate borrower that has serious risk of default due to bankruptcy, winding up or liquidation.

Loan Approvals

Applications for the Bank's corporate and retail loans are made through the Bank's branches. Such applications are initially reviewed and approved based on the credit rating system, which includes a corporate rating system for corporate loans and the CSS for retail loans at the branch level. Approval and review at the Bank's headquarters involve one of three committees which make the approval or denial decisions.

The lowest level are the loan review committees which are segregated into a loan review committee at the branches, a loan review committee at the district division and a loan review committee at the headquarters. Each committee consists of all concerned loan managers and examiners. The loan review committees review and approve applications, within its delegated authority, with the final approval of the branch manager in the case of the branches, the district division managers or the division manager, as appropriate, in the case of the district division and by the managing director, the department manager or the assistant department manager, as appropriate, in the case of the headquarters, each according to a final approval criteria table. The next level committee above the loan review committees is the loan examination sub-committee, consisting of six managers from various divisions, which deliberates and approves applications with the final approval by the managing director. The responsible examiner must be present and the relevant branch manager may be present where necessary. The loan examination committee is at the highest level and consists of the representative director in charge of credit, the managing director in charge of the financial management division, the managing director in charge of the financial collective division and the managing director in charge of the agricultural financing division, which deliberates and approves applications with the final approval by the representative director in charge of credit according to the final approval criteria table. Likewise, the responsible examiner must be present and the relevant branch manager may be present where necessary. At these three committee levels, an applicable loan is reviewed for approval according to certain criteria, including the lawfulness of the loan application, feasibility of the loan, the stability of the loan in terms of repayment and the contribution to the Bank's profit, and the loans are approved with the consent of two thirds or more of the council members.

Additionally, a three-examiner agreement system operates at the Bank's headquarters, at certain district divisions and at the specialised corporate loan branches. Each of the three loan examiners must hold the requisite qualifications. The system allows for a diversity of opinions through the use of three qualified loan examiners. It also minimises the risk of large loans and maximises profits by efficient and strategic allocation of funds.

Monitoring Credit Risk

The Bank has implemented measures to monitor and control credit risk. A brief description of the main measures implemented by the Bank are set out below:

Loan Follow-up System: The Bank has a loan follow-up system which enables timely loan collection and saves on overhead costs by eliminating the follow-up burden on branches by giving the headquarters concentrated control over short-term overdue loans. Different reminding strategies are used depending on the type of loan.

Loan Inspection: A loan inspection aid system was established for each division which automatically produces specified loan related data and provides a data check for the data requested by the FSS. This aims to minimise data production at the branch level if a total audit is requested by the FSS and also provides a certification procedure for the branches.

Future Developments: The loan rating system was developed into a total of 18 ratings which takes into consideration the characteristics of each loan on the basis of the corporate rating. The system is utilised as the criteria for determining the interest rate, assistance level, credit risk control and reserve deposit level.

Credit Policies

The Bank formulates and implements its credit policies in compliance with relevant regulations issued by the FSC. The Bank's fundamental credit policies are established by Loan Planning and Service Department, and are set forth in the Bank's credit regulations, and the Bank implements its credit policies based upon detailed criteria set forth in its internal guidelines.

The Credit Policy Department functions as a centralised policy-making, reporting and asset quality management department for the Bank's lending operations.

Policy Making: The Bank assesses its credit portfolio on a quarterly basis and sets annual target lending levels for particular industries, both in light of changing circumstances and the existing portfolio of the Bank.

Loan Approval Limits: The Bank has implemented loan approval limits with respect to branch offices business classification, as set out in the following table:

	Total Loan Approval Limits per borrower (*in millions of Won*)		
Branch Classification	**Corporate Business**	**Combined Business**	**Retail Business**
Total loan limit (including credit loan limit) Corporate Loans	Up to 25,000	Up to 4,000	Up to 2,500
Consumer — Secured Loans	Up to 2,500	Up to 2,000	Up to 2,000
Consumer — Unsecured Loans	Up to 1,000	Up to 200	Up to 200

Loan approval limits with respect to the Bank's corporate customers depend on the credit rating given to the company by the headquarters according to the Bank's internal credit rating system.

Credit Remediation

Recognition of problem loans generally begins when an interest or principal payment is late. The Bank produces weekly reports containing arrears information from the headquarters as well as the branches and notifies the relevant borrowers of late payment based upon such report.

The Bank also monitors information provided on a real-time basis by a computer network system operated by the Korean Federation of Banks, which information includes borrowers who have declared bankruptcy and borrowers who have received warnings indicative of arrears exceeding three months and six months, respectively, from any Korean bank. The Bank also monitors a weekly report containing similar information from other financial institutions through a computer network system. Any borrower that receives a certain warning from any bank generally will have their banking services terminated by all banks. The Bank also monitors information provided by a computer network operated by a Korean credit information company in taking appropriate remedial actions.

The Loan Management Department at the Bank's headquarters is responsible for managing non-performing credits transferred to it by other business units of the Bank. Each branch periodically sells problematic and non-performing credits at the estimated market value to the Loan Management Department. The Bank believes that centralising the remediation and resolution of non-performing credits will enable it to implement uniform policies for non-performing credit resolution and should result in a system that pools institutional knowledge and creates a more specialised work force. Collectively, these factors should lead to an increasing rate of recovery with respect to non-performing credits while increasing operational efficiency by allowing each branch to focus on its core business without expending resources to deal with non-performing credits. The Loan Management Department also manages loans in respect of which payment is at least one month past due.

Market Risk Management

The Bank manages its market risks by setting limits, such as investment limits, position limits and risk approval limits›, on a Value at Risk ("**VaR**") basis and monitoring strict compliance with these limits and stop-loss rules through its Risk Management Committee and Asset and Liability Management Committee. Under the Bank's risk management structure, the operational departments each:

- establishes and monitors compliance with risk limits and stop-loss rules;
- reports to the Risk Management Committee on the holding of trading assets, the current status of market risk and compliance with risk limits;
- reviews the volatility of the marketable securities portfolio by each market risk factor; and
- measures net positions and VaR of trading activities by risk factor on a daily basis.

The principal market risk arising from the Bank's trading activities can be subdivided into interest rate risk, equity risk and foreign exchange risk:

- Interest rate risk is the principal risk to which the Bank's trading activities are exposed. This risk arises primarily from the Bank's debt securities. The Bank sets different exposure limits for its interest rate risk for its trading and non-trading debt portfolios.

- Equity risk arises from price fluctuations in equity securities and derivatives.

- Foreign exchange risk arises from foreign currency-denominated assets and liabilities in both its trading and non-trading accounts and financial derivatives involving foreign currencies.

The following table shows the daily VaRs of the Bank, as of the dates indicated, at a 99.9% confidence level for a one day holding period, for liquidity risk, interest rate risk and foreign exchange risk relating to the trading activities of the Bank.

	As of 31 December		As of 30 June
	2012	2013	2014
	(in billions of Won)		
Risk categories:			
Interest rate risk	₩5.6	₩10.1	₩7.3
Equity risk	9.6	3.1	3.8
Foreign exchange risk	0.6	0.6	0.2
Less: diversification	6.0	0.7	2.8
VaR for overall trading activities	9.8	13.1	8.5

In addition to the daily VaR, the Bank conducts the following tests to measure the extent of its exposure to market risk:

Back Testing. The Bank conducts back testing on a daily basis to validate the adequacy of its market risk model. In back testing, the Bank compares both the actual and hypothetical profit and loss with the VaR calculations and analyses any results that fall outside its predetermined confidence interval.

Stress testing. In addition to VaR, which assumes normal market situations, the Bank uses stress testing to assess its market risk exposure to abnormal market fluctuations. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside the Bank's normal expectations.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavourable price due to lack of available funds. The Bank manages its liquidity in order to meet its financial liabilities from withdrawals of deposits, redemption of matured debentures and repayment of borrowed funds. The Bank also requires sufficient liquidity to fund loans, to extend other credits and to invest in securities. The Bank's liquidity management goal is to meet all its liability repayments on time and fund all investment opportunities even under adverse conditions.

The Bank maintains significant cash balances for each of its business segments to provide for sufficient liquidity. In addition to cash balances the Bank maintains substantial portfolios of investment and trading securities. The Bank is also able to issue Agricultural Bonds to maintain liquidity at sufficient levels.

The FSC requires each Korean bank to maintain a Won liquidity ratio (defined as Won liquid assets with remaining maturity of not more than one month (including marketable securities) divided by Won liquid liabilities with remaining maturity of not more than one month) of not less than 100.0% and to make monthly reports to the FSC. However, the FSC requires certain specialised banks (which includes the Bank) to maintain a Won liquidity ratio of not less than 70.0%. The FSC requires each Korean bank to (1) maintain a foreign currency liquidity ratio (defined as foreign currency assets (as defined under the Detailed Regulation on the Supervision of Banking Business) with remaining maturity of not more than three months divided by foreign currency liabilities (as defined under the Detailed Regulation on the Supervision of Banking Business) with remaining maturity of not more than three months) of not less than 85.0% and to make monthly reports to the FSC, (2) maintain foreign currency maturity mismatch ratio due within seven days (calculated as the ratio of foreign-currency liquid assets with remaining maturity of not more than seven days less foreign-currency liabilities with remaining maturity of not more than seven days, divided by total foreign-currency assets) of not less than negative 3.0% and (3) maintain foreign currency maturity mismatch ratio due within one month (calculated as the ratio of foreign currency liquid assets with remaining maturity of not more than one month less foreign currency liabilities with remaining maturity of not more than one month, divided by total foreign currency assets) of not less than negative 10.0%. The Bank is required to maintain a mid -to long-term foreign exchange funding ratio (calculated as the ratio of balance of foreign currency borrowing (as defined in the Detailed Regulation on Supervision of Banking Business) in excess of one year in the repayment period divided by balance of foreign currency lending (as defined in the Detailed Regulation on supervision of Banking Business) in excess of one year in the repayment period) of 100.0% or more.

The following table shows the liquidity status and limits for Won and foreign currency accounts of the Bank as of the dates indicated, in accordance with FSC regulations:

	As of 30 June 2014
	3 months or less
	(in billions of Won, except percentages)
Won accounts:	
Credit and banking:	
Assets (A)	₩60,985
Liabilities (B)	59,945
Liquidity gap	1,040
Liquidity ratio (A/B)	101.7%
Limit	—

	As of 30 June 2014		
	7 days or less	1 month or less	3 months or less
	(in millions of U.S.$, except percentages)		
Foreign currency accounts:			
Foreign currency assets	$4,692	$9,956	$15,790
Foreign currency liabilities	4,561	9,284	14,551
Maturity gap	131	541	567
Cumulative gap (A)	131	672	1,239
Total assets (B)	22,771	22,771	22,771
Liquidity gap ratio (A/B)	0.58%	2.95%	N/A
Limit	(3)%	(10)%	N/A

In addition to liquidity risk management under the normal market situations, the Bank has contingency plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when the Bank would not be able to effectively manage the situations with its normal liquidity management measures due to, among other reasons, inability to access the Bank's normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of the Bank's credit. The Bank contemplates the following possible courses of action as its contingency plans:

- to closely monitor market movements in the Bank's assets and liabilities and generate daily reports to its management;
- to draw down up to its credit limit from the Bank's existing credit lines as necessary;
- to set up back up overdraft facilities;
- to dispose of the Bank's securities investments and any overseas funds; and
- to call for early redemption of the Bank's loan assets.

Pursuant to the currently effective Regulation on Supervision of Banking Business issued by the FSC, foreign exchange agencies, including the Bank, are required to hold "foreign currency safe assets" in an aggregate amount that is not less than the lower of (i) the product of (x) its total foreign currency-denominated debt maturing in one year or less multiplied by 2/12 and (y) an amount equal to one minus the "lowest rollover ratio" and (ii) 2% of its total foreign currency-denominated assets as shown in the balance sheet for the immediately preceding quarter.

The "**lowest rollover ratio**" of a foreign exchange agency means the ratio of (A) its total amount of borrowing with maturities of one year or less (excluding overnight money) procured in a particular month to (B) its total amount of borrowing with maturities of one year or less (excluding overnight money) that mature during that particular month, and refers to the average rate for the lowest three months during a period to be determined by the governor of the FSS. Under the Regulation on Supervision of Banking Business, the scope of foreign currency borrowing which mature within one year includes financial bonds, borrowings, call monies and repurchase selling denominated in foreign currencies and such other similar debt instruments denominated in a foreign currency as determined by the governor of the FSS.

"**Foreign currency safe assets**" means any of the following: (i) cash denominated in foreign currency, (ii) deposits denominated in foreign currency with the central bank of a country of Grade A or above or financial institutions of Grad A or above in credit rating, (iii) bonds issued or guaranteed by a government or central bank of a country of Grade A or above in credit rating or (iv) corporate bonds, etc., issued or guaranteed by corporations of Grade A or above in credit rating, in each "Grade A" referring to certain grades as rated by internationally recognised rating agencies as described in the Detailed Regulation on Supervision of Banking Business. Under the Regulation on Supervision of Banking Business, the Bank is also required to maintain a minimum "mid- to long-term foreign exchange funding ratio" of 100% "Mid- to long-term foreign exchange funding ratio" refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Interest Rate Risk Management

A key component of the Bank's risk management policy is the management of interest rate sensitivity. The imbalance of the maturity of the Bank's interest rate sensitive assets and liabilities, and the gap resulting from such imbalance may cause net interest income to be affected by changes in the prevailing level of interest rates. Accordingly, the Bank performs various gap analyses in respect of such imbalance every month and estimates the future net interest income effect of changes in market rates of interest. In addition, the Bank adjusts the maturity of its assets and liabilities based upon their respective sensitivities to interest rate changes in order to manage interest rate risk.

Interest Rate Gap Analysis. Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest earning assets and interest bearing liabilities at each maturity and interest resetting date. The Bank performs interest rate gap analysis for Won and foreign currency denominated assets on a monthly basis. For interest rate gap analysis the Bank uses or assumes the following maturities for different assets and liabilities:

The following table sets forth the interest rate sensitive asset/liability gap position for the operations of the Bank as of 30 June 2014.

	Balance	Within 3 months	Within 6 months	Within 1 year	Within 3 Years	Over 3 Years
			(in billions of Won)			
Won denominated:						
Assets:						
Cash and due from banks	₩2,639	₩2,639	₩—	₩—	₩—	₩—
Loans	144,766	49,901	35,453	34,711	14,729	9,972
Securities	20,923	1,029	3,539	2,269	8,865	5,222
Others	6,392	4,996	128	972	281	15
Total assets	₩172,721	₩58,565	₩39,120	₩37,952	₩23,875	₩15,209
Liabilities:						
Deposits	₩150,369	₩53,095	₩33,106	₩40,566	₩14,133	₩9,468
Borrowings	15,263	2,339	2,340	5,984	660	3,940
Others	4,463	4,235	199	25	4	—
Total liabilities	₩170,094	₩59,669	₩35,645	₩46,575	₩14,797	₩13,408
Asset/liability gap	4,627	(1,104)	3,475	(8,623)	9,078	1,801
Cumulative gap	₩4,627	₩(1,104)	₩2,371	₩(6,252)	₩2,826	₩4,627

	Balance	Within 3 months	Within 6 months	Within 1 year	Within 3 Years	Over 3 Years
			(in millions of U.S.$)			
Foreign currency denominated:						
Assets:						
Cash and due from banks	$230	$130	$100	$—	$—	$—
Loans	6,235	4,856	1,206	167	6	—
Securities	493	79	10	36	63	305
Others	2,259	1,253	6	—	500	500
Total assets	$9,217	$6,318	$1,322	$203	$569	$805
Liabilities:						
Deposits	$1,220	$2,695	$(1,951)	$291	$96	$89
Borrowings	3,872	1,467	286	—	1,140	979
Others	4,861	3,494	798	195	69	305
Total liabilities	9,953	7,656	(867)	486	1,306	1,373
Asset/liability gap	(736)	(1,338)	2,189	(283)	(736)	(568)
Cumulative gap	$(736)	$(1,338)	$851	$568	$(168)	$(736)

Duration Gap Analysis. The Bank also performs a duration gap analysis to measure and manage its interest rate risk. Duration gap analysis is a more long term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses only on accounting income and not on the market value of the assets and liabilities. For duration gap analysis, the Bank uses or assumes the same maturities for different assets and liabilities that it uses or assumes for its interest rate gap analysis.

The following table shows duration gaps of the Bank when interest rate increases by one percentage point as of the dates indicated therein.

	Asset Duration	Liability Duration	Duration Gap
		(in years)	
30 June 2012	0.81	0.72	0.11
31 December 2012	0.99	0.75	0.25
30 June 2013	1.00	0.73	0.28
31 December 2013	0.97	0.88	0.09
30 June 2014	0.88	0.85	0.03

The Bank also monitors its exposure to interest rate changes by measuring its VaR with respect to interest rate fluctuations.

Deposits in Won, other than deposits payable on demand which constituted 86.8% of the total deposits in Won as of 30 June 2014, generally bear fixed rates of interest for fixed time periods. The interest rates on such deposits in Won are generally adjusted upon the rollover of such deposits. In addition, 96.4% of the amount of the Bank's deposits in Won other than deposits payable on demand had current maturities of one year or less as of 30 June 2014. As of 30 June 2014, approximately 31.1% of the Bank's loans in Won, earned interest at variable rates based on the Bank's prime rate or market rate. The Bank adjusts its prime rate based on its average cost of funds. Any such adjustments in the Bank's prime rate have immediate effect. As a result, the Bank believes that its interest rate sensitivity is limited.

The Bank primarily adjusts the maturity of its rate sensitive assets and liabilities and the terms of its financial products in order to manage its Won interest rate risk.

In addition, both interest earned and interest paid no foreign currency assets and liabilities generally are based on floating rates of interest.

The Bank sets interest rate risk limits using the historical simulation method, which uses actual historical price, volatility and yield changes in comparison with the current position to generate hypothetical portfolios and calculate a distribution of position and portfolio market value changes. The following table summarises the Bank's interest rate risk on a non-consolidated basis, taking into account asset and liability durations among the periods as of 31 December 2013.

	As of 31 December 2013					
	0-3 months	**3-6 months**	**6-12 months**	**1-3 years**	**Over 3 years**	**Total**
	(in billions of Won, except maturities in years)					
Won denominated:						
Asset position	₩58,565	₩39,119	₩37,952	₩23,875	₩15,209	₩174,721
Liability position	59,670	35,645	46,575	14,796	13,408	170,094
Gap	(1,105)	3,475	(8,623)	9,079	1,801	4,627
Average maturity	0.10	0.36	0.71	1.815	7.4	—
Interest rate volatility	2.00%	2.00%	2.00%	2.00%	2.00%	—
Amount at risk	28	25	(122)	322	51	303
	(in millions of U.S.$, except maturities in years)					
Foreign currency denominated:						
Asset position	6,318	1,322	203	569	805	9,218
Liability position	7,656	(867)	485	1,306	1,374	9,954
Gap	(1,338)	2,189	(282)	(737)	(569)	(736)
Average maturity	0.10	0.36	0.71	1.815	7.4	—
Interest rate volatility	2.00%	2.00%	2.00%	2.00%	2.00%	—
Amount at risk	(2)	(1)	4	33	36	71

The Bank enters into derivative contracts, such as interest rate swaps, options and futures contracts, to mitigate interest rate risk. All of the interest rate derivative products purchased by the Bank are on behalf of its customers or to hedge the Bank's own position. As of 30 June 2014, the Bank had entered into interest rate derivative contracts with an aggregate notional amount equivalent to approximately Won 24,232 billion.

The following table sets forth the unrealised gains and losses of interest rate derivatives held or issued by the Bank for the periods indicated.

	For the year ended 31 December				**For the six months ended 30 June**	
	2012		**2013**		**2014**	
	Unrealised gains	**Unrealised losses**	**Unrealised gains**	**Unrealised losses**	**Unrealised gains**	**Unrealised losses**
	(in billions of Won)					
Interest rate derivatives	₩186	₩191	₩198	₩230	₩77	₩76

Foreign Exchange Risk Management

The Bank funds all of its foreign currency lending and investment in foreign currencies and seeks to match its foreign currency assets and liabilities in order to reduce exposure to currency fluctuations. Risks relating to exchange rate fluctuations are also managed through the Bank's foreign exchange dealing, which is conducted by the Capital Trading and Investment Department and overseas branches. The foreign exchange dealings conducted by the Bank are for proprietary purposes as well as on behalf of the Bank's customers. Counterparties are restricted to domestic and foreign financial institutions and banks with respect to which the Treasury Department has established a foreign exchange dealing limit. Foreign exchange dealing is primarily in the Won/Dollar market and is subject to what the Bank's considers to be conservative daily maximum and closing limits and stop loss limits.

The following table sets forth information concerning the Bank's limits on proprietary foreign exchange dealings as of 30 June 2014.

	As of 30 June 2014	
	Won/U.S. Dollar Dealing	**Dealings in other currencies**
	Headquarters	**Headquarters**
	(in billions of Won or in millions of U.S. dollars)	
Open position:		
Daily maximum limit	$220	$124
Daily closing limit	$65	$47
Stop loss:		
Monthly	₩3	N/A
Yearly	₩5	N/A

The following table shows the Bank's net foreign currency open positions as of the indicated dates. Positive amounts represent long exposures and negative amounts represent short exposures.

	As of 31 December		As of 30 June
	2012	**2013**	**2014**
	(in millions of U.S.$)		
U.S.$	$548	$158	$307
JP¥	(102)	(133)	(68)
Euro (€)	(277)	100	131
Others	(262)	(153)	(96)
Total	$(93)	$(28)	$275

Pursuant to the Foreign Exchange Transaction Regulations of Korea, effective from 1 April 1999, a licensed foreign exchange bank, such as the Bank, may, with certain exceptions, enter into derivative transactions without restriction so long as those are not linked with credit risks of a party thereto or any third party, in which case a report to the BOK is necessary.

All of the foreign exchange derivative products purchased by the Bank are for trading purposes. As of 30 June 2014, the Bank had entered into foreign exchange derivatives, with an aggregate notional amount equivalent to approximately Won 28,196 billion.

Operations Risk Management

Basel II currently defines operations risk as the "*risk of loss resulting from inadequate or failed internal processes, people and systems or from external events*". Operations risk is difficult to quantify and is subject to different definitions. The Bank defines its operations risk as the risk related to the overall management other than credit risk, market risk, interest rate risk, foreign exchange risk and liquidity risk. These include risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial or reputation loss.

The Bank maintains a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout its organisation and to monitor and control operations risk. The Bank reviews its level of compliance with its risk management policies and guidelines on a semi-annual basis.

The Bank considers legal risk as a part of its operations risk. The uncertainty of the enforceability of the obligations of its customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect the Bank. The Bank's legal department seeks to minimise legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorised and consulting legal advisers.

In connection with its disaster recovery capabilities, the Bank complies with the guidelines suggested by FSC, which generally require that the Bank's disaster and recovery capabilities enable it to recover data and resume operations within three hours. The Bank has implemented a hybrid-host system that runs two host systems, the main system and the back-up system, simultaneously which ensures system continuity in case the main system falls.

Basel II Implementation and the Basel III preparation

In December 2009, the Bank obtained approval from the FSS on its foundation internal ratings approach with respect to the Basel II risk management. The Bank aims to apply the Basel II standards and principles more systematically in its systems governing the lending process, price determination, portfolio and risk management, allocation of capital, performance evaluations and incentive determinations. Additional details regarding the Basel II measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010.

After further impact assessment and observation periods, the Basel Committee on Banking Supervision is expected to begin implementing the new set of measures, referred to as Basel III, from 2013. In Korea, Basel III is expected to be implemented in stages from 2013 to 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including our commercial banking subsidiaries.

Management

Board of Directors

The Board of Directors is responsible for the management and strategy of the Bank. The Board of Directors is composed of the chief executive officer, the executive director, non-executive directors and the independent non-executive directors. The Board of Directors must have at least three independent non-executive directors, and more than half of the members are required to be independent non-executive directors. Regular Board meetings are held once every three months.

The Chairperson is appointed from among the independent non-executive directors by the resolution of the Board of Directors, and has a term of one year. The executive directors and the non-executive directors will be recommended by the Board of Directors or the largest shareholder and approved by the shareholders' meeting, and the independent non-executive directors will be recommended by the Independent Non-Executive Director Election Committee and approved by the shareholders' meeting.

The address for each of the Directors of the Board is: 120, Tongil-ro, Jung-gu, Seoul, 100-707, Korea.

As of 30 June 2014, the Board of Directors consisted of the following persons.

Name	Age	Director Since	Position	Other Activities
Ju-Ha Kim.............	59	1 January 2014	President, Chief Executive Officer	• Former Director of Nonghyup Financial Group
Baek-Hyun Han......	58	1 April 2014	Executive Director, Member of the Inspection Committee	• Former Director of the FSS
Dong-Sub Kim	61	1 April 2014	Non-Executive Director	• Current Union Representative of the Bukyeongdeok Agricultural Cooperative Federation
Jung-Dae Lee	61	2 April 2014	Non-Executive Director	• Former CEO of Agricultural Cooperative Asset Management Corporation
Sang-Baek Kang.....	65	1 April 2014	Independent Non-Executive Director	• Former Vice President of the Credit Finance Association
Chang-Mo Moon	63	1 April 2014	Independent Non-Executive Director	• Former Bureau-chief-grade Official of the Ministry of Finance and Economy (now known as the Ministry of Strategy and Finance)
Jung-Sik Kim	61	1 April 2014	Independent Non-Executive Director	• Current President of the Korean Economic Association
Kook-Hyun Kim.....	59	1 April 2014	Independent Non-Executive Director	• Current Advisor to The Korea Society of Digital Policy & Management
Joo-Hoon Kim........	57	1 April 2014	Independent Non-Executive Director	• Current Head of the Industrial Service Economy Research Department of the Korea Development Institute

Brief descriptions of the business experience of each member of the Board of Directors are set out below:

Mr. Ju-Ha Kim, age 59, was appointed to the Board of Directors of the Bank on 1 January 2014. He is currently the president and chief executive director of the Bank. Mr. Kim has an undergraduate degree from Soongsil University. He has previously served as Director of Nonghyup Financial Group, and Head of financial planning of the NACF.

Mr. Baek-Hyun Han, age 58, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently the Executive Director and member of the Inspection Committee of the Bank. He has an undergraduate degree from Yonsei University and a graduate degree from the University of Colorado. He has previously served as the Director of the FSS and Vice President of the Credit Finance Association.

Mr. Dong-Sub Kim, age 61, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently a Non-Executive Director of the Bank. He has an undergraduate degree from Sunlin College. He is currently the Union Representative of the Bukyeongdeok Agricultural Cooperative Federation.

Mr. Jung-Dae Lee, age 61, was appointed to the Board of Directors of the Bank on 2 April 2014. He is currently a Non-Executive Director of the Bank. He has an undergraduate degree in public administration from Kyung Hee University. Mr. Lee has previously served as the Chief Executive Officer of Agricultural Cooperative Asset Management Corporation, and Director of NACF.

Mr. Sang-Baek Kang, age 65, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently an Independent Non-Executive Director of the Bank. Mr. Kang has an undergraduate degree from Korea University. He has previously served as Vice President of the Credit Finance Association and Assistant Deputy Director of the FSS.

Mr. Chang-Mo Moon, age 63, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently an Independent Non-Executive Director of the Bank. Mr. Moon has an undergraduate degree from Yonsei University and a graduate degree from Vanderbilt University. He has previously served as a Bureau-chief-grade Official of the Ministry of Finance and Economy (currently the Ministry of Strategy and Finance) and Standing Auditor of the Korea Development Bank.

Mr. Jung-Sik Kim, age 61, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently an Independent Non-Executive Director of the Bank. Mr. Kim has an undergraduate degree from Yonsei University and a PhD from Claremont Graduate University. He is currently Professor of Economics at Yonsei University and President of the Korean Economic Association.

Mr. Kook-Hyun Kim, age 59, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently an Independent Non-Executive Director of the Bank. Mr. Kim has an undergraduate degree and a PhD from Sungkyunkwan University. He previously served as Director General for Protocol and State Council of the Ministry of Government Administration and Home Affairs.

Mr. Joo-Hoon Kim, age 57, was appointed to the Board of Directors of the Bank on 1 April 2014. He is currently an Independent Non-Executive Director of the Bank. Mr. Kim has a undergraduate degree from Seoul National University and a PhD from University of Washington. He is currently Head of the Industrial Service Economy Research Department of the Korea Development Institute and has previously served as Vice President of the Korea Development Institute.

Board Committees

The Bank has the following six committees to serve under the Board of Directors: (i) Management Evaluation & Compensation Committee, (ii) Risk Management Committee, (iii) Audit Committee, (iv) Independent Non-Executive Director Election Committee, (v) Audit Committee Member Election Committee and (vi) Executive Committee of Board of Directors.

Management Evaluation and Compensation Committee

The Management Evaluation and Compensation Committee comprises the Chairperson and two Board Members. Mr. Dong-Sub Kim serves as the chairperson of this committee. The Management Evaluation and Compensation Committee oversees the Bank's overall compensation strategy and is responsible for reviewing and approving executive compensation criteria and levels, as well as, benefit plans. This committee holds regular meetings more than once a year.

Risk Management Committee

The Risk Management Committee is consisted of the Independent Non-Executive Directors. Executive Directors and Non-Executive Directors can be elected as a member if the number of such Directors does not exceed that of the Independent Non-Executive Directors. The members are elected by the resolution of the Board of Directors. The President serves as the chairperson of this committee. The Risk Management Committee oversees and makes determinations on all issues relating to the Bank's comprehensive risk management function. In order to ensure the Bank's stable financial condition, this committee monitors the Bank's overall risk exposure and reviews its compliance with risk policies and risk limits. In addition, this committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, reviews risk-based capital allocations and reviews the plans and evaluation of internal control. This committee holds regular meetings every three months.

Audit Committee

The Audit Committee is charged with the duty to audit the assets and operations of the Bank. The Audit Committee comprises three Board Members or more. Two thirds of the members or more must be consisted of Independent Non-Executive Directors, and at least one member of the Committee must be an expert in accounting or finance which conditions are stipulated in the Presidential decree of the Banking Act. This committee holds regular meetings every three months.

Independent Non-Executive Director Election Committee

The Independent Non-Executive Director Election Committee comprises four Board Members and the Chairperson. The chairperson of this committee is elected by the resolution of the Committee. The Independent Non-Executive Director Election Board is responsible for electing the Independent Non-Executive Directors. This Committee convenes when necessary.

Audit Committee Member Election Committee

The Audit Committee Member Election Committee comprises four Board Members and the Chairperson. The chairperson of this committee is elected by the resolution of the Committee. The Audit Committee Member Election Board is responsible for electing the members of the Audit Committee. This Committee convenes when necessary.

Executive Committee of Board of Directors

The Executive Committee of Board of Directors comprises of four Board Members including the chairperson. The President of the Issuer acts as member and the chairperson of this committee. The Executive Committee of Board of Directors reviews and assesses the performance of each committee, including the board of directors. This committee convenes semi-annually.

Compensation of Directors

For the six months ended 30 June 2014, an aggregate amount of remuneration and benefits of Won 2 billion, representing 1.7% of the Bank's total net income, were paid to the Management.

Stock Options and Warrants

There are no warrants or options of the Bank held by the Directors. None of the Directors own shareholding interests in the Bank.

Involvement of the Bank and the Directors in Certain Legal Proceedings

Neither the Bank nor any of its current Directors have been subject to any order, judgment or decree, or violated any securities or commodities law for the last five years, or are involved in any litigation or arbitration proceedings that may have, or have had, a material adverse effect on the Bank's financial condition, nor, so far as any of them is aware, is any such proceeding pending or threatened.

Employees

As of 30 June 2014, the Bank had 17,107 employees. The following table sets forth the number of the Bank's employees by category as of 30 June 2014.

Category	Number of employees
Full-Time Employees	14,176
Contract Employees	2,931
Total	17,107

The Bank believes that it has an excellent relationship with its employees. As of 30 June 2014, 12,963 employees were members of a union. Currently there are five labour unions in the Bank. The Bank has never experienced a work stoppage of a serious nature since its inception. Every year the union and management negotiate and enter into a new collective bargaining agreement that has a one-year duration.

The Bank, like most other Korean banks, grants its employees annual increases in basic wages and pays periodic bonuses and overtime. For the six months ended 30 June 2014, employee benefits comprised 67.6% of total general and administrative expenses of the Bank. The Bank also provides a wide range of fringe benefits to its employees, including housing subsidies, medical care assistance and educational and training opportunities.

In accordance with the Korean National Pension Law, the Bank contributes an amount equal to 4.5% of employees' wages which are deducted from such wages, into each national pension account. In accordance with the Bank's policy, the Korean Labour Standard Law and the Korean Employee Retirement Benefit Security Act, employees with one year or more of service are entitled, upon termination of employment, to receive severance payments based upon the length of their service and the average of the last three months' wages. Under Korean law, the Bank may not terminate full time employees except under certain circumstances.

From 2 March 2012, the Bank operated a defined benefit plan (the "**DB plan**") in accordance with Employee Retirement Benefits Laws which is also classified as DB plan under K-IFRS. Under DB plan, severance pay is made on a lump-sum basis or entitled to pension when an employee retires, based on an employee's service period and salary at retirement. The Bank has purchased retirement benefits with insurance annuity and made deposits with other banks. The deposit for retirement insurance and assets for DB plan operating is presented as a deduction from defined benefit obligations under an account of plan assets. Actuarial valuation for plan assets and defined benefit obligations related to the general severance payments and quasi- age severance payments is performed by a third party actuary services company.

RELATED PARTY TRANSACTIONS

The Bank enters into transactions with and intends to continue to enter into transactions with its affiliates and other related parties (together, the "**related parties**") in the ordinary course of business. In accordance with the Bank's policies, such transactions are made substantially on the same terms and conditions as transactions of comparable risks with other unrelated individuals and businesses. The Bank's related party transactions include banking transactions with its affiliates and shareholders. For information regarding transactions with the Bank's affiliates, see Note 36 of the Bank's audited financial statements and Note 36 of the Bank's unaudited interim financial statements, each included elsewhere in this offering circular.

None of the Bank's directors or officers have or had any interest in any transactions effected by the bank that are or were unusual in their nature or conditions or significant to the Bank's business which were effected during the current or immediately preceding fiscal year or were effected during an earlier year and remain in any respect outstanding or unperformed.

THE KOREAN BANKING INDUSTRY

The Korean financial industry includes the following categories of financial institutions:

- The BOK;
- banking institutions;
- non-banking financial institutions; and
- other financial entities, including, but not limited to, financial investment companies, credit guarantee institutions and venture capital companies.

Korean law requires that financial institutions confirm that their customers use their real names when transacting business in order to increase financial transaction transparency and to enhance the integrity and efficiency of Korea's financial markets. However, in order to ease the liquidity crisis, in 1998, the Government loosened these rules to allow investors without identification to sell or deposit foreign currencies through domestic financial institutions and to purchase certain debt securities, including Government bonds. The Government also strengthened the rules relating to confidentiality for private financial transactions.

In July 2007, the Korean National Assembly passed the FSCMA, under which various industry-based capital markets regulatory systems then in place except those for banking and insurance industries were consolidated into a single regulatory system and the Securities and Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Act were unified into a single law. 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. The FSCMA categorises financial investment businesses into six different functions (i.e., dealing (trading and underwriting of financial investment products), 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 business 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 will be subject to the same regulations under the FSCMA, at least in principle.

Accordingly, all financial business 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 will be subject to the same regulations under the FSCMA, at least in principle.

The banking business and the insurance business are not subject to the FSCMA and will continue to be regulated under the 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.

The Banking Industry

The banking sector in Korea can be divided into two broad categories: commercial banks and specialised banks. 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 Korea since 1967 but provide a relatively small proportion of the country's banking services. Commercial banks serve both the general public and corporate sectors. As of 30 June 2013, commercial banks consisted of seven nationwide commercial banks, all of which have branch networks throughout Korea, six regional banks and 39 domestic branches of foreign banks operating in Korea.

As in most countries, commercial banks in Korea engage in a wide range of business. Their core activities include taking deposits, extending loans and discounts, remittances and collections. They also provide guarantees and acceptances and conduct proprietary-account securities investment. They must obtain specific authorisation from the FSC for each area of non-bank business in which they engage, such as the trust and credit card businesses. Bank funding in Korea has traditionally been deposit based since long-term domestic borrowings are limited, the short-term money market is relatively illiquid and foreign borrowings are regulated by the Government.

Specialised banks meet the needs of specific sectors of the economy in accordance with Government policy. These banks are organised under, or chartered by, special laws. Specialised banks include:

- the Korea Development Bank;
- the Export-Import Bank of Korea;
- Industrial Bank of Korea;
- National Agricultural Cooperative Federation; and
- National Federation of Fisheries Cooperatives.

The FSC amended banking regulations several times to adopt more stringent criteria for non-performing loans that more closely followed international standards. These new criteria increased the level of non-performing loans held by banks and other financial institutions. The following table sets out the total loans and non-performing loans of the banking sector (excluding specialised banks) at year-end from 2009 through 31 March 2014.

	Total Loans	Non-Performing Loans	Percentage of Total
	(in trillions of Won, except percentages)		
31 December 2009	842.6	9.8	1.2%
31 December 2010	858.8	15.9	1.9
31 December 2011	900.1	11.5	1.3
31 December 2012	899.0	11.5	1.3
31 December 2013	920.9	15.7	1.7
31 March 2014	938.3	15.9	1.7

Source: Financial Statistics Information Systems provided by the FSS

The aggregate net profit of the banking sector in Korea (excluding specialised banks) decreased from Won 11.0 trillion in 2011 to Won 7.3 trillion in 2012 and further decreased to Won 4.9 trillion in 2013. The average return on assets of the banking sector in Korea (excluding specialised banks) decreased from 0.69% in 2011 to 0.54% in 2012 and further decreased to 0.37% in 2013. The average net interest margin of the banking sector in Korea was approximately 2.42%, 2.10% and 1.87% in 2011, 2012 and 2013, respectively.

Non-Bank Financial Industry

Non-bank financial institutions include:

- savings institutions, including trust accounts of banks, mutual savings and finance companies, credit unions, mutual credit facilities, community credit cooperatives and postal savings;

- insurance companies; and

- credit card companies.

Savings Institutions. Korean law permits Korean banks to provide trust account management services. Banks segregate trust assets and cannot use those assets to satisfy claims of depositors or other creditors. Accordingly, trust accounts appear separately from banking accounts in the banks' financial statements.

Insurance. As of 31 March 2014, life insurance institutions operating in Korea had assets totalling approximately Won 609 trillion. The Korean insurance industry also includes non-life insurance companies, which had assets totalling approximately Won 177 trillion as of 31 March 2014.

Credit Card. As of 31 March 2014, credit card companies operating in Korea had credit card receivables and loans totalling approximately Won 77 trillion, of which approximately 1.98% were delinquent by one month or more.

Money Markets

The Korean money markets consist of the call loan market and markets for other short-term financial instruments, including treasury bills, monetary stabilisation bonds, negotiable certificates of deposit, repurchase agreements and commercial paper.

Securities Markets

The Korea Securities Exchange opened in 1956, and Korean Securities Dealers Automated Quotations ("**KOSDAQ**") Market and Futures Exchange opened in 1996. In January 2005, these three securities markets were consolidated into a single securities market named the Korea Exchange ("**KRX**"). The KRX was establishment in the form of a limited liability stock company in accordance with the Korean Commercial Code. The KRX is presently the only exchange in Korea that serves as a spot market and a futures market. Currently, the Korea Exchange operates and supervises three market divisions — namely, KRX KOSPI Market Division, KRX KOSDAQ Market Division and KRX Derivatives Market Division. The securities and bonds of major companies, generally, are traded in KRX KOSPI Market Division, and, as a securities market, its trading volume and market capitalisation ranks among the top ten in the world. The securities of companies belonging to new emerging industries such as information technology, bio-technology and venture capital are primarily traded in KRX KOSDAQ Market Division. Various derivatives products ranging from those based on stock price index, interest rates, currencies and individual stocks, as well as other conventional derivatives products, are traded in KRX Derivatives Market Division.

Supervision System

A significant change to the supervision system for the financial industry in Korea was effected in the course of overcoming the financial crisis in the latter part of the 1990s. The FSC was established in 1998, and it assumed certain responsibilities from the Ministry of Finance and Economy, including setting regulations on the supervision of financial institutions. In January 1999, the FSS was established through the merger of several regulatory bodies, and the FSS conducts supervisory and inspection activities as a regulatory arm of the FSC.

The MOSF focuses on financial policy, foreign currency regulations and the approval process for establishing financial institutions. The BOK manages monetary policy focusing on price stabilisation.

Deposit Insurance System

In June 1996, KDIC was established to protect the deposits made by bank customers. In April 1998, the scope of deposits insured by KDIC was expanded to also cover deposits made with securities companies, insurance companies, merchant finance companies, mutual savings banks and credit unions, and, in January 2004, credit unions were again excluded from KDIC's insurance coverage. KDIC insures deposits made by an individual with a KDIC insured financial institution up to Won 50 million. Each bank is required to pay a deposit insurance fee at the rate of 0.02% of the deposits for one year, and, other than certain special deposit products, including foreign currency deposit and certificates of deposit, almost all deposit products are covered by KDIC insurance.

Capital Adequacy and Allowances

The Banking Act requires nationwide banks, such as the Bank, to maintain a minimum paid-in capital of Won 100 billion and regional banks, to maintain a minimum paid-in capital of Won 25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Banking Act and the laws and regulations promulgated thereunder (including the Regulation on the Supervision of Banking Business and the Detailed Regulation on the Supervision of Banking Business), the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of (i) Tier I common equity capital (which generally includes (a) capital from the issuance of common stock (and similar equity securities), (b) capital surplus from the issuance of common stock, (c) other capital surplus (excluding capital surplus from the issuance of capital securities other than common stock), (d) earned surplus (excluding allowances for loan losses referred to in Article 29 of the Regulation on the Supervision of Banking Business) and (e) other accumulated comprehensive income), and (ii) additional Tier I capital (which generally includes (a) capital and capital surplus from the issuance of additional Tier I capital and (b) hybrid bonds and other capital securities which meet standards prescribed by the Governor of the FSS under Article 26(2) of the Regulation on the Supervision of Banking Business). Tier II capital (supplementary capital) consists of, among other things, capital and capital surplus from the issuance of Tier II capital, allowances for loan losses on credits classified as "normal" or "precautionary," subordinated debt, and other capital securities which meet the standards prescribed by the Governor of the FSS under Article 26(2) of the Regulation on the Supervision of Banking Business.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with FSC requirements that have been formulated based on Bank for International Settlements, or BIS, standards. These requirements were adopted and became effective in 1996, and were amended effective 1 January 2008 upon the implementation by the FSS of Basel II. Under such requirements, all domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

In July and September 2013, the FSC promulgated amended regulations implementing Basel III in Korea, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of Tier I common equity capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from 1 December 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from 1 January 2014 and will increase further to 4.5% and 6.0%, respectively, from 1 January 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 contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019.

Under the Detailed Regulation on the Supervision of the Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

(1) for those banks which adopted a standardised approach (or standard method) for calculating credit risk capital requirements, a risk-weight ratio of 35% **provided**, **however**, **that** where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50%; and

(2) for those banks which adopted an internal rating-based approach (or internal level method) for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Detailed Regulations on the Supervision of the Banking Business.

Under the Regulation on the Supervision of the Banking Business, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to borrowers in the construction business, wholesale and retail business, hotel and restaurant business or real estate and rental business (as classified under the Korean Industry Classification Standard) (or 1% in the case of normal credits comprising loans to individuals and households, and 2.5% in the case of normal credits comprising outstanding credit card receivables and card loans);

- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, and 50% in the case of precautionary credits comprising outstanding credit card receivables and card loans);

- 20% of substandard credits (or 10% in the case of substandard credits attached with the priority rights of the Bank under the New Corporate Restructuring Act or Debtor Rehabilitation and Bankruptcy Act of Korea ("**Priority Rights**"), and 65% in the case of substandard credits comprising outstanding credit card receivables and card loans);

- 50% of doubtful credits (or 25% in the case of doubtful credits attached with Priority Assets, 55% in the case of doubtful credits comprising loans to individuals and households, and 75% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and

- 100% of estimated loss credits (or 50% in the case of estimated loss credits attached with Priority Rights.

Furthermore, under a 2006 amendment to the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines as of the settlement date in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set forth above.

In September 2010, the FSS amended its guidelines for real estate project financing. According to the amended guidelines, banks must rate the feasibility of a proposed project into three categories: "satisfactory", "average" and "risky". Based on the respective bank's project feasibility rating, it must review the quality of the project finance loan facility under the new guidelines, which may require banks to allocate more reserves for proposed projects classified as "risky".

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Banking Act and the laws and regulations promulgate thereunder. Banks may not invest an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to Government bonds, Monetary Stabilisation Bonds issued by the BOK, certain stocks or debentures referred to in the Act on the Improvement of the Structure of the Financial Industry. The FSC also requires each Korean bank to:

- maintain a Won liquidity ratio (calculated as Won assets with remaining maturity of not more than one month, including marketable securities, divided by Won liabilities with remaining maturity of not more than one month) of not less than 100% and to make monthly reports to the FSS, provided, however, that, in the case of certain specialised banks (which includes the Bank), a Won liquidity ratio of not less than 70.0% would be required.;

- maintain a foreign currency liquidity ratio (calculated as foreign currency assets (as defined in the Detailed Regulation on Supervision of Banking Business) with remaining maturity of not more than three months divided by foreign-currency liabilities (as defined in the Detailed Regulation on Supervision of Banking Business) with remaining maturity of not more than three months) of not less than 85%;

- maintain a foreign currency maturity mismatch ratio due within seven days (calculated as the ratio of foreign currency liquid assets with remaining maturity of not more than seven days less foreign currency liabilities with remaining maturity of not more than seven days, divided by total foreign-currency assets) of not less than negative 3%;

- maintain a foreign-currency maturity mismatch ratio due within one month (calculated as the ratio of foreign currency liquid assets with remaining maturity of not more than one month less foreign currency liabilities with remaining maturity of not more than one month, divided by total foreign currency assets) of not less than negative 10%; and

- submit monthly reports with respect to the maintenance of these ratios.

The Monetary Policy Committee of the BOK is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

- 0% of average balances for Won currency asset establishment savings deposits and long-term house purchase savings deposits;

- 2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding; and

- 7% of average balances for other Won currency deposits outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer, and savings deposits with a maturity of six months or longer outstanding and a 7% minimum reserve ratio is applied to other deposits outstanding. A 1% minimum reserve ratio applies to deposits in offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to any Individual Customer and Major Stockholder

Under the Banking Act, the sum of large exposures by a bank — in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) — generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. In addition, subject to certain exceptions, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

The Banking Act also provides for certain restrictions on extending credits to a major stockholder. A “**major stockholder**” is defined as:

- a stockholder holding (together with persons who have a special relationship with that stockholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank’s total issued voting shares; or

- a stockholder holding (together with persons who have a special relationship with that stockholder) in excess of 4% in the aggregate of the bank’s (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on non-financial group companies as described below), where (i) the stockholder is the largest stockholder or (ii) has de facto control over the major business affairs of the bank by getting involved in decision making of major business strategies or organisation restructuring through exercise of appointment and dismissal rights of the officers and chairperson of the bank or (iii) a non-financial entity and a stockholder acting individually, or in accordance with an agreement or contract with other shareholders, participates in management of the relevant bank by appointing or dismiss certain number of officers (as set forth by the FSS).

Under these restrictions, banks may not extend credits to a major stockholder (together with persons who have a special relationship with that stockholder) in an amount greater than the lesser of (x) 25% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions) and (y) the relevant major stockholder’s shareholding ratio multiplied by the sum of the bank’s Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major stockholders must not exceed 25% of the bank’s Tier I and Tier II capital (less any capital deductions). However, the foregoing restrictions do not apply to KDIC, in the event that KDIC becomes a major shareholder in the process of restructuring of banks.

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, interest rates on loans made by registered banks in Korea may not exceed 34.9% per annum. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the BOK. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, increased a bank’s interest expense.

Lending to SMEs

In order to obtain funding from the BOK at concessionary rates for their SME loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to SMEs. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the BOK may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to SMEs; or

- lower the bank’s credit limit.

Disclosure of Management Performance

In order to assist the general public, especially depositors and stockholders, in monitoring bank management performance, the FSC requires commercial banks to make mandatory public disclosures, including:

(1) financial condition and profit and loss of the bank and its subsidiaries;

(2) fund raising by the bank and the appropriation of such funds;

(3) except as otherwise have been disclosed by a bank or its financial holding company listed on the KRS KOSPI Market in accordance with the FSCMA, occurrence of any of the following events listed below or any other event as prescribed by the applicable regulations:

    (i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than Won 4 billion;

    (ii) the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than Won 1 billion as a result of that financial incident, or the governor of the FSS has made a public announcement regarding the incident; and

    (iii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than Won 1 billion.

Restrictions on Lending

Pursuant to the Banking Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank's own shares;
- loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans to any of the bank's officers or employees, other than petty loans of up to Won 20 million in the case of a general loan, Won 50 million in the case of a general loan plus a housing loan or Won 60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to Won 20 million or general and housing loans of up to Won 50 million in the aggregate.

Regulations Relating to Retail Household Loans

The FSC has over years implemented a number of mechanisms by which a bank evaluates and reports its retail household loan balances. Due to a rapid increase in the number of loans secured by homes and other forms of housing, the FSC and the FSS have implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

- as to loans secured by collateral of housing located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60%;

- as to loans secured by collateral of housing located in areas of excessive investment as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60% and (iii) the loan-to-value ratio for loans to be amortised over the period of ten years should not exceed 70%;

- as to loans secured by apartments located in areas of high speculation as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over Won 600 million, and (b) 60%, if the price of such apartment is Won 600 million or lower;

- as to loans secured by apartments with appraisal values of more than Won 600 million in areas of high speculation as designated by the Government or certain metropolitan areas designated as areas of excessive investment by the Government, the borrower's debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40%;

- as to apartments located in areas of high speculation as designated by the Government, a borrower is permitted to have only one new loan secured by such apartment;

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the Government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and

- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is unmarried and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the Government should not exceed 40%.

Furthermore, along with the Government's implementation of the "Measures to Stabilize the Rental Housing Market", the FSS in September 2013 announced its intent to amend the Enforcement Rules for Banking Supervision (the "**Enforcement Rules**"). Under the proposed amendment to the Enforcement Rules, mortgage insurances, which are currently available either to non-home owners or one home owners (per each household), will temporarily be available to multiple home owners for a period of one year. For mortgage insurances applied to procure housings in non-high speculation areas, the loan-to-value ratio may be as high as 85% under the proposed amendment to the Enforcement Rules.

Regulations Regarding Advertisement of Financial Products

An amendment to the Banking Act, which became effective on 18 November 2010, modified the regulations of advertising financial products by banks. A bank, when advertising financial products, must specify the name of the bank, description of the financial product and transaction terms and conditions. In addition, a bank must indicate in its advertisement the range and calculation methods of interest rates, dates of interest payment and accrual, and other benefits and costs regarding such financial product. In particular, a bank must not state the abovementioned terms that are preliminary to appear as final nor claim comparative advantage over other financial products without stating supporting facts. Banks must internally adopt these financial products advertising guidelines and obtain prior approval from the bank's compliance department when advertising a financial product to ensure these guidelines are met.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Banking Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Banking Act, the Issuer may not acquire more than 15% of issued and outstanding shares with voting rights of another corporation, except where, among other reasons:

- that funds are required to perform the business stated in the article 37 of the Banking Act within the sum of the Tier I and Tier II capital; and

- that the shares are acquired by stock dividend, capital increase without consideration, debt-equity swap due to restructuring, enforcement of pledges and exercise of conversion right or warrantees.

The Banking Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major stockholder of the bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Banking Act are required to pay an insurance premium to KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. KDIC insures a maximum of Won 50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from 1 January 2001 to 31 December 2003 and therefore the whole amount deposited in such accounts is protected.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Regulation, a bank's net over purchased and oversold positions may not exceed 50% of its equity as of the end of the prior month.

Laws and Regulations Governing Other Business Activities

A bank must register with the MOSF to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the license from the FSC to enter the securities dealing or brokerage business, which is governed by regulations under the FSCMA. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, Government/public bond underwriting business and Government bond dealing business.

Trust Business

A bank must obtain approval from the FSC to engage in trust businesses. The Trust Act and the FSCMA govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Banking Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank, which requires that banks engaged in both banking and trust businesses must maintain two separate accounts and two separate sets of records; and

- depositors and other general creditors cannot obtain the assets comprising the trust accounts if the bank is liquidated or wound-up.

Since January 1999, the Government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed. However, for the guaranteed fixed rate trust account products already offered, banks must make a special reserve of 25% or more of fees and commissions from each of such trust accounts until the total reserve for that account equals 5% of the trust amount. If that bank breaches its duty of care as a trustee and causes losses to its customers, the court deposits are available as compensation.

Since 4 February 2009, a trust business conducted by a bank is also governed by the FSCMA, which was previously regulated under the Trust Business Act and the Indirect Investment Asset Management Business Act. In the event that a bank qualifies and operates as an asset management company, a trustee, a custodian or general office administrator under the FSCMA, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business, the trustee or custodian business and general office administration. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (i) is serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the FSCMA or (ii) is serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the FSCMA;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and

- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

A bank which qualifies and operates as an asset management company may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

- acting as trustee of an investment trust managed by such bank;

- purchasing with such bank's own funds beneficiary certificates of an investment trust managed by such bank;

- using in its sales activities information relating to the trust property of an investment trust managed by such bank;

- selling through a financial institution established under the Banking Act beneficiary certificates of an investment trust managed by such bank;

- establishing a short-term financial indirect investment vehicle; and

- establishing a mutual fund.

Credit Card Business

General

A bank must register with the FSC in order for it to engage in the credit card business. The credit card business is governed by the Specialised Credit Financial Business Act, enacted on 28 August 1997 and last amended on 5 April 2013. The registered bank is regulated by the FSC and the FSS.

Disclosure and Reports

Under the Specialised Credit Financial Business Act, a bank engaged in the credit card business must submit its business reports and reports with respect to its results of operations to the FSC.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialised Credit Financial Business Act, a bank engaged in the credit card business is liable for any loss arising from the unauthorised use of credit cards or debit cards after it has received notice from the cardholder of the loss or theft of the card. The registered bank is also liable for any loss arising from such unauthorised use during a period from 60 days prior to its receipt of notice from the cardholder to such notice date. The registered bank may, however, transfer all or part of the risk of loss during such period to cardholders if the terms and conditions of the agreement entered into between the registered bank and its cardholders specifically provide for that transfer, but those terms and conditions do not apply in the event there is no willful misconduct or negligence by those cardholders. For these purposes, the disclosure of a cardholder's password that is made under force or threat will not be deemed to be willful misconduct or negligence by the cardholder. The registered bank is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. The registered bank may, however, transfer all or part of this latter risk of loss to cardholders in the event of wilful misconduct or gross negligence by those cardholders if the terms and conditions of the agreement entered into between the registered bank and its cardholders specifically provide for that transfer.

For the purposes of liability for forged or altered cards, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is deemed to be willful misconduct or gross negligence.

Each bank engaged in the credit card business must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Under the Specialised Credit Financial Business Act, the FSC may either restrict the limit or take other necessary measures against a bank engaged in the credit card business with respect to the following:

- maximum limits for cash advances on credit cards;
- restrictions on debit cards with respect to per day or per transaction usage; or
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

Lending Ratio in Ancillary Business

Under the Enforcement Decree to the Specialised Credit Financial Business Act, a bank engaged in the credit card business must maintain an aggregate quarterly average outstanding lending balance to cardholders (including cash advances and credit card loans, but excluding restructured loans and substituted cash advances) no greater than its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services.

Issuance of New Cards and Solicitation of New Card Holders

The Enforcement Decree to the Specialised Credit Financial Business Act establishes the conditions under which a bank engaging in the credit card business may issue new cards and solicit new members. New credit cards may be issued only to the persons who satisfies all the following requirements:

- persons who are (i) at least 19 years old when they apply for a credit card or (ii) at least 18 years old but younger than 19 years old who can submit documents evidencing income, such as an employment certificate or a tax certificate;
- persons whose capability to pay bills as they come due has been verified using standards established by the bank; and
- persons with credit ratings between 1 and 6, as determined by credit inquiry business licensees under the Use and Protection of Credit Information Act when applying for a credit card.

In addition, a bank engaging in the credit card business may not solicit prospective cardholders by:

- providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (the average annual credit card fee, if the annual credit card fee is lower than the average annual credit card fee) in connection with issuing a credit card;

- soliciting applicants members on roads, public places or along corridors used by the general public; or

- soliciting applicants through visits, except those visits made upon prior consent and visits to a business area.

Compliance Rules on Collection of Receivable Claims

Under the Supervisory Regulation of the Specialised Credit Financial Business, a bank engaging in the credit card business may not:

- use violence or threaten violence;

- demand payment from or pressure a related party (a guarantor of the debtor, blood relative or fiancé(e) of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) without just cause with respect to payment for the debtor's obligations;

- provide false information or overstate the negative consequences of being registered as a person of poor credit;

- threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his or her ability to make payment;

- visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); or

- utilise other uncustomary methods to collect receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. Such information is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect as of the date of this Offering Circular. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes.

In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a legal opinion or a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws applicable in Korea or the United States and each country of which they are residents.

Korea

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 advisors.

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 is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law of Korea ("**STTCL**") subject to the discussion below applicable to Index Linked Notes, so far as the Notes are "foreign currency denominated bonds" under the STTCL. The term "foreign currency denominated bonds" in this context is not defined under the STTCL. In this regard, the Korean tax authority issued a ruling on 1 September 1990 to the effect that "Notes Issuance Facility, USCP, Euro CP and Banker's Acceptance, etc." are not treated as the "foreign currency denominated bonds". With respect to foreign currency denominated bonds issued after 1 January 2012, interest is tax-exempt only if such bonds are issued outside of Korea.

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 such a Permanent Establishment in Korea, is currently 14.0%. In addition, a tax surcharge, called a local income tax is imposed at the rate of 10.0% of the income or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer of the interest. As the duty to withhold the tax on interest is required to be on the payer, Korean law does not entitle the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if the person subsequently produces evidence that he was entitled to have his tax withheld at a lower rate, although in certain circumstances it may be possible to claim withheld tax from the payer or us. A Non-Resident that was subject to withholding of Korean tax on interest is entitled to claim refund of over-withheld tax directly from the Korean tax authorities effective from refund claims made on or after 1 January 2009.

The tax rates may be reduced by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. In order to obtain a reduction or exemption of withholding tax under an applicable tax treaty upon any income to which a Korean withholding tax applies, a Non-Resident should submit either an application for tax exemption or an application for treaty-reduced tax rates to either the payer or the entity obligated to withhold such tax prior to the date upon which such income is to be paid to the Non-Resident. The foregoing is discussed in more detail below.

Index Linked Notes

A detailed description of the tax considerations relevant to Index Linked Notes will be provided in the applicable Pricing Supplement.

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 with or 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.

In the absence of an applicable tax treaty or any other special tax laws reducing or eliminating the capital gains tax, the applicable rate of tax is the lower of 11.0% (including local income tax) of the gross realisation proceeds (the "**Gross Realisation Proceeds**") and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Notes) 22% (including local income tax) of the realised gain made. The gain is calculated as the Gross Realisation Proceeds less the acquisition cost and certain direct transaction costs. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. 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. 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 certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11.0% (including local income tax) of the Gross Realisation Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid 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. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, either as a purchaser or the withholding agent who is obliged to withhold such tax, is subject to the Korean tax authorities seeking enforcement through attachment of, or other legal proceedings against, payments due to in from its Korean investments and to enforcement against the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In order to obtain a reduction or exemption of withholding tax under an applicable tax treaty upon any income to which a Korean withholding tax applies, a Non-Resident should submit either an application for tax exemption or an application for treaty-reduced tax rates to either the payer or the entity obligated to withhold such tax prior to the date upon which such income is to be paid to the Non-Resident. The foregoing matter is discussed in more detail below.

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% to 50% depending on the price of the assets and the nature of the relationship between the parties. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

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

Stamp Duty and Securities Transaction Tax

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

Tax Treaties

At the date of this Offering Circular, Korea had tax treaties with *inter alia* Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America where under the rate of withholding tax on interest is reduced, generally to between 5.0 and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each non-resident holder of the Notes 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 residence. In the absence of sufficient proof, the Issuer must undertake to withhold taxes in accordance with the above discussion.

In order for a Non-Resident to obtain the benefit of a tax exemption on certain Korean source incomes, such as interest and capital gains, under an applicable tax treaty, Korean tax law requires such Non-Resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such Non-Resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to exemptions under Korean tax law.

Further, for a Non-Resident to obtain the benefit of treaty-reduced tax rates on certain Korean source incomes, such as interest and capital gains, under an applicable tax treaty, Korean tax law requires, unless certain exceptions apply, such Non-Resident (or its agents) to submit to the payer of such Korean source incomes an application for treaty-reduced tax rates prior to the Non-Resident's receipt of such Korean source incomes.

If the Korean source incomes are paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for treaty-reduced tax rates or exemption from each Non Resident, who are the beneficial owners of such investment vehicle and submit to the payer of such Korean source incomes an overseas investment vehicle report, together with the applications for treaty-reduced tax rates or exemption prepared by the Non-Resident beneficial owners. An overseas investment vehicle means an organisation established outside of Korea that manages funds collected through investment solicitation by way of acquiring, disposing of, or otherwise investing in investment targets and distributes the outcome of such management to investors. An application for treaty-reduced tax rates or exemption submitted by a Non-Resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted.

At present, Korea has not entered into any tax treaties regarding its inheritance or gift tax.

United States

The following is a summary of certain United States federal income tax consequences of the ownership of Notes as of the date hereof.

The discussion set forth below is applicable to United States Holders (as defined below) (i) who are residents of the United States for purposes of the current income tax treaty between the United States and Korea (the "**Treaty**"); (ii) whose Notes are not, for purposes of the Treaty, attributable to a permanent establishment in Korea; and (iii) who otherwise qualify for the full benefits of the Treaty.

Except where noted, this summary deals only with Notes that are held as capital assets, and does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- a tax-exempt organisation;
- an insurance company;
- a person holding the Notes as part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a partnership or other pass-through entity for United States federal income tax purposes;
- a person whose "functional currency" is not the United States dollar; or
- a United States expatriate

As used herein, a "United States Holder" means a beneficial owner of a Note that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organised in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarised below.

The discussion below assumes that all Notes issued pursuant to this Offering Circular will be classified for United States federal income tax purposes as our indebtedness and you should note that in the event of an alternative characterisation, the tax consequences would differ from those discussed below. We will summarise any special United States federal tax considerations relevant to a particular issue of the Notes in the relevant Pricing Supplement.

If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding Notes, you should consult your tax advisors.

This summary does not discuss Notes with a maturity of greater than 30 years, the impact of a redenomination of a Note, Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The tax treatment of certain Notes may be specified in the relevant Pricing Supplement. In general, United States federal income tax law imposes significant limitations on United States Holders of Bearer Notes. United States Holders should consult their tax advisors regarding the restrictions and penalties imposed under United States federal income tax law with respect to Bearer Notes and any other tax consequences with respect to the acquisition, ownership and disposition of any of these Notes.

This discussion does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare contribution tax on net investment income or the effects of any state, local or non-United States tax laws. **If you are considering the purchase of Notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

Payments of Interest

Except as set forth below, interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes.

In addition to interest on the Notes (which includes any Korean tax withheld from the interest payments you receive), you will be required to include in income any additional amounts paid in respect of such Korean tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Korean taxes withheld in excess of the rate allowed by the Treaty will not be eligible for credit against your United States federal income tax liability. Interest income (including any additional amounts) on a Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered "passive category income." You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Original Issue Discount

If you own Notes issued with original issue discount ("**OID**"), such as a Zero Coupon Note, you will be subject to special tax accounting rules, as described in greater detail below. In that case, you should be aware that you generally must include OID in gross income in advance of the receipt of cash attributable to that income. However, you generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent those payments do not constitute "qualified stated interest," as defined below. Notice will be given in the relevant Pricing Supplement when the Issuer determines that a particular Note will be issued with OID (an "**original issue discount Note**").

Additional rules applicable to Notes with OID that are denominated in or determined by reference to a currency other than the U.S. dollar ("**foreign currency Notes**") are described under "—*Foreign Currency Notes*" below.

A Note with an "issue price" that is less than the stated redemption price at maturity (the sum of all payments to be made on the Note other than "qualified stated interest") generally will be issued with OID if that difference is at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity). The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to the public. The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the Issuer, and meets all of the following conditions:

- it is payable at least once per year;
- it is payable over the entire term of the Note; and
- it is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices.

We will give you notice in the relevant Pricing Supplement when we determine that a particular Note will bear interest that is not qualified stated interest.

If you own a Note issued with de minimis OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity, you generally must include the de minimis OID in income at the time principal payments on the Notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

Certain of the Notes may contain provisions permitting them to be redeemed prior to their stated maturity at our option and/or at your option. Original issue discount Notes containing those features may be subject to rules that differ from the general rules discussed herein. If you are considering the purchase of original issue discount Notes with those features, you should carefully examine the relevant Pricing Supplement and should consult your own tax advisors with respect to those features since the tax consequences to you with respect to OID will depend, in part, on the particular terms and features of the Notes.

If you own original issue discount Notes with a maturity upon issuance of more than one year, you generally must include OID in income in advance of the receipt of some or all of the related cash payments using the "constant yield method" described in the following paragraphs.

The amount of OID that you must include in income if you are the initial United States Holder of an original issue discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which you held that Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for an original issue discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of:

- the Note's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over

- the aggregate of all qualified stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, determined without regard to the amortisation of any acquisition or bond premium, as described below, and reduced by any payments previously made on the Note other than a payment of qualified stated interest. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on Notes held by persons of record other than certain exempt holders.

Floating Rate Notes are subject to special OID rules. In the case of an original issue discount Note that is a Floating Rate Note, the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to 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 to maturity that is reasonably expected for the Note. Additional rules may apply if either:

- the interest on a Floating Rate Note is based on more than one interest index; or

- the principal amount of the Note is indexed in any manner.

The discussion above generally does not address Notes providing for contingent payments. You should carefully examine the relevant Pricing Supplement regarding the United States federal income tax consequences of the holding and disposition of any Notes providing for contingent payments.

You may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You should consult with your own tax advisors about this election.

Korean withholding taxes may be imposed at times that differ from the times at which you are required to include such interest or OID in income for United States federal income tax purposes and this disparity may limit the amount of foreign tax credit available.

Short-Term Notes

In the case of Notes having a term of one year or less ("**short-term Notes**"), all payments, including all stated interest, will be included in the stated redemption price at maturity and will not be qualified stated interest. As a result, you will generally be taxed on the discount instead of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Note, unless you elect to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of short-term Notes are not required to include accrued discount in their income currently unless they elect to do so, but may be required to include stated interest in income as the income is received. United States Holders that report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. If you are not required, and do not elect, to include discount in income currently, any gain you realise on the sale, exchange or retirement of a short-term Note will generally be ordinary income to you to the extent of the discount accrued by you through the date of sale, exchange or retirement. In addition, if you do not elect to currently include accrued discount in income you may be required to defer deductions for a portion of your interest expense with respect to any indebtedness attributable to the short-term Notes.

Market Discount

If you purchase a Note for an amount that is less than its stated redemption price at maturity (or, in the case of an original issue discount Note, its adjusted issue price), the amount of the difference will be treated as "market discount" for United States federal income tax purposes, unless that difference is less than a specified de minimis amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the Note at the time of the payment or disposition.

In addition, you may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Note. You may elect, on a Note-by-Note basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. You should consult your own tax advisors before making this election.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless you elect to accrue on a constant interest method. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply.

Acquisition Premium, Amortizable Bond Premium

If you purchase an original issue discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest, you will be considered to have purchased that Note at an "acquisition premium." Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to the Note for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase a Note (including an original issue discount Note) for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest, you will be considered to have purchased the Note at a "premium" and, if it is an original issue discount Note, you will not be required to include any OID in income. You generally may elect to amortise the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under your regular accounting method. Special rules limit the amortisation of premium in the case of convertible debt instruments. If you do not elect to amortise bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the Note.

Sale, Exchange, Retirement or other Disposition of Notes

Your tax basis in a Note will, in general, be your cost for that Note, increased by OID, market discount or any discount with respect to a short-term Note that you previously included in income, and reduced by any amortised premium and any cash payments on the Note other than qualified stated interest. Upon the sale, exchange, redemption, retirement or other disposition of a Note, you will recognise gain or loss equal to the difference between the amount you realise upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in income) and your adjusted tax basis in the Note. Except as described above with respect to certain short-term Notes or with respect to market discount, with respect to gain or loss attributable to changes in exchange rates as discussed below with respect to foreign currency Notes and with respect to contingent payment debt instruments which this summary generally does not discuss, that gain or loss will be capital gain or loss. Gain or loss realised by you on the sale, exchange, redemption, retirement or other disposition of a Note will generally be treated as United States source gain or loss. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Foreign Currency Notes

Payments of Interest. If you receive interest payments made in a currency other than the U.S. dollar (a "**foreign currency**") and you use the cash basis method of accounting, you will be required to include in income the U.S. dollar value of the amount received, determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received regardless of whether the payment is in fact converted into U.S. dollars. You will not recognise exchange gain or loss with respect to the receipt of such payment.

If you use the accrual method of accounting, you may determine the amount of income recognised with respect to such interest in accordance with either of two methods. Under the first method, you will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued. Under the second method, you may elect to translate interest income at the spot rate on:

- the last day of the accrual period,
- the last day of the taxable year if the accrual period straddles your taxable year, or

- the date the interest payment is received if such date is within five business days of the end of the accrual period.

Upon receipt of an interest payment on a Note (including, upon the sale of a Note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), you will recognise ordinary gain or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the interest income you previously included in income with respect to such payment.

Original Issue Discount. OID on a foreign currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars, in the same manner as interest income accrued by a holder on the accrual basis, as described above. You will recognise exchange gain or loss when OID is paid (including, upon the sale of a Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Note will be viewed:

- first, as the receipt of any stated interest payments called for under the terms of the Note,

- second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first, and

- third, as the receipt of principal.

Market Discount and Bond Premium. The amount of market discount on foreign currency Notes includible in income will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the foreign currency Note is retired or otherwise disposed of. If you have elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period. You will recognise exchange gain or loss with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

Bond premium on a foreign currency Note will be computed in the applicable foreign currency. If you have elected to amortise the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortised, exchange gain or loss, which is generally ordinary gain or loss, will be realised based on the difference between spot rates at such time and the time of acquisition of the foreign currency Note.

If you elect not to amortise bond premium, you must translate the bond premium computed in the foreign currency into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

Sale, Exchange, Retirement or other Disposition of Foreign Currency Notes. Upon the sale, exchange, retirement or other taxable disposition of a foreign currency Note, you will recognise gain or loss equal to the difference between the amount realised upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be taxed as interest for United States federal income tax purposes to the extent not previously included in income) and your adjusted tax basis in the foreign currency Note. Your initial tax basis in a foreign currency Note generally will be your U.S. dollar cost. If you purchased a foreign currency Note with foreign currency, your cost generally will be the U.S. dollar value of the foreign currency amount paid for such foreign currency Note determined at the time of such purchase. If your foreign currency Note is sold, exchanged, retired or disposed of for an amount denominated in foreign currency, then your amount realised generally will be based on the spot rate of the foreign currency on the date of sale, exchange, retirement or other disposition. If you are a cash method taxpayer and the foreign currency Notes are traded on an established securities market, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of foreign currency Notes traded on an established securities market, provided that the election is applied consistently.

Except as described above with respect to certain short-term Notes or market discount, and subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of the sale, exchange, retirement or other disposition, the foreign currency Note has been held for more than one year. Capital gains of non-corporate holders (including individuals) derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realised by you on the sale, exchange, retirement or other disposition of a foreign currency Note would generally be treated as U.S. source gain or loss.

A portion of your gain or loss with respect to the principal amount of a foreign currency Note may be treated as exchange gain or loss. Exchange gain or loss will be treated as ordinary income or loss and generally will be U.S. source gain or loss. For these purposes, the principal amount of the foreign currency Note is your purchase price for the foreign currency Note calculated in the foreign currency on the date of purchase, and the amount of exchange gain or loss recognised is equal to the difference between (i) the U.S. dollar value of the principal amount determined on the date of the sale, exchange, retirement or other disposition of the foreign currency Note and (ii) the U.S. dollar value of the principal amount determined on the date you purchased the foreign currency Note (or, in each case, on the settlement date of such disposition or purchase, if the foreign currency Note is traded on an established securities market and you are a cash basis or electing accrual basis taxpayer, as described above). The amount of exchange gain or loss will be limited to the amount of overall gain or loss realised on the disposition of the foreign currency Note.

Exchange Gain or Loss with Respect to Foreign Currency. Your tax basis in the foreign currency received as interest on a foreign currency Note or on the sale, exchange or retirement of a foreign currency Note will be equal to the U.S. dollar value thereof at the "spot rate" in effect on the date the foreign currency is received. Any gain or loss recognised by you on a sale, exchange or other disposition of the foreign currency will be ordinary income or loss and generally will be United States source gain or loss.

Dual Currency Notes. If so specified in a relevant Pricing Supplement relating to a foreign currency Note, we may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency other than the specified currency. Applicable United States Treasury regulations generally (i) apply the principles contained in the regulations governing contingent debt instruments to Dual Currency Notes in the "predominant currency" of the Dual Currency Notes and (ii) apply the rules discussed above with respect to foreign currency Notes with OID for the translation of interest and principal into U.S. dollars. If you are considering the purchase of Dual Currency Notes, you should carefully examine the relevant Pricing Supplement and should consult your own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Reportable Transactions. Treasury regulations issued under the Code meant to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury regulations, certain transactions are required to be reported to the Internal Revenue Service ("**IRS**"), including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a foreign currency Note or foreign currency received in respect of a foreign currency Note to the extent that such sale, exchange, retirement or other taxable disposition results in a tax loss in excess of a threshold amount. If you are considering the purchase of a foreign currency Note, you should consult with your own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Index Linked Notes

The tax treatment of a United States Holder of Index Linked Notes will depend on factors including the specific index or indices used to determine indexed payments on the Note and the amount and timing of any contingent payments of principal and interest. Persons considering the purchase of Index Linked Notes should carefully examine the applicable Pricing Supplement and should consult their tax advisors regarding the United States Federal income tax consequences of the holding and disposition of such notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of principal, interest (including OID) and premium paid on Notes and to the proceeds of sale of a Note paid to you (unless you are an exempt recipient). A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or a certification of exempt status, or if you fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

Additional Withholding Requirements

Under the Foreign Account Tax Compliance Act, commonly referred to as FATCA, a foreign financial institution that enters into an agreement with the U.S. Treasury Department may be required to withhold 30% from certain "foreign passthru payments" made to recalcitrant accountholders or certain foreign financial institutions. The term "foreign passthru payments" has not yet been defined by the IRS but is intended to capture payments that are non-U.S. source but are attributable to a U.S.-source payment. Debt obligations giving rise to foreign passthru payments will generally not be subject to withholding tax under FATCA if such obligations are issued on or prior to the date which is six months after the publication of final regulations defining the term foreign passthru payment. In addition, Treasury regulations provide that a foreign financial institution would not be required to withhold on foreign passthru payments until the later of 1 January 2017, or six months after the publication of final regulations defining the term foreign passthru payment. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

Europe

European Union Directive on Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident of certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. On 18 March 2014, the Luxembourg Ministry of Finance filed a bill to the effect that Luxembourg will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payment of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

The European Council formally adopted a Council Directive amending the Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

The Proposed Financial Transactions Tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of the Notes should, however, be exempt.

Under current proposals 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 FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**"), and entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each, a "**Plan**").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "**ERISA Plan**") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest," within the meaning of ERISA, or "disqualified persons," within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Bank or a Dealer is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions ("**PTCEs**") that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, *provided that* neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be purchased or held by any person investing "**plan assets**" of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a Note or any beneficial interest therein, each purchaser and subsequent transferee of a Note or any beneficial interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Note or any beneficial interest therein constitutes assets of any Plan or (ii) the purchase and holding of the Note or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg or the CMU Service (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement 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 Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "**banking organisation**" within the meaning of the New York Banking Law, a "**clearing corporation**" within the meaning of the New York Uniform Commercial Code and a "**clearing agency**" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Transfer Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU Service

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Notes**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear, the CMU Service or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TRANSFER RESTRICTIONS

Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:

  (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and

  (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:

  (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or

  (b) to the Issuer; or,

  (c) in the case of Unrestricted Registered Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB,

  in each case in accordance with any applicable securities laws of any State of the United States;

(iii) it understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

On or prior to the fortieth day after the relevant issue date, Notes represented by an interest in an Unrestricted Global Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Certificate only upon receipt by the Registrar of a written certification from the transferor (in the form set out in Schedule 13 (*Form of Transfer Certificate*) to the Programme Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Global Certificate, as described above under "*Forms of the Notes*".

Notes represented by an interest in a Restricted Global Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Certificate, but only upon receipt by the Registrar of a written certification from the transferor (in the form set out in Schedule 13 (*Form of Transfer Certificate*) to the Programme Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Certificate and become an interest in a Note represented by a Restricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Certificate.

Rule 144A Notes

Each purchaser of Restricted Notes in reliance on Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

(i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of its affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions applicable to the Restricted Notes;

(iii) the purchaser understands that the Restricted Global Certificate and any restricted Individual Note Certificate (a "**Restricted Individual Note Certificate**") will bear a legend to the following effect, unless the relevant Issuer determines 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, AS AMENDED (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) if it is acquiring any Notes for the account of one or more QIBs the purchaser 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; and

(v) the purchaser understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Upon the transfer, exchange or replacement of a Restricted Global Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) 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.

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

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

Each purchaser and subsequent transferee of the notes (or exchange notes) will be deemed to have represented and warranted that either: (A) no portion of the assets used by purchaser or subsequent transferee to acquire or hold the notes (or exchange notes) constitutes the assets of any (i) employee benefit plan that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), (ii) plan, individual retirement account or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "**Code**"), or to provisions under other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**") or (iii) entity whose underlying assets are considered to include "plan assets" (as defined in Section 3(42) of ERISA or any applicable Similar Laws) of any such plan, account or arrangement by reason of such plan's, account's or arrangement's investment in the entity or (B) the acquisition and holding of the notes (or exchange notes) by such purchaser or transferee will not constitute a non-exempt prohibited transaction under ERISA or the Code or a similar violation under any applicable Similar Law.

SUBSCRIPTION AND SALE

The Dealers have, in an Amended and Restated Dealer Agreement dated 5 September 2014, as amended, supplemented and/or restated from time to time (the "**Dealer Agreement**"), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by all applicable laws and rules engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be ended at any time but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

Certain of the Dealers and their affiliates may from time to time perform various investment banking, commercial banking or advisory services for the Issuer and its respective affiliates, for which they have received and may in the future receive customary compensation. The Dealers or their affiliates may own securities issued by the Issuer. The Dealers or their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. One of the Dealers, Woori Investment & Securities Co., Ltd., is an affiliate of the Issuer and a member of NH Financial Group.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Selling Restrictions

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

If a jurisdiction requires that such offering be made by a licensed broker or dealer and any of the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by such Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

United States

In respect of Notes offered or sold in reliance on Category 1, the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

In respect of Notes offered or sold in reliance on Category 2, the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

The Bearer Notes 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 United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, other than pursuant to Rule 144A, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto, 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.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of 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.

The Dealer Agreement provides that any Dealer may directly or through its respective agents or affiliates arrange for the resale of Restricted Notes in the United States only to qualified institutional buyers pursuant to Rule 144A.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as we and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer severally but not jointly has represented, warranted and agreed 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 the 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 such 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 legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 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 paragraphs (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 (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Selling Restriction Addressing Additional United Kingdom Securities Laws

Each Dealer severally but not jointly has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to severally but not jointly represent, warrant 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 as 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 as 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 any 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.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the "**FIEA**") and each Dealer severally but not jointly has represented and agreed, and each further Dealer appointed under the Programme will be required to severally but not jointly represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each Dealer severally but not jointly has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to severally but not jointly represent, warrant and agree, that:

(a) it has not offered or sold and will not offer or sell in 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 (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer severally but not jointly has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to severally but not jointly represent, warrant and agree, that it has not offered or sold any Notes or caused such Notes to be the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, nor has it circulated or distributed, nor will it circulate or distribute, the Offering Circular or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (b) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) 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 (as defined in Section 239(1) of 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 (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) or (in the case of such trust) where the transfer arises from an offer referred to in 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 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Korea

Each Dealer severally but not jointly has represented and agreed and each Dealer further appointed under the Programme will be required to severally but not jointly represent and agree, that Notes have not been and will not be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations.

Each Dealer severally but not jointly has undertaken and each Dealer further appointed under the Programme will be required to severally but not jointly undertake to ensure that any securities dealer to which it sells Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

LEGAL MATTERS

Certain legal matters with respect to the Programme as to Korean law will be passed upon for the Issuer by Bae, Kim & Lee LLC, Korean counsel for the Issuer.

Certain legal matters with respect to the Programme as to U.S. federal laws will be passed upon for the Dealers by Simpson Thacher & Bartlett LLP, U.S. counsel for the Dealers, and, as to English law, will be passed upon for the Dealers by Herbert Smith Freehills LLP, English counsel for the Dealers.

INDEPENDENT AUDITORS

Our consolidated financial statements as of 31 December 2013 and 2012 and 2 March 2012 (inception) and for the period from 2 March 2012 (inception) to 31 December 2012 and for year ended 31 December 2013 included in this Offering Circular have been prepared in accordance with K-IFRS and have also been audited by Deloitte Anjin without qualification as stated in their reports appearing therein.

With respect to our unaudited consolidated financial statements as of 30 June 2013 and for the six months ended 30 June 2013 included in this Offering Circular, prepared in accordance with K-IFRS, Deloitte Anjin has applied limited procedures in accordance with professional standards in Korea for a review of such financial statements. With respect to our unaudited consolidated financial statements as of 30 June 2014 and for the six months ended 30 June 2014 included in this Offering Circular, prepared in accordance with K-IFRS, Ernst & Young Han Young has applied limited procedures in accordance with professional standards in Korea for a review of such financial statements. Each of their review reports included in this Offering Circular states that they did not audit and do not express an opinion on such financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The address of Deloitte Anjin is 8th Floor, One IFC Bldg., 10, Gukjegeumyung-ro, Youngdeungpo-gu, Seoul 150-945, Korea. The address of Ernst & Young Han Young is Taeyoung Building, 111 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul 150-777, Korea. Deloitte Anjin and Ernst & Young Han Young are members of the Korean Institute of Certified Public Accountants.

GENERAL INFORMATION

Authorisation

The establishment of the Programme have been duly authorised by the Representative Director signing the authorisation sheet dated 31 July 2012, respectively, in accordance with the Issuer's internal regulations.

The Issuer filed a report of the establishment of the Programme with the Korean Minister of Strategy and Finance, acting pursuant to his authority under the Foreign Exchange Transaction Act and related laws and regulations and the Minister of Strategy and Finance has accepted such report. A prior report to the Minister of Strategy and Finance will also be required for each issue of Notes if the principal amount of a foreign currency-denominated borrowing of the Issuer (including foreign currency-denominated securities, such as the Notes) issued to non-residents of Korea exceeds U.S.$30 million. In addition, a report to the Ministry of Food, Agriculture, Forestry and Fisheries of Korea should be made by the Issuer in respect of each issue of Notes and a report to the Financial Supervisory Service of Korea should be made by the Issuer in respect of each issue of Subordinated Notes.

No other governmental approval in Korea is necessary for the subscription and issue of any Notes, or for their sale and purchase in the secondary market, outside Korea.

Listing of Notes

Application has been made to the SGX-ST for permission to deal in and the quotation for any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying and transfer agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, or in the event that the Notes are exchanged for definitive notes. In the event that the Global Note representing such Notes is exchanged for definitive Notes, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the principal office of the Principal Paying Agent for the time being in Hong Kong:

(i) the Articles of Incorporation (together with English translations) of the Issuer;

(ii) the audited consolidated financial statements of the Issuer as of 31 December 2013 and 2013 and 2 March 2012 (inception) and for the period from 2 March 2012 (inception) to 31 December 2012 and for the year ended 31 December 2013 (with an English translation thereof);

(iii) the unaudited, but reviewed, consolidated financial statements of the Issuer as of 30 June 2013 and 2014 and for the six months ended 30 June 2013 and 2014 (with an English translation thereof);

(iv) the most recently published audited consolidated annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer (with an English translation thereof);

(v) the Dealer Agreement (as amended and/or supplemented from time to time), the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons, and the Talons;

(vi) a copy of the Offering Circular;

(vii) any future offering circulars, prospectuses, information memoranda and supplements, including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity), to the Offering Circular and any other documents incorporated herein or therein by reference; and

(viii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Ratings

As of the date hereof, the Bank's current corporate ratings assigned by Moody's, Standard & Poor's and Fitch were A1 (Stable), A (Stable) and A (Stable), respectively. The ratings do not constitute recommendations to purchase, hold or sell securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. The Bank cannot assure investors that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgement circumstances so warrant.

Clearing Systems

Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. In addition, the Issuer may make an application for any Restricted Notes or Unrestricted Notes to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Notes will be confirmed in the relevant Notes. The relevant ISIN, the Common Code, the Committee on the Uniform Security Identification Procedure ("**CUSIP**") number and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the "**Directive**") on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements above.

INDEX TO FINANCIAL STATEMENTS OF NONGHYUP BANK AND ITS SUBSIDIARIES

Page(s)

Unaudited Consolidated Financial Statements of NongHyup Bank and its subsidiaries as of 30 June 2013 and 2014 and for the Six Months ended 30 June 2013 and 2014:

Audited Consolidated Financial Statement of NongHyup Bank and its subsidiaries as of as of 31 December 2012 and 2013 and for the year ended 31 December 2013 and for the Period from 2 March 2012 (inception) to 31 December 2012:

Ernst & Young Han Young
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Building a better working world

Report on review of interim consolidated financial statements

The Board of Directors and Shareholders
NongHyup Bank

The consolidated financial statements for the review

We have reviewed the accompanying interim consolidated financial statements of NongHyup Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as at June 30, 2014 and the related interim consolidated statements of comprehensive income for the three and six month periods ended June 30, 2014, changes in equity and cash flows for the six month period ended June 30, 2014 and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with Korea International Financial Reporting Standards 1034 Interim Financial Reporting (K–IFRS 1034). Also, management is responsible for the design and operation of the Group's internal control to prevent and detect any error or fraud which may cause material misstatement of the interim consolidated financial statements.

Independent accountants' responsibility

Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements were not prepared, in all material respects, in accordance with K–IFRS 1034.

EY 한영
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Other matters

The interim consolidated statements of comprehensive income for the three and six month periods ended June 30, 2013 and changes in equity and cash flows for the six month period ended June 30, 2013 presented for comparative purpose, were reviewed by Deloitte Anjin LLC whose review report dated August 27, 2013 expressed an unqualified review opinion.

Moreover, the consolidated statement of financial position as at December 31, 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended were audited by Deloitte Anjin LLC, in accordance with auditing standards generally accepted in the Republic of Korea, whose report dated March 28, 2014 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as at December 31, 2013 presented for comparative purpose is not different, in all material respects, from the above audited consolidated statement of financial position.

Ernst & Young Han Young

August 12, 2014

This review report is effective as at August 12, 2014, the independent accountants' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent accountants' review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modification to this review report.

NongHyup Bank and its subsidiaries
Interim consolidated statements of financial position
As at June 30, 2014 and December 31, 2013
(Korean won in millions)

	Notes		June 30, 2014		December 31, 2013
Assets					
Cash and due from banks	4, 5, 34, 38	₩	10,622,299	₩	9,216,363
Trading financial assets	4, 6, 34, 35		5,599,580		4,582,634
Derivative assets	4, 6, 20, 34, 35		751,663		735,997
AFS financial assets	4, 7, 34, 35		15,356,554		13,561,226
HTM financial assets	4, 7, 34, 35		6,511,396		7,810,366
Loans and receivables	4, 8, 34, 35		164,770,722		156,022,454
Investments in associates	9		57,695		25,559
Tangible assets	10		2,380,361		2,267,183
Investment properties	11		438,506		546,091
Intangible assets	12		320,822		262,771
Current income tax assets			-		110,819
Deferred income tax assets	24		107,550		54,066
Other assets	13		144,481		151,353
Non-current assets classified as held for sale	8, 11		15		15
Total assets		₩	207,061,644	₩	195,346,897
Liabilities and equity					
Liabilities					
Deposits	14, 15, 34, 35	₩	155,670,135	₩	144,919,171
Financial liabilities at FVTPL	14, 34, 35		53,812		54,344
Derivative liabilities	14, 20, 34, 35		729,879		731,181
Borrowings	14, 16, 34, 35		14,736,637		15,302,400
Debentures	14, 17, 34, 35		8,533,924		10,993,925
Provisions	18, 37		283,066		313,810
Current income tax liabilities			12,466		-
Retirement benefit obligations	21		204,743		178,569
Other liabilities	14, 19, 34, 35		12,992,447		8,878,557
Total liabilities			193,217,109		181,371,957
Equity					
Capital stock	22		2,073,956		2,073,956
Other paid-in capital	22		9,337,085		9,690,101
Retained earnings	22		2,293,185		2,152,801
Other components of equity	22		140,309		58,082
Non-controlling interests			-		-
Total equity			13,844,535		13,974,940
Total liabilities and equity		₩	207,061,644	₩	195,346,897

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

NongHyup Bank and its subsidiaries
Interim consolidated statements of comprehensive income
For the three and six month periods ended June 30, 2014 and 2013
(Korean won in millions, except per share amounts)

	Notes	Three month period ended June 30		Six month period ended June 30	
		2014	2013	2014	2013
Net interest income	25				
Interest income		₩ 1,933,649	₩ 2,044,294	₩ 3,864,732	₩ 4,086,331
Interest expenses		893,455	981,746	1,802,453	2,002,043
		1,040,194	1,062,548	2,062,279	2,084,288
Net commission income	26				
Commission income		178,470	171,814	333,157	317,268
Commission expenses		76,692	74,431	176,532	158,734
		101,778	97,383	156,625	158,534
Gain (loss) on trading financial assets, net	27				
Gain on trading financial assets		1,003,077	710,887	1,396,438	1,505,789
Loss on trading financial assets		907,798	765,670	1,279,380	1,566,760
		95,279	(54,783)	117,058	(60,971)
Gain on financial assets at FVPTL, net	27				
Gain on financial assets at FVPTL		431	430	531	430
Loss on financial assets at FVPTL		-	(98)	-	96
		431	528	531	334
Gain (loss) on financial investment assets, net	27				
Gain on financial investment assets		61,716	61,996	139,125	142,387
Loss on financial investment assets		69,875	64,978	214,756	86,313
		(8,159)	(2,982)	(75,631)	56,074
Other operating expenses, net	29				
Other operating revenues		289,734	370,450	458,206	766,498
Other operating expenses		487,848	510,093	810,634	1,013,072
		(198,114)	(139,643)	(352,428)	(246,574)
Operating income before credit losses and general and administrative expenses		1,031,409	963,051	1,908,434	1,991,685
Provision of allowances for losses on credit	8, 18	231,479	362,333	434,069	558,544
Operating income before general administrative expenses		799,930	600,718	1,474,365	1,433,141
General administrative expenses					
Employee benefits	30	374,258	357,071	816,889	754,938
Depreciation and amortization expenses	10, 12	56,243	36,533	113,274	71,602
Other selling and administrative expenses	31	147,804	172,199	278,848	323,739
		578,305	565,803	1,209,011	1,150,279
Operating income		221,625	34,915	265,354	282,862
Loss on valuation of equity method investments, net	9	(159)	5,831	(676)	5,554
Other expenses, net	32	(52,815)	(100,044)	(132,456)	(206,445)
Income (expense) before income tax expense		168,651	(59,298)	132,222	81,971
Income tax expense	24	21,749	(14,959)	11,955	15,719
Net income		146,902	(44,339)	120,267	66,252
Controlling interests	22	146,902	(44,339)	120,267	66,252
Non-controlling interests		-	-	-	-

(Continued)

NongHyup Bank and its subsidiaries
Interim consolidated statements of comprehensive income
For the three and six month periods ended June 30, 2014 and 2013
(Korean won in millions, except per share amounts)

	Notes	Three month period ended June 30				Six month period ended June 30			
		2014		2013		2014		2013	
Other comprehensive income									
Items not subsequently reclassified to profit or loss									
Remeasurements of defined benefit pension plans	21	₩	(1,418)	₩	(871)	₩	(2,765)	₩	(69,976)
Items subsequently reclassified to profit or loss									
Gain (loss) on valuation & translation of AFS financial asset	22		39,671		(134,320)		85,524		(96,183)
Exchange differences on translation of foreign operations			(524)		-		(397)		-
Equity adjustments in equity method	9, 22		(301)		(887)		(135)		476
			38,846		(135,207)		84,992		(95,707)
Total comprehensive income		₩	184,330	₩	(180,417)	₩	202,494	₩	(99,431)
Controlling interests			184,330		(180,417)		202,494		(99,431)
Non-controlling interests			-		-		-		-
Earnings per share	33								
Basic earnings per share		₩	344	₩	(111)	₩	255	₩	169
Diluted earnings per share		₩	344	₩	(111)	₩	255	₩	169

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

NongHyup Bank and its subsidiaries
Interim consolidated statements of changes in equity
For the six month periods ended June 30, 2014 and 2013
(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustment	Hybrid bond	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance at January 1, 2013	₩ 1,915,622	₩ 9,165,126	₩ (12,271)	₩ 349,997	₩ 1,317,352	₩ 258,622	₩ -	₩ 12,994,448
Change in accounting policies	-	51,343	12,271	-	(7,389)	12,067	-	68,292
Restated	1,915,622	9,216,469	-	349,997	1,309,963	270,689	-	13,062,740
Increased paid-in capital	75,000	373,918	-	-	-	-	-	448,918
Net income	-	-	-	-	66,252	-	-	66,252
Changes due to consolidated tax	-	-	-	-	4,857	-	-	4,857
Changes in remeasurements of the net defined benefit liability	-	-	-	-	-	(69,976)	-	(69,976)
Gain on valuation & translation of AFS financial assets	-	-	-	-	-	(96,183)	-	(96,183)
Gain on valuation of equity method investments	-	-	-	-	-	476	-	476
Dividends on hybrid equity securities	-	-	-	-	(5,915)	-	-	(5,915)
Dividends	-	-	-	-	(307,625)	-	-	(307,625)
Balance at June 30, 2013	₩ 1,990,622	₩ 9,590,387	₩ -	₩ 349,997	₩ 1,067,532	₩ 105,006	₩ -	₩ 13,103,544

	Capital stock	Capital surplus	Capital adjustment	Hybrid bond	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance at January 1, 2014	₩ 2,073,956	₩ 8,990,456	₩ -	₩ 699,645	₩ 2,152,801	₩ 58,082	₩ -	₩ 13,974,940
Business combination	-	-	(3,016)	-	-	-	-	(3,016)
Net income	-	-	-	-	120,267	-	-	120,267
Changes due to consolidated tax	-	-	-	-	34,572	-	-	34,572
Changes in remeasurements of the net defined benefit liability	-	-	-	-	-	(2,765)	-	(2,765)
Gain on valuation & translation of AFS financial assets	-	-	-	-	-	85,524	-	85,524
Gain on overseas Business translation	-	-	-	-	-	(397)	-	(397)
Gain on valuation of equity method investments	-	-	-	-	-	(135)	-	(135)
Repayment of hybrid equity securities	-	-	(3)	(349,997)	-	-	-	(350,000)
Dividends on hybrid equity securities	-	-	-	-	(14,455)	-	-	(14,455)
Balance at June 30, 2014	₩ 2,073,956	₩ 8,990,456	₩ (3,019)	₩ 349,648	₩ 2,293,185	₩ 140,309	₩ -	₩ 13,844,535

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

NongHyup Bank and its subsidiaries
Interim consolidated statements of cash flows
For the six month periods ended June 30, 2014 and 2013

(Korean won in millions)

	Notes	Six month period ended June 30, 2014	Six month period ended June 30, 2013
Operating activities			
Net income before income tax expense		₩ 132,222	₩ 81,971
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Interest expense		1,802,453	2,002,043
Loss on valuation of trading financial assets		5,744	24,278
Loss on disposal and redemption of AFS financial assets		4,703	14,614
Impairment loss of AFS financial assets		210,053	71,699
Loss on valuation of trading derivatives		420,079	613,046
Loss on valuation of hedging derivatives		14,069	43,170
Loss related to fair value hedge		7,056	5,738
Loss on valuation of equity method investments		835	316
Loss on disposal of equity method investments		-	745
Depreciation		60,822	43,096
Amortization of intangible assets		54,288	30,213
Loss on disposal of assets		1,703	2,213
Provision of allowance for losses on credit		462,299	496,970
Provision for acceptances and guarantees		4,177	60,578
Provision for unused credit limit		-	996
Transfer in other provisions		4,274	4,892
Loss on transaction of foreign exchange		471,222	552,444
Retirement expense		73,559	62,217
Other losses		19,990	21,727
		3,617,326	4,050,995
Adjustments to reconcile net income to net cash flows used in operating activities:			
Interest income		3,864,732	4,086,331
Dividend income		79,754	42,009
Gain on valuation of trading financial assets		13,649	8,472
Gain on valuation of financial liabilities at FVTPL		531	430
Gain on disposal and redemption of AFS financial assets		51,267	92,952
Gain on disposal and redemption of HTM financial assets		5,623	3,253
Reversal of impairment loss of HTM financial assets		3,725	6,367
Gain on valuation of trading derivatives		435,977	623,142
Gain on valuation of hedging derivatives		7,399	6,677
Gain related to fair value hedge		16,094	33,631
Gain on disposal of equity method investments		249	-
Gain on valuation of equity method investments		159	6,615
Gain on disposal of assets		2,248	34
Reversal of provision for unused credit limit		32,407	-
Gain on transaction of foreign exchange		370,419	601,446
Other gains		4,647	20,287
		(4,888,880)	(5,531,646)

(Continued)

NongHyup Bank and its subsidiaries
Interim consolidated statements of cash flows
For the six month periods ended June 30, 2014 and 2013
(Korean won in millions)

	Notes	Six month period ended June 30, 2014	Six month period ended June 30, 2013
Changes in operating assets and liabilities:			
Decrease (increase) in trading financial assets		₩ (1,090,266)	₩ 415,981
Increase in financial liabilities at FVTPL		-	96
Decrease in trading derivative assets		427,709	462,020
Increase in loans		(5,675,449)	(1,273,717)
Increase in due from banks		(1,345,858)	(1,366,565)
Decrease (Increase) in other receivables		(3,654,567)	6,673,177
Decrease in other assets		6,874	3,000
Decrease in plan assets		6,736	67,006
Increase in deposits		10,720,866	4,085,201
Decrease in trading derivative liabilities		(435,450)	(359,700)
Increase (decrease) in provisions		(2,093)	3,290
Payment of retirement benefits and change resulting from transfer of staff among affiliates		(57,245)	(82,579)
Increase in other liabilities		3,768,469	280,526
		2,669,726	8,907,736
Cash provided by operating activities:			
Net cash received for interest		3,737,787	3,747,020
Net cash received for dividend		79,889	49,123
		3,817,676	3,796,143
Cash used in operating activities:			
Payment of interest expense		1,791,763	2,148,146
Payment (refund) of income tax		(66,039)	124,384
		(1,725,724)	(2,272,530)
Net cash flows provided by operating activities		3,622,346	9,032,669
Investing activities			
Cash flows provided by investing activities:			
Disposal of AFS financial assets		12,501,558	17,142,562
Disposal of HTM financial assets		1,386,876	1,912,664
Disposal of tangible assets		9,423	977
Disposal of intangible assets		254	1,441
Disposal of equity method investments		2,814	10,716
		13,900,925	19,068,360
Cash flows used in investing activities:			
Purchase of AFS financial assets		14,326,355	23,303,479
Purchase of HTM financial assets		80,260	659,308
Purchase of equity method investments		35,515	-
Purchase of investment properties		147	33
Purchase of tangible assets		31,263	83,902
Purchase of intangible assets		47,773	30,060
Acquisition in a business combination		112,549	-
		(14,633,862)	(24,076,782)
Net cash flows used in investing activities		(732,937)	(5,008,422)

(Continued)

NongHyup Bank and its subsidiaries
Interim consolidated statements of cash flows
For the six month periods ended June 30, 2014 and 2013
(Korean won in millions)

	Notes	Six month period ended June 30, 2014	Six month period ended June 30, 2013
Financing activities			
Cash flows provided by financing activities:			
Increase in borrowings, net		₩ -	₩ 2,013,670
Increase in debentures		119,165	348,193
Increase in borrowings from trust accounts, net		340,640	1,852,981
Increase in capital		-	448,918
		459,805	4,663,762
Cash flows used in financing activities:			
Decrease in borrowings, net		435,616	-
Decrease in debentures		2,471,257	959,903
Dividends		14,455	313,540
Decrease in hybrid equity securities		350,000	-
Other cash outflows		-	7,201,976
		(3,271,328)	(8,475,419)
Net cash flows used in financing activities		(2,811,523)	(3,811,657)
Net increase in cash and cash equivalents		77,886	212,590
Cash and cash equivalents at the beginning of the period		2,402,686	2,147,663
Effect of exchange rate changes on cash and cash equivalents		(8,331)	9,529
Cash and cash equivalents at the end of the period	38	₩ 2,472,241	₩ 2,369,782

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

1. GROUP INFORMATION

1.1 NongHyup Bank as the parent company

NongHyup Bank (the "Bank") was established by the split-off of the Credit and Banking Business from National Agricultural Cooperative Federation (the "NACF") on March 2, 2012. The Bank's headquarter is located at 120 Tongil-ro Joong-gu in Seoul.

As at June 30, 2014, the Bank's capital stock amounts to ₩2,073,956 million with 414,791,122 shares of common stock outstanding, which are 100% owned by NongHyup Financial Group. As at June 30, 2014, the Bank operates 157 regional offices, 722 branches, 313 depositary offices, and 4 overseas branches and offices.

1.2 Scope and principles of consolidation

Subsidiaries in consolidation as at June 30, 2014 and December 31, 2013 are as follows:

June 30, 2014

Subsidiaries	Main business	Location	Percentage of ownership (%)	Using financial statement date
Personal pension trusts and 10 other trusts (*1)	Trust business	Korea	-	June 30, 2014
Arirang SF Co., Ltd., and another (*2)	Asset securitization Business and others	Korea	-	June 30, 2014
Korea Investment Management (NH Futures) private basic placed investment trust 39th	Beneficiary certificate	Korea	100.00	June 30, 2014

December 31, 2013

Subsidiaries	Main business	Location	Percentage of ownership (%)	Using financial statement date
Personal pension trusts and 10 other trusts (*1)	Trust business	Korea	-	December 31, 2013
Arirang SF Co., Ltd., and another (*2)	Asset securitization Business and others	Korea	-	December 31, 2013
Mirae (Kyobo) triumph medium and small 1st and 19 others (*2)	Beneficiary certificate	Korea	100.00	December 31, 2013

(*1) The Group controls the trust because it has power over the trust to determine the operation performance and is exposed to variable returns to absorb losses from the agreement of guarantees of the principal or principal and interest.
(*2) The Group controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to use power over the investee to affect performance result.

NongHyup Bank and its subsidiaries (the "Group") include the structured entities, to which K-IFRS 1110 and K-IFRS 1112 are applicable, in the consolidation scope and control the structured entity when the Group has power over the entity, exposure to variable returns from its involvement with the entity and the ability to use power over the entity to affect the amount of those returns.

Summary of financial information of subsidiaries in consolidation as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

1. GROUP INFORMATION (cont'd)

1.2 Scope and principles of consolidation (cont'd)

June 30, 2014

Subsidiaries	Asset	Liabilities	Equity	Operating income	Net income	Total comprehensive income
Personal pension trusts and 10 other trusts	₩ 2,982,951	₩ 2,982,951	₩ -	58,809	₩ -	₩ -
Arirang SF Co., Ltd.	8,416	176,928	(168,512)	8,235	2,724	2,724
KAMCO Value Recreation 4th Securitization Specialty Ltd.	55	75,726	(75,671)	-	(2,993)	(2,993)
Consolidated beneficiary certificate	2,025,334	272,443	1,752,891	38,648	23,602	23,602

December 31, 2013

Subsidiaries	Asset	Liabilities	Equity	Operating income	Net income	Total comprehensive income
Personal pension trusts and 10 other trusts	₩ 2,890,339	₩ 2,890,339	₩ -	133,271	₩ -	₩ -
Arirang SF Co., Ltd.	4,948	176,184	(171,236)	17,076	6,981	6,981
KAMCO Value Recreation 4th Securitization Specialty Ltd.	730	73,408	(72,678)	14,825	12,084	12,084
Consolidated beneficiary certificate	1,044,867	90,412	954,455	8,734	4,455	4,455

1.3 Consolidated structured entities

Characteristics and Intentions of contractual commitments offered by Group to consolidated structured entities are as follows:

Entity	The Characteristics and Purposes	Intention
Arirang SF Co., Ltd.	The Group offers purchase commitment amounting to ₩13,600 million for ABCP issued by Arirang SF Co., Ltd. If there are not enough investors who acquire the ABCP, the Group required to acquire the deficit amount of ABCP.	Credit risk mitigation of liquidation plan
KAMCO Value Recreation 4th Securitization Specialty Ltd.	The Group has purchased subordinated bonds amounting to ₩42,165 million issued by its subsidiary, KAMCO Value Recreation 4th Securitization Specialty Ltd.,	Credit risk mitigation of liquidation plan
Personal pension trusts and 11 other trusts	The Group offers principal and interest conservation commitment to trust accounts. The Group required to conserve the deficit amount in case of the operation result of trust account standing below the principal.	Credit risk mitigation on financial management of trust account

1.4 Changes in subsidiaries

Hi (NH INVESTMENT & SECURITIES CO,. LTD.) Good Choice private securities investment trust 10th and 20 other private placed funds have been newly included in the consolidation scope and Sinyoung Private Equity N-23 and another private securities investment trust have been excluded from the consolidation scope during the six month period ended June 30, 2014.

1. GROUP INFORMATION (cont'd)

1.5 Unconsolidated structured entities

A structured entity is designed such that voting rights or similar rights are not the dominant factor in deciding who controls the entity, and the Group is accordingly involved in the structured entity through asset-backed securitization, project financing, investment fund contracts and others as at June 30, 2014. Of the structured entities, the interests and nature of the risks of unconsolidated structured entities, for which the Group does not have control, are as follows.

1.5.1 Project financing

Project financing is the main financing method for large-scale risky project, where investors will make investment decisions based on the project economic feasibility, instead of the credit rating of the principal party driving the project or the physical collateral involved, and will receive the profits that occur upon project progression. For effective implementation of the project financing, structured entities will be established as special-purpose entities ("SPEs"), funded through investment or lending institutions and participating entities. Structured entities for project financing include investment companies for real estate project-financing, business infrastructure enforcement corporations, special-purpose companies for acquisition of ships and airlines. The Group has an influence on the structured entities investment, loans and granting of credit, and thus recognizes the related interest income, gains and losses on valuation of equity investments and dividend income. Although the entities that provide financial support in the form of funding guarantees, bonds and senior credit facilities, exist, the Group may still be exposed to risk of losses resulting from failure of return on capital investment or discontinuation of the project, joint liabilities on guarantees, etc.

1.5.2 Asset-backed securitization

The unconsolidated structured entity, whose objective is the securitization of assets, issues asset-backed securities based on the securitized assets and pays the redemption proceeds on such asset-backed securities with profits from the management, operation and sales of the securitized assets. The Group is liable for the risks associated with the issuance of asset-backed securities through the purchase of subordinated bonds, execution of asset-backed securities purchase agreements and granting of credit, and thus recognizes the related interest income and commission income.

1.5.3 Investment funds

Non-consolidated structured entities, which are classified as investment funds, include investment trusts and private equity funds. The structure of an investment trust is formed by funding from various investors, engaging a manager in the trust to operate and distributing proceeds from investments to the investors according to the trust agreements. The structure of a private equity fund is normally established by distributing profit from investment fund of equity securities in order to acquire ownership interests in a target Groupy and implement financial and operational restructuring. The Group recognizes gains and losses on valuation of investments in relation to the Group's interest in investment funds. It is exposed to losses of principals when the value of investment fund decreases.

Total asset size of the unconsolidated structured entities, book value for the line items as recognized in the consolidated financial statements, maximum exposure to loss and loss incurred for the six month period ended June 30, 2014, are as follows. The maximum exposure to loss includes investment amounts recognized in the consolidated financial statements and the amounts which are determined in the future by meeting certain condition based on the agreements of purchase, granting credit, etc. (Korean won in millions):

1. GROUP INFORMATION (cont'd)

1. 5 Unconsolidated structured entities (cont'd)

1.5.3 Investment funds (cont'd)

	June 30, 2014			
Classification	Asset-backed securitization	Investment fund	Project financing	Total
Total assets of unconsolidated structured entity	₩ 16,637,685	₩ 46,023,084	₩ 17,427,308	₩ 80,088,077
Recognized assets related to unconsolidated structured entities:	569,161	1,004,085	1,800,086	3,373,332
Loans	87,992	-	1,783,984	1,871,976
Securities	481,169	1,004,085	16,102	1,501,356
Recognized liabilities related to unconsolidated structured entities	120,759	-	-	120,759
Loss on unconsolidated structured entity	-	869	30,700	31,569
Maximum exposure to loss:	1,289,551	1,004,085	1,800,086	4,093,722
Commitments and guarantees	720,390	-	-	720,390
Securities (including derivatives)	481,169	1,004,085	16,102	1,501,356
Loans	87,992	-	1,783,984	1,871,976

	December 31, 2013			
Classification	Asset-backed securitization	Investment Fund	Project financing	Total
Total assets of unconsolidated structured entity	₩ 20,479,895	₩ 47,481,731	₩ 14,863,804	₩ 82,825,430
Recognized assets related to unconsolidated structured entities:	740,564	989,818	1,843,743	3,574,125
Loans	82,617	-	1,823,560	1,906,177
Securities	657,947	989,818	20,183	1,667,948
Recognized liabilities related to unconsolidated structured entities	167,260	-	-	167,260
Loss on unconsolidated structured entity	-	9,217	51,125	60,342
Maximum exposure to loss:	1,276,514	989,818	1,843,743	4,110,075
Commitments and guarantees	535,950	-	-	535,950
Securities (including derivatives)	657,947	989,818	20,183	1,667,948
Loans	82,617	-	1,823,560	1,906,177

2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's interim consolidated financial statements are prepared in accordance with K-IFRS 1034 *Interim Financial Reporting*. It is necessary to use the annual consolidated financial statements for the year ended December 31, 2013 for the understanding of the interim consolidated financial statements.

Major accounting policies used for the preparation of the consolidated financial statements are stated below. Unless stated otherwise, the accounting policies have been applied consistently with the annual consolidated financial statements in order to prepare the interim consolidated financial statements.

2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont'd)

2.1 Changes in accounting policies and disclosures

The Group has newly adopted the following new standards and interpretations that affected the Group's accounting policies.

2.1.1 Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027 – *Investment Entities*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under KIFRS 1110. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

2.1.2 Amendments to K-IFRS 1032 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not expected to be relevant to the Group.

2.1.3 Amendments to K-IFRS 1036 – Recoverable Amount Disclosures for Non-Financial Assets

These amendments remove the unintended consequences of KIFRS 1113 on the disclosures required under KIFRS 1036. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are not expected to be relevant to the Group.

2.1.4 Amendments to K-IFRS 1039 – Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

2.1.5 Enactment of K-IFRS 2121 – Levies

KIFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that KIFRS 2121 will have material financial impact in future financial statements.

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

3. SIGNIFICANT JUDGMENTS AND ESTIMATIONS

In preparation of the interim consolidated financial statements, the management must make the application of the Group's accounting policies, and judgments, estimations and assumptions, which give effects to assets, liabilities, revenues and expenses. Actual results can differ from those estimates.

The significant judgments which management has made regarding the application of the Group's accounting policies and key sources of uncertainty in accounting estimates do not differ from those used in preparing the annual consolidated financial statements for the year ended December 31, 2013.

4. FINANCIAL ASSETS

Details of financial assets as at June 30, 2014 and December 31, 2013 are as follows(Korean won in millions):

Classification		June 30, 2014 Book value	Fair value
Financial assets at FVTPL:			
Trading financial assets		₩ 5,599,580	₩ 5,599,580
Trading derivative assets		711,998	711,998
		6,311,578	6,311,578
Hedging derivative assets		39,665	39,665
AFS financial assets		15,356,554	15,356,554
HTM financial assets		6,511,396	6,690,338
Loans and receivables:			
Deposits	Deposits in Korean won	7,885,006	7,885,006
	Deposits in foreign currency	265,052	265,052
		8,150,058	8,150,058
Loans (*1)	Loans in Korean won	144,323,871	146,185,134
	Loans in foreign currency	2,215,838	2,229,559
	Credit card receivables	3,403,117	3,241,651
	Others	7,839,459	7,856,877
		157,782,285	159,513,221
Receivables (*2 and *3)		6,783,535	6,528,652
		172,715,878	174,191,931
		₩ 200,935,071	₩ 202,590,066

Classification		December 31, 2013 Book value	Fair value
Financial assets at FVTPL:			
Trading financial assets		₩ 4,582,634	₩ 4,582,634
Trading derivative assets		681,142	681,142
		5,263,776	5,263,776
Hedging derivative assets		54,855	54,855
AFS financial assets		13,561,226	13,561,226
HTM financial assets		7,810,366	7,987,173
Loans and receivables			
Deposits	Deposits in Korean won	6,780,701	6,780,701
	Deposits in foreign currency	32,975	32,975
		6,813,676	6,813,676
Loans (*1)	Loans in Korean won	139,950,983	141,730,688
	Loans in foreign currency	2,216,098	2,211,102

4. FINANCIAL ASSETS (cont'd)

Classification	December 31, 2013 Book value	Fair value
Credit card receivables	₩ 3,591,080	₩ 3,460,486
Others	7,099,855	7,118,454
	152,858,016	154,520,730
Receivables (*2 and *3)	2,973,098	2,733,185
	162,644,790	164,067,591
	₩ 189,335,013	₩ 190,934,621

(*1) Loans are presented at net carrying amount after deduction of allowance for losses on credit and present-value discounts. Deferred LOF("Loan Originated Fee")/LOC("Loan Originated Cost") amounting to ₩204,903 million as at June 30, 2014 and ₩191,340 million as at December 31, 2013 respectively are excluded.
(*2) Accrued interests included in the computation of loans are excluded in the fair value of receivables.
(*3) Receivables consist of domestic exchange settlement debits, leasehold deposits, etc. Those amounts are presented in net carrying amount after deduction of allowance for losses on credit and present value discounts.

Book values of financial assets by category as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

June 30, 2014	Financial assets at FVTPL: Trading	Financial assets at FVTPL: Trading derivatives	Loans and Receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 5,599,580	₩ 711,998	₩ -	₩ -	₩ -	₩ -	₩ 6,311,578
Hedging derivative assets	-	-	-	-	-	39,665	39,665
AFS financial assets	-	-	-	15,356,554	-	-	15,356,554
HTM investments	-	-	-	-	6,511,396	-	6,511,396
Deposits	-	-	8,150,058	-	-	-	8,150,058
Loans	-	-	157,987,188	-	-	-	157,987,188
Receivables	-	-	6,783,535	-	-	-	6,783,535
	₩ 5,599,580	₩ 711,998	₩ 172,920,781	₩ 15,356,554	₩ 6,511,396	₩ 39,665	₩ 201,139,974

December 31, 2013	Financial assets at FVTPL: Trading	Financial assets at FVTPL: Trading derivatives	Loans and Receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 4,582,634	₩ 681,142	₩ -	₩ -	₩ -	₩ -	₩ 5,263,776
Hedging derivative assets	-	-	-	-	-	54,855	54,855
AFS financial assets	-	-	-	13,561,226	-	-	13,561,226
HTM investments	-	-	-	-	7,810,366	-	7,810,366
Deposits	-	-	6,813,676	-	-	-	6,813,676
Loans	-	-	153,049,356	-	-	-	153,049,356
Receivables	-	-	2,973,098	-	-	-	2,973,098
	₩ 4,582,634	₩ 681,142	₩ 162,836,130	₩ 13,561,226	₩ 7,810,366	₩ 54,855	₩ 189,526,353

5. CASH AND DUE FROM BANKS

Cash and due from banks as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions, interest rate in %):

Classification	Details	Interest rate (%)	June 30, 2014	December 31, 2013
Cash in Korean won	Cash on hand	-	₩ 1,561,245	₩ 1,615,080
Cash equivalents	Bank deposits	0.01~2.69	662,904	564,305
Cash in foreign currency	Cash on hand	-	248,092	223,302
Due from banks in Korean won	Reserve deposits	-	5,743,838	5,331,385
	Non-monetary financial institution deposits	0.00~4.00	501	501
	Other deposits	2.54~2.67	2,140,667	1,448,815
			7,885,006	6,780,701
Due from banks in foreign currency	From other banks	0.00~0.25	265,052	32,975
			₩ 10,622,299	₩ 9,216,363

Restricted due from banks in Korean won and in foreign currency as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification	Financial institution	June 30, 2014	December 31, 2013	Reason for restriction
Reserve deposits in Korean won	The Bank of Korea	₩ 5,743,837	₩ 5,331,385	Required under the Bank Act and other related regulations
Monetary stabilization account	The Bank of Korea	1,920,000	1,360,000	Required by the Bank of Korea for the purpose of liquidity management
Non-monetary financial institution deposits in Korean won	Korea Exchange	501	501	Penalty joint fund related to government bond transaction and guarantee deposit
Reserve deposits in foreign currency	The Bank of Korea	265,052	32,975	Required under the Bank Act and other related regulations
		₩ 7,929,390	₩ 6,724,861	

6. FINANCIAL ASSETS AT FVTPL

Details of financial assets at FVTPL as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Trading securities		
Equity securities	₩ 246,340	₩ 204,393
Debt securities	4,979,737	4,319,309
Securities lent and pledged as collaterals	373,503	58,932
	5,599,580	4,582,634
Trading derivative assets	711,998	681,142
	₩ 6,311,578	₩ 5,263,776

Trading securities as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 184,023	₩ -	₩ 186,023	₩ 186,023
Beneficiary certificates	-	60,000	-	60,058	60,058
Mutual funds	-	257	-	259	259
	-	244,280	-	246,340	246,340
Debt securities:					
Government and public bonds	1,325,661	1,343,984	1,340,207	1,341,165	1,341,165
Financial bonds	2,623,550	2,613,751	2,613,390	2,616,433	2,616,433
Corporate bonds	648,000	647,750	648,385	648,626	648,626
Public bonds	361,500	363,852	363,533	363,625	363,625
Others	10,226	9,723	9,694	9,888	9,888
Securities lent and pledged as collaterals	371,260	373,164	372,621	373,503	373,503
	5,340,197	5,352,224	5,347,830	5,353,240	5,353,240
	₩ 5,340,197	₩ 5,596,504	₩ 5,347,830	₩ 5,599,580	₩ 5,599,580

6. FINANCIAL ASSETS AT FVTPL (cont'd)

Classification	December 31, 2013 Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 163,370	₩ -	₩ 167,481	₩ 167,481
Beneficiary certificates	-	33,000	-	33,048	33,048
Mutual funds	-	3,683	-	3,864	3,864
	-	200,053	-	204,393	204,393
Debt securities:					
Government and public bonds	1,306,600	1,325,292	1,321,240	1,322,423	1,322,423
Financial bonds	1,957,400	1,950,348	1,949,215	1,949,549	1,949,549
Corporate bonds	764,000	764,865	765,325	765,338	765,338
Public bonds	122,600	122,048	121,963	122,101	122,101
Others	53,598	52,564	52,535	52,700	52,700
Securities lent and pledged as collaterals	164,800	165,943	165,360	166,130	166,130
	4,368,998	4,381,060	4,375,638	4,378,241	4,378,241
	₩ 4,368,998	₩ 4,581,113	₩ 4,375,638	₩ 4,582,634	₩ 4,582,634

Trading securities provided as collaterals as at June 30, 2014 and of December 31, 2013 are as follows (Korean won in millions):

Provided to	Remarks	June 30, 2014 Pledged amount	Book value
Citibank Korea Inc. and 9 others	Credit enhancement for derivative transactions	₩ 61,750	₩ 62,022
NH NongHyup Futures Co., Ltd. and another	Substitute securities for derivative transactions	68,110	69,393
KB Asset Management Co., Ltd. and 6 others	Others	241,400	242,088
		₩ 371,260	₩ 373,503

Provided to	Remarks	December 31, 2013 Pledged amount	Book value
Citibank Korea, Inc. and 9 others	Credit enhancement for derivative transactions	₩ 36,800	₩ 37,003
NH NongHyup Futures Co., Ltd. and another	Substitute securities for derivative transactions	40,000	40,836
Kookmin bank and 3 others	Others	88,000	88,291
		₩ 164,800	₩ 166,130

7. AFS AND HTM FINANCIAL ASSETS

AFS and HTM financial assets as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 559,024	₩ -	₩ 385,477	₩ 385,477
Non-marketable securities	-	302,105	-	270,831	270,831
Beneficiary certificates	-	588,101	-	568,204	568,204
MMF	-	300,000	-	300,083	300,083
Mutual funds	-	162,752	-	165,204	165,204
Foreign currency	-	289,325	-	289,559	289,559
Others	-	523,402	-	473,317	473,317
	-	2,724,709	-	2,452,675	2,452,675
Debt securities:					
Government and public bonds	3,250,000	3,279,055	3,262,217	3,261,429	3,261,429
Financial bonds	5,140,000	5,117,422	5,116,070	5,137,952	5,137,952
Public bonds	1,960,000	1,964,635	1,963,497	1,972,751	1,972,751
Corporate bonds	976,600	977,859	977,752	961,344	961,344
Foreign currency	371,215	411,301	407,919	369,521	369,521
Others	56	56	-	-	-
Securities lent and pledged as collaterals	1,180,000	1,210,997	1,206,887	1,200,882	1,200,882
	12,877,871	12,961,325	12,934,342	12,903,879	12,903,879
Total AFS financial assets	12,877,871	15,686,034	12,934,342	15,356,554	15,356,554
HTM financial assets:					
Debt securities:					
Government and public bonds	138,608	120,888	121,452	121,452	124,754
Financial bonds	492,000	492,818	492,106	492,106	504,663
Public bonds	880,000	880,429	880,005	880,005	901,214
Corporate bonds	541,500	541,322	541,429	541,429	549,105
Foreign currency	46,662	45,967	42,211	42,211	46,386
Others	12	12	12	12	12
Securities lent and pledged as collaterals	4,467,500	4,396,635	4,434,181	4,434,181	4,564,204
Total HTM financial assets	6,566,282	6,478,071	6,511,396	6,511,396	6,690,338
	₩ 19,444,153	₩ 22,164,105	₩ 19,445,738	₩ 21,867,950	₩ 22,046,892

7. AFS AND HTM FINANCIAL ASSETS (cont'd)

	December 31, 2013				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 647,533	₩ -	₩ 558,529	₩ 558,529
Non-marketable securities	-	335,060	-	308,486	308,486
Beneficiary certificates	-	1,477,903	-	505,281	505,281
Mutual funds	-	161,567	-	163,249	163,249
Foreign currency	-	300,215	-	305,134	305,134
Others	-	405,638	-	486,767	486,767
	-	3,327,916	-	2,327,446	2,327,446
Debt securities:					
Government and public bonds	3,630,000	3,640,217	3,632,194	3,599,957	3,599,957
Financial bonds	3,780,000	3,760,101	3,759,730	3,760,021	3,760,021
Public bonds	1,700,000	1,698,317	1,698,152	1,691,489	1,691,489
Corporate bonds	1,044,600	1,044,348	1,024,706	1,019,126	1,019,126
Foreign currency	345,052	374,728	370,265	339,389	339,389
Others	56	56	-	-	-
Securities lent and pledged as collaterals	820,000	854,079	851,819	823,798	823,798
	11,319,708	11,371,846	11,336,866	11,233,780	11,233,780
Total AFS financial assets	11,319,708	14,699,762	11,336,866	13,561,226	13,561,226
HTM financial assets:					
Debt securities:					
Government and public bonds	256,500	239,019	242,792	242,792	241,572
Financial bonds	895,000	895,818	895,201	895,201	913,460
Public bonds	1,298,403	1,296,526	1,298,336	1,298,336	1,327,944
Corporate bonds	715,200	715,022	715,110	715,110	720,594
Foreign currency	48,544	45,967	43,913	43,913	47,768
Others	19	19	19	19	19
Securities lent and pledged as collaterals	4,653,500	4,582,709	4,614,995	4,614,995	4,735,816
Total HTM financial assets	7,867,166	7,775,080	7,810,366	7,810,366	7,987,173
	₩ 19,186,874	₩ 22,474,842	₩ 19,147,232	₩ 21,371,592	₩ 21,548,399

7. AFS AND HTM FINANCIAL ASSETS (cont'd)

Details of AFS financial assets measured at acquisition costs as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	Amount(*) June 30, 2014	Amount(*) December 31, 2013
Seoul Light Co., Ltd.	₩ 212	₩ 1,131
Korea Asset Management Corporation	6,670	6,670
Megaball City Corp.	925	925
Chungju Company Town Corp.	-	4,800
Wonju Company Town Corp.	4,140	4,140
Yeongnam Intermodel Logistics Corp.	1,080	1,080
Others	6,718	8,526
	₩ 19,745	₩ 27,272

(*) Measured at acquisition costs since it is difficult to estimate the future cash flows; since comparable companies, which have similar business and size, do not exist; and it is impossible to have fair values reliably measured by an outside valuation agency.

In principle, AFS financial assets are measured subsequently at fair value, but as the fair value cannot be reliably measured, AFS financial assets decreased by ₩6,240 million as AFS financial assets with book value of ₩378 million are disposed, impaired loss of ₩919 million is recognized for the six month period ended June 30, 2014 and Chungju Company Town Corp and Busan Finance Center PFV are classified as exempted subjects of being measured at fair value.

Details of AFS and HTM financial assets provided as collaterals as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Provided to	Remarks	June 30, 2014 Pledged amount	June 30, 2014 Book value of securities provided as collaterals
Repo:			
Korea Securities Depository	Customer repurchase sale	₩ 1,800,000	₩ 1,799,927
Nomura International plc	Interinstitution repurchase sale	313,800	314,608
Others:			
The Bank of Korea	Payment risk	1,960,000	1,951,936
The Bank of Korea	Daylight overdraft	510,000	507,098
The Bank of Korea	Borrowing	890,000	888,243
NH NongHyup Futures. Co., Ltd. and three others	Substituted securities for derivative transaction	15,500	15,111
NH Capital Co., Ltd. and one other	Others	158,200	158,140
		₩ 5,647,500	₩ 5,635,063

7. AFS AND HTM FINANCIAL ASSETS (cont'd)

Provided to	Remarks	December 31, 2013 Pledged amount	December 31, 2013 Book value of securities provided as collaterals
Repo:			
Korea Securities Depository	Customer repurchase sale	₩ 2,240,000	₩ 2,239,859
Nomura International plc	Interinstitution repurchase sale	313,800	314,305
Others:			
The Bank of Korea and another	Payment risk	1,960,000	1,934,467
The Bank of Korea	Daylight overdraft	510,000	500,618
The Bank of Korea	Borrowing	410,000	411,014
NH NongHyup Futures. Co., Ltd. and three others	Substituted securities for derivative transaction	24,500	23,740
Others	Others	15,200	14,790
		₩ 5,473,500	₩ 5,438,793

Structured securities as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Interest rate-related structured securities:		
Range accrual note	₩ 150,000	₩ 150,000
Spread accrual note	100,000	100,000
	250,000	250,000
Credit risk-related structured securities:		
Cash_CDO	10,144	10,553
CLO	32,067	33,360
SIV	4,272	3,498
	46,483	47,411
Callable bonds	321,538	417,888
	₩ 618,021	₩ 715,299

8. LOANS AND RECEIVABLES

Loans and receivables as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	Type	June 30, 2014	December 31, 2013
Loans in Korean won	Corporate	₩ 68,132,600	₩ 66,408,370
	Household	67,988,208	66,609,990
	Public	8,360,904	7,304,400
	Integrated	1,455,993	1,534,137
		145,937,705	141,856,897
	Allowance	(1,613,834)	(1,905,914)
	Book value, net	144,323,871	139,950,983
Loans in foreign currency	Loans	2,254,881	2,276,137
	Off-shore	21,302	-
	Bank loans	1,796	2,406
		2,277,979	2,278,543
	Allowance	(62,141)	(62,445)
	Book value, net	2,215,838	2,216,098
Other loans	Credit card receivables	3,488,248	3,660,776
	Bills purchased	48,510	58,821
	Bills purchased in foreign currency	1,439,890	1,181,639
	Private placement bonds	205,550	194,455
	Payment for acceptances and guarantees	58,886	53,483
	Domestic import usance	2,614,464	2,264,307
	Others	3,669,381	3,551,095
		11,524,929	10,964,576
	Allowance	(271,643)	(262,128)
	Book value, net	11,253,286	10,702,448
Receivables	Receivables	6,846,827	3,036,033
	Allowance	(41,002)	(39,853)
	Book value, net	6,805,825	2,996,180
Total loans and receivables		166,587,440	158,136,049
Total allowance for losses on credit		(1,988,620)	(2,270,340)
Deferred LOF/LOC		204,903	191,340
Present-value discounts	loans	(10,710)	(11,513)
	receivables	(22,290)	(23,082)
Total loans and receivables, net		₩ 164,770,723	₩ 156,022,454

As at June 30, 2014 and December 31, 2013 the percentage of allowance for losses on credit of loans and receivables to total amounts of loans and receivables is as follows (Korean won in millions, ratio in %):

Classification	June 30, 2014	December 31, 2013
Total amount of loans and receivables (*)	₩ 166,792,343	₩ 158,327,389
Allowance for losses on credit	1,988,620	2,270,340
Ratio (%)	1.19	1.43

(*) Receivables and deferred LOF/LOC are included in total amounts of loans and receivables.

8. LOANS AND RECEIVABLES (cont'd)

8.1 Classification of loans by credit rating

Details of impaired loans as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6:	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7:	486,973	-	-	486,973	(28,708)
Rating 8:	16,399	13	-	16,412	(10,317)
Rating 9–10:	1,980,483	14	29,692	2,010,189	(764,926)
	2,483,855	27	29,692	2,513,574	(803,951)
By collective assessment:					
Rating 1–6:	-	-	-	-	-
Rating 7:	-	-	-	-	-
Rating 8:	-	-	-	-	-
Rating 9–10:	193,978	736,303	149,000	1,079,281	(362,451)
	193,978	736,303	149,000	1,079,281	(362,451)
	₩ 2,677,833	₩ 736,330	₩ 178,692	₩ 3,592,855	₩ (1,166,402)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.

	December 31, 2013				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6:	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7:	568,260	-	-	568,260	(138,810)
Rating 8:	23,150	-	-	23,150	(3,409)
Rating 9–10:	2,088,762	62	-	2,088,824	(957,815)
	2,680,172	62	-	2,680,234	(1,100,034)
By collective assessment:					
Rating 1–6:	-	-	-	-	-
Rating 7:	-	-	-	-	-
Rating 8:	-	-	-	-	-
Rating 9–10:	179,999	728,347	149,000	1,057,346	(288,879)
	179,999	728,347	149,000	1,057,346	(288,879)
	₩ 2,860,171	₩ 728,409	₩ 149,000	₩ 3,737,580	₩ (1,388,913)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.

Loans are classified as overdue when a counterparty cannot pay the principal and interest on the contractual payment date. Impairment occurs when the impairment event has objective evidence of impairment and it affects estimated future cash flow. The Bank defines the objective evidence of impairment as follows; Significant financial difficulty of obligor, nonfulfillment of obligation, bankruptcy, financial restructuring, etc.

The Bank has reclassified loans for obligors under significant financial difficulty from neither overdue nor impaired loans to impaired loans since the current period. The amount and allowance for impaired loans increased by ₩623,309 million and ₩161,194 million, respectively and the amount and allowance for neither overdue nor impaired loans decreased by the same amount.

8. LOANS AND RECEIVABLES (cont'd)

8.1 Classification of loans by credit rating (cont'd)

Details of loans, neither overdue nor impaired, as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 41,151,365	₩ 77,936,463	₩ 25,183,009	₩ 144,270,837	₩ (426,118)
Rating 7	1,664,159	1,162,317	5	2,826,481	(127,674)
Rating 8	311,346	-	-	311,346	(73,462)
Rating 9–10	195,836	-	-	195,836	(103,635)
Unrated (*3)	119,623	5,690,453	1,867,465	7,677,541	(14,366)
	₩ 43,442,329	₩ 84,789,233	₩ 27,050,479	₩ 155,282,041	₩ (745,255)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions are classified as unrated.

	December 31, 2013				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 38,755,667	₩ 76,451,744	₩ 24,169,809	₩ 139,377,220	₩ (475,716)
Rating 7	1,888,137	1,040,410	23	2,928,570	(201,154)
Rating 8	281,970	2,391	-	284,361	(116,160)
Rating 9–10	-	-	-	-	-
Unrated (*3)	170,739	4,686,051	2,331,893	7,188,683	(10,029)
	₩ 41,096,513	₩ 82,180,596	₩ 26,501,725	₩ 149,778,834	₩ (803,059)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions are classified as unrated.

Details of loans, overdue but not impaired, as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 57,471	₩ 125,117	₩ 168	₩ 182,756	₩ (4,053)
Rating 7	54,238	486,908	-	541,146	(14,566)
Rating 8	3,471	80,974	-	84,445	(15,089)
Rating 9–10	-	-	-	-	-
Unrated (*3)	1,733	55,416	231	57,370	(2,253)
	₩ 116,903	₩ 748,415	₩ 399	₩ 865,717	₩ (35,961)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions are classified as unrated.

8. LOANS AND RECEIVABLES (cont'd)

8.1 Classification of loans by credit rating (cont'd)

Classification	December 31, 2013				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 145,927	₩ 358,393	₩ 1,994	₩ 506,314	₩ (7,054)
Rating 7	80,698	809,915	-	890,613	(16,647)
Rating 8	11,886	108,038	-	119,924	(13,535)
Rating 9–10	-	-	-	-	-
Unrated (*3)	1,787	64,851	114	66,752	(1,279)
	₩ 240,298	₩ 1,341,197	₩ 2,108	₩ 1,583,603	₩ (38,515)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions are classified as unrated.

Aging analysis of loans, overdue but not impaired, as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification	June 30, 2014				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 75,204	₩ 594,912	₩ 399	₩ 670,515	₩ (17,687)
More than 30 days and less than 60 days	17,026	101,066	-	118,092	(10,291)
More than 60 days and less than 90 days	24,673	52,437	-	77,110	(7,983)
More than 90 days	-	-	-	-	-
	₩ 116,903	₩ 748,415	₩ 399	₩ 865,717	₩ (35,961)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.

Classification	December 31, 2013				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 186,412	₩ 1,203,517	₩ 2,106	₩ 1,392,035	₩ (25,136)
More than 30 days and less than 60 days	23,208	87,832	2	111,042	(8,399)
More than 60 days and less than 90 days	30,678	49,848	-	80,526	(4,980)
More than 90 days	-	-	-	-	-
	₩ 240,298	₩ 1,341,197	₩ 2,108	₩ 1,583,603	₩ (38,515)

(*1) These amounts of loans and total allowance for losses on credit have not reflected deferred LOF/LOC.
(*2) Receivables are not included in others.

8. LOANS AND RECEIVABLES (cont'd)

8.2 Financial impact of collateral on loans

The extent of reducing credit risk due to collateral and other credit enhancement as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification	June 30, 2014		December 31, 2013	
Loans	₩	2,184,225	₩	2,162,639
Receivables		68,298		67,318
Acceptances and guarantees		7,127		5,465
Loans and credit commitment		12,845		12,700
	₩	2,272,495	₩	2,248,122

8.3 Assets acquired by exercising security rights

Details of assets acquired by exercising security rights as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014		December 31, 2013	
Property and equipment (*)	₩	15	₩	15

(*) They are presented as non-current assets classified as held for sale in the consolidated statements of financial position.

8.4 Restructured loans

Details of restructured loans as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014			
Classification	Loans		Allowances	
Reorganization and composition	₩	95,747	₩	(43,474)
Work-out		3,209,488		(709,505)
	₩	3,305,235	₩	(752,979)

	December 31, 2013			
Classification	Loans		Allowances	
Reorganization and composition	₩	124,698	₩	(15,077)
Work-out		3,425,225		(1,075,766)
	₩	3,549,923	₩	(1,090,843)

8. LOANS AND RECEIVABLES (cont'd)

8.5 Receivables

Details of receivables as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014		December 31, 2013	
Domestic exchange settlement debits	₩	300,027	₩	338,720
Accrued income		890,812		739,611
Accounts receivable		4,649,582		925,839
Suspense payment		18,936		20,564
Guarantee deposits paid		519,527		518,237
Unsettled credit card receivables		27,440		36,951
Intercompany receivables		431,888		444,623
Receivables from proxy sale of NACF		4,089		3,997
Others		4,526		7,491
Total receivables		6,846,827		3,036,033
Allowance for losses on credit		(41,002)		(39,853)
Present value discounts		(22,290)		(23,082)
Total of receivables, net	₩	6,780,535	₩	2,973,098

8.6 Changes in deferred LOF/LOC

Changes in deferred LOF/LOC for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014							
Classification	January 1, 2014		Increase		Decrease		June 30, 2014	
Deferred LOF	₩	(17,061)	₩	(3,248)	₩	(1,749)	₩	(18,560)
Deferred LOC		208,401		26,775		11,713		223,463
Deferred LOC, net	₩	191,340	₩	23,527	₩	9,964	₩	204,903

	For the six month period ended June 30, 2013							
Classification	January 1, 2013		Increase		Decrease		June 30, 2013	
Deferred LOF	₩	(17,069)	₩	(2,632)	₩	(3,159)	₩	(16,542)
Deferred LOC		158,664		33,278		11,399		180,543
Deferred LOC, net	₩	141,595	₩	30,646	₩	8,240	₩	164,001

8.7 Changes in allowance for losses on credit

Changes in allowance for losses on credit for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	Amount	
January 1, 2014	₩	2,270,340
Provision of allowance for losses on credit		462,299
Transactions during the period		(213,108)
Foreign exchange translation		(5,811)
Unwinding effect		(55,326)
Debt-equity swap		(471,278)
Others		1,504
		(281,720)
June 30, 2014	₩	1,988,620

8. LOANS AND RECEIVABLES (cont'd)

8.7 Changes in allowance for losses on credit (cont'd)

		Amount
January 1, 2013	₩	2,220,849
Provision of allowance for losses on credit		496,970
Transactions during the period		(312,837)
Foreign exchange translation		5,985
Unwinding effect		(56,167)
Others		577
		134,528
June 30, 2013	₩	2,355,377

9. INVESTMENTS IN ASSOCIATES

Details of investments in associates as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions, shares in thousands and ownership in %):

	Main business	Using financial statement date	Location	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value June 30, 2014
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	June 30, 2014	Korea	180	9.00	₩ 5,741
Nanumlotto Co., Ltd. (*1)(*4)	Issuance and sale of lottery tickets	June 30, 2014	Korea	600	9.98	3,029
NH Agri best 1st (*2)	Other financial business	June 30, 2014	Korea	6	70.29	1,786
NH Kolon green 1st (*2)	Other financial business	June 30, 2014	Korea	2	57.50	2,962
NH SG 2nd	Other financial business	June 30, 2014	Korea	9,000,000	29.80	8,844
STX offshore & shipbuilding Co.,Ltd. (*3)	Ship manufacturing business	June 30, 2014	Korea	174,906	22.66	-
NHQCP SME Global Investment Partnership Private Equity Fund (*2)	Other financial business	June 30, 2014	Korea	5,375,000	25.00	5,325
IBK-NH Small Giant Private Equity Fund (*2)	Other financial business	June 30, 2014	Korea	1	45.00	8
NH-Glenwood I Private Equity Fund (*2)	Other financial business	June 30, 2014	Korea	30,000,000	95.24	30,000
						₩ 57,695

(*1) Although the Bank has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.
(*2) Excluded from subsidiaries since the Bank has no control due to multiple general partners, including the Bank.
(*3) The Bank converted loans of STX offshore & shipbuilding Co.,Ltd (4,119 hundred million) into equity, and acquired additional 164,777 thousand stocks. The Bank classified it to investment stock in subsidiaries and associates since its percentage of ownership increased to 22.66%.
(*4) 400,000 shares of Nanumlotto decreased due to capital reduction. The Bank recognized gain on disposal of stock of affiliated company amounting to ₩249 million.

9. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (cont'd)

	Main business	Using financial statement date	Location	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value December 30, 2013
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	December 30, 2013	Korea	180	9.00	₩ 6,015
Nanumlotto Co., Ltd.(*1)	Issuance and sale of lottery tickets	December 30, 2013	Korea	1,000	12.64	5,488
NH Agri best 1st (*2)	Other financial business	December 30, 2013	Korea	6	70.29	1,762
NH Kolon green 1st (*2)	Other financial business	December 30, 2013	Korea	2	57.50	3,101
NH SG 2nd	Other financial business	December 30, 2013	Korea	9,000,000	29.80	9,193
						₩ 25,559

(*1) Although the Bank has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.
(*2) Excluded from subsidiaries since the Bank has no control due to multiple general partners, including the Bank.

9. INVESTMENTS IN ASSOCIATES (cont'd)

Changes in investment in associates for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014						
	Beginning	Receipts	Disposal	Dividend	Gain(loss) on valuation of equity method investments	Share of other comprehensive Gain (loss) of associates	Ending
Korea Credit Bureaus Co., Ltd.	₩ 6,015	₩ -	₩ -	₩ -	₩ (274)	₩ -	₩ 5,741
Nanumlotto Co., Ltd.	5,488	-	(2,565)	-	(140)	246	3,029
NH Agri best 1st	1,762	-	-	-	24	-	1,786
NH Kolon green 1st	3,101	-	-	-	(64)	(75)	2,962
NH SG 2nd	9,193	-	-	(135)	135	(349)	8,844
STX offshore & shipbuilding Co.,Ltd	-	175	-	-	(175)	-	-
NHQCP SME Global Investment Partnership Private Equity Fund	-	5,375	-	-	(50)	-	5,325
IBK-NH Small Giant Private Equity Fund	-	140	-	-	(132)	-	8
NH-Glenwood I Private Equity Fund	-	3,0000	-	-	-	-	3,0000
	₩ 25,559	₩ 35,690	₩ (2,565)	₩ (135)	₩ (676)	₩ (178)	₩ 57,695

	For the six month period ended June 30, 2013					
	Beginning	Disposal	Dividend	Gain(loss) on valuation of equity method investments	Share of other comprehensive Gain (loss) of associates	Ending
Korea Credit Bureaus	₩ 5,579	₩ -	₩ -	₩ 156	₩ -	₩ 5,735
Nanumlotto Co., Ltd.	5,544	-	-	185	-	5,729
NH Agri best 1st	2,306	(242)	-	(316)	-	1,748
NH Kolon green 1st	7,272	(2,875)	(4,625)	3,518	(120)	3,170
NH-SG 1st privately placed fund	8,334	(8,344)	(2,294)	2,695	-	391
NH-SG 2nd privately placed fund	8,988	-	(195)	61	749	9,603
	₩ 38,023	₩ (11,461)	₩ (7,114)	₩ 6,299	₩ 629	₩ 26,376

9. INVESTMENTS IN ASSOCIATES (cont'd)

Summary of financial information of associates as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

	June 30, 2014				
	Assets	Liability	Equity	Operating income	Net income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 56,124	₩ 12,660	₩ 43,465	₩ 16,860	₩ (3,036)
Nanumlotto Co., Ltd.	56,198	27,514	28,684	22,867	(942)
NH Agri best 1st	3,026	487	2,540	36	35
NH Kolon green 1st	5,176	26	5,151	3	(112)
NH SG 2nd	29,678	-	29,678	561	452
STX offshore & shipbuilding Co.,Ltd (*1)	3,421,786	6,036,839	(2,615,053)	1,140,553	(331,862)
NHQCP SME Globa Investment Partnership Private Equity Fund	21,502	202	21,299	2	(201)
IBK-NH Small Giant Private Equity Fund	22	5	17	-	(293)
NH-Glenwood I Private Equity Fund	31,500	-	31,500	-	-

(*1) Gains on exemption of debt caused by debt-equity swap, are excluded in summary of financial information.

	December 31, 2013				
	Assets	Liability	Equity	Operating income	Net income (loss)
Korea Credit Bureaus	₩ 63,043	₩ 16,542	₩ 46,501	₩ 51,571	₩ 4,843
Nanumlotto	71,762	30,001	41,761	34,196	(146)
NH Agri best 1st	2,991	486	2,505	10	(430)
NH Kolon green 1st	5,884	490	5,394	7,266	6,535
NH SG 2nd	30,849	-	30,849	871	658

10. TANGIBLE ASSETS

Changes in acquisition cost of tangible assets for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014							
Classification	January 1, 2014	Acquisition	Acquisition in a Business Combination	Disposal	Depreciation	Transfer (*)	Others	June 30, 2014
Land	₩ 1,477,815	₩ 5,539	₩ -	₩ (7,645)	₩ -	₩ 94,151	₩ -	₩ 1,569,860
Buildings	583,285	2,098	-	(1,089)	(11,356)	14,248	(12)	587,174
Leasehold improvements	51,837	3,331	241	(87)	(9,833)	194	(393)	45,290
Movable properties	144,035	8,567	44,486	(94)	(37,838)	796	(285)	159,667
Construction in progress	10,565	11,728	-	-	-	(3,501)	(129)	18,663
Subsidy	(354)	-	-	20	41	-	-	(293)
	₩ 2,267,183	₩ 31,263	44,727	₩ (8,895)	₩ (58,986)	₩ 105,888	₩ (819)	₩ 2,380,361

(*) ₩ 106,760 million of tangible assets were transferred to investment properties due to changes in ratio of leased area of land and building. ₩ 2,367 million, ₩194 million, ₩796 million and ₩144million of construction in progress were transferred to buildings, leasehold facilities , properties of business purpose and investment property, respectively.

	For the six month period ended June 30, 2013						
Classification	January 1, 2013	Acquisition	Disposal	Depreciation	Transfer(*)	Others	June 30, 2013
Land	₩ 1,469,617	₩ 57,083	₩ (1,178)	₩ -	₩ (66,311)	₩ -	₩ 1,459,211
Buildings	568,339	5,237	(862)	(11,102)	23	-	561,635
Leasehold improvements	46,672	3,680	(282)	(9,311)	2,062	(502)	42,319
Movable properties	97,072	16,230	(585)	(21,020)	1,482	43	93,222
Construction in progress	14,722	1,672	(71)	-	(5,876)	-	10,447
Subsidy	(438)	-	-	44	-	-	(394)
	₩ 2,195,984	₩ 83,902	₩ (2,978)	₩ (41,389)	₩ (68,620)	₩ (459)	₩ 2,166,440

(*) ₩68,419 million of tangible assets were transferred to investment properties due to changes in ratio of leased area of land and building. ₩2,131 million, ₩2,062 million, ₩1,482 million and ₩201 million of construction in progress were transferred to buildings, leasehold facilities, properties of business purpose and investment properties, respectively.

11. INVESTMENT PROPERTIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Fair values of investment properties amount to ₩447,320 million and ₩563,858 million as at June 30, 2014, and December 31, 2013 respectively. Fair values are measured based on valuation results performed by independent professionals. Rental income from investment properties for the six month period ended June 30, 2014, and 2013 amounts to ₩8,203 million and ₩11,726 million, respectively. The fair value of investment properties is classified as Level 3 based on the input variables used in the valuation method. Valuation methods for investment properties and input variables, which are significant but unobservable in measurement of fair value, are as follows:

Classification	Valuation methods	Input variables, which are significant but unobservable in measurement of fair value
Investment property	Calculated upon consideration of the yearly fluctuation of declared land value of standard sites, fluctuation of land prices for the region under subject, and escalation rate of the construction cost index.	Yearly fluctuation of declared land value of standard sites, fluctuation of land prices for the region under subject, escalation rate of the construction cost index.

Changes in investment properties for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014					
Classification	January 1, 2014	Acquisition	Disposal	Depreciation	Transfer (*)	June 30, 2014
Land	₩ 449,190	₩ -	₩ -	₩ -	₩ (94,151)	₩ 355,039
Buildings	96,901	147	(8)	(1,836)	(11,737)	83,467
	₩ 546,091	₩ 147	₩ (8)	₩ (1,836)	₩ (105,888)	₩ 438,506

(*) ₩106,760 million were transferred to tangible assets due to changes in ratio of leased area of land and buildings. ₩ 144 million were transferred from construction in progress.

	For the six month period ended June 30, 2013					
Classification	January 1, 2013	Acquisition	Disposal	Depreciation	Transfer (*)	June 30, 2013
Land	₩ 399,064	₩ -	₩ -	₩ -	₩ 66,311	₩ 465,375
Buildings	95,113	33	-	(1,707)	2,309	95,748
	₩ 494,177	₩ 33	₩ -	₩ (1,707)	₩ 68,620	₩ 561,123

(*) ₩68,419 million were transferred from tangible assets due to changes in ratio of leased area of land and buildings.

At the end of reporting period, the book value of non-current assets held for sale is ₩15 million, and there have been no changes for the six month periods ended June 30, 2014, and 2013.

12. INTANGIBLE ASSETS

Changes in book value of intangible assets for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014						
Classification	January 1, 2014	Acquisition	Acquisition in a business combination	Disposal	Amortization	Other	June 30, 2014
Development cost	₩ 70,103	₩ 6,511	₩ 43,239	₩ -	₩ (19,335)	₩ (7)	₩ 100,511
Other intangible assets	192,668	41,262	21,541	(207)	(34,953)	-	220,311
	₩ 262,771	₩ 47,773	₩ 64,780	₩ (207)	₩ (54,288)	₩ (7)	₩ 320,822

	For the six month period ended June 30, 2013				
Classification	January 1, 2013	Acquisition	Disposal	Amortization	June 30, 2013
Development cost	₩ 56,264	₩ 6,878	₩ -	₩ (8,190)	₩ 54,952
Other intangible assets	147,664	23,182	(1,441)	(22,023)	147,382
	₩ 203,928	₩ 30,060	₩ (1,441)	₩ (30,213)	₩ 202,334

13. OTHER ASSETS

Details of other assets as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014	December 31, 2013
Prepaid expenses	₩ 114,339	₩ 132,809
Supplies	5,793	3,341
Guarantee deposits paid	6,951	10,970
Suspense payment	14,639	988
Guarantees	328	330
Telephone and telex rights	1,499	1,517
Others	932	1,398
	₩ 144,481	₩ 151,353

14. FINANCIAL LIABILITIES

Details of financial liabilities as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	
	Book value	Fair value
Financial liabilities at FVTPL:		
Financial liabilities designated as at FVTPL	₩ 53,812	₩ 53,812
Trading derivative liabilities	722,748	722,748
	776,560	776,560
Derivative liabilities:		
Hedging derivative liabilities	7,131	7,131
Financial liabilities measured at amortized cost:		
Deposits (*2)	155,670,135	157,215,826
Borrowings (*2)	14,736,637	14,743,501
Debentures (*2)	8,533,924	8,753,894
Others (*1, *3)	12,738,151	12,737,973
	191,678,847	193,451,194
	₩ 192,462,538	₩ 194,234,885

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in the fair value.
(*3) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

Classification	December 31, 2013	
	Book value	Fair value
Financial liabilities at FVTPL:		
Financial liabilities designated as at FVTPL	54,344	54,344
Trading derivative liabilities	717,208	717,208
	771,552	771,552
Derivative liabilities:		
Hedging derivative liabilities	13,973	13,973
Financial liabilities measured at amortized cost:		
Deposits (*2)	144,919,171	146,430,890
Borrowings (*2)	15,302,400	15,230,446
Debentures (*2)	10,993,925	11,195,923
Others (*1, *3)	8,599,202	7,068,399
	179,814,698	179,925,658
	₩ 180,600,223	₩ 180,711,183

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in the fair value.
(*3) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

14. FINANCIAL LIABILITIES (cont'd)

Details of financial liabilities by category as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014				
Classification	Financial instruments at FVTPL	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Trading derivative liabilities	Total
Financial liabilities designated as at FVTPL	₩ 53,812	₩ -	₩ -	₩ -	₩ 53,812
Trading derivative liabilities	-	-	-	722,748	722,748
Hedging derivative liabilities	-	-	7,131	-	7,131
Deposits	-	155,670,135	-	-	155,670,135
Borrowings	-	14,736,637	-	-	14,736,637
Debentures	-	8,533,924	-	-	8,533,924
Other financial liabilities	-	12,738,151	-	-	12,738,151
	₩ 53,812	₩ 191,678,847	₩ 7,131	₩ 722,748	₩ 192,462,538

	December 31, 2013				
Classification	Financial instruments at FVTPL	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Trading derivative liabilities	Total
Financial liabilities designated as at FVTPL	₩ 54,344	₩ -	₩ -	₩ -	₩ 54,344
Trading derivative liabilities	-	-	-	717,208	717,208
Hedging derivative liabilities	-	-	13,973	-	13,973
Deposits	-	144,919,171	-	-	144,919,171
Borrowings	-	15,302,400	-	-	15,302,400
Debentures	-	10,993,925	-	-	10,993,925
Other financial liabilities	-	8,599,202	-	-	8,599,202
	₩ 54,344	₩ 179,814,698	₩ 13,973	₩ 717,208	₩ 180,600,223

Financial liabilities designated as at FVTPL as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Debentures in Korean won	₩ 53,812	₩ 54,344

Debentures that do not meet the definition of financial liabilities are designated as financial liabilities at FVTPL using fair value option. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Credit risk of financial liabilities designated as at FVTPL as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Financial liabilities at FVTPL	₩ 53,812	₩ 54,344
Change in fair value for the period due to changes in credit risk	(35)	(273)
Accumulated changes in fair value for the period due to changes in credit risk	31	85

15. DEPOSITS

Details of deposits as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	Classification	June 30, 2014	December 31, 2013
Demand deposits:			
In Korean won	Checking accounts	₩ 62,666	₩ 81,985
	Household checking accounts	124,256	114,764
	Ordinary deposits	13,100,800	11,601,696
	Special deposits	1,669,112	1,592,599
	Official deposits	4,214,534	3,479,657
	Treasury deposits	282,320	30,674
	Other deposits	31,450	31,544
		19,485,138	16,932,919
In foreign currency	Checking accounts	3,342	1,774
	Ordinary deposits	705,388	659,906
	Special deposits	10,801	916
		719,531	662,596
		20,204,669	17,595,515
Time deposits:			
Saving deposits in Korean won	Fixed deposits	60,187,779	53,353,603
	Installment savings	2,181,571	2,053,896
	Raising lump sum of savings	1	1
	Saving deposits	21,794,597	21,629,949
	Corporate-free saving deposits	9,886,707	8,526,318
	Long-term deposits for workers	45	47
	Long-term deposits for housing	685,764	872,142
	Household long-term deposits	112	113
	Workers' preferred savings	121	126
	House application deposits	211,049	219,976
	Other saving deposits	35,397,281	36,016,277
		130,345,027	122,672,448
Saving deposits in foreign currency	Fixed deposits	462,596	679,659
	Deposits at call	1,698	1,935
	Other saving deposits	41,143	53,948
		505,437	735,542
Installment deposits	Mutual installment savings	3,233,979	2,475,308
	New house-free installment	27,854	27,590
	Free installment deposits	81	81
	House application installments	36,884	40,190
		3,298,798	2,543,169
		134,149,262	125,951,159
Certificates of deposit:		1,316,204	1,372,497
		₩ 155,670,135	₩ 144,919,171

16. BORROWINGS

Details of borrowings as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions and interest rate in %):

Classification	Provider	Interest rate (%)	June 30, 2014	December 31, 2013
Borrowings in Korean won	The Bank of Korea	0.50~1.00	₩ 863,499	₩ 389,950
	Public sector	0.00~5.00	6,803,162	6,842,655
	Others	0.00~3.10	1,352,039	1,327,938
			9,018,700	8,560,543
Borrowings in foreign currency	Borrowings from banks	0.44~3.79	3,495,756	3,380,972
Call money		2.33~2.47	1,246,892	2,936,300
Bonds sold under repurchase agreements		1.47~2.09	951,743	399,384
Bills sold		1.50~2.75	23,546	25,201
			₩ 14,736,637	₩ 15,302,400

17. DEBENTURES

Details of debentures as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions and interest rate in %):

Classification	Interest rate (%)	June 30, 2014	December 31, 2013
Debentures in Korean won:			
General agricultural financial bonds	2.86~7.25	₩ 2,860,000	₩ 3,350,000
Subordinated agricultural financial bonds	3.33~6.65	2,860,000	4,460,000
General debentures	0.10	9,186	9,186
Present value discounts	-	(1,449)	(1,204)
		5,727,737	7,817,982
Debentures in foreign currency:			
General agricultural financial bonds	0.50~5.00	2,786,406	3,150,315
Accumulated loss on fair value hedges	-	28,130	36,304
Present value discounts	-	(8,349)	(10,676)
		2,806,187	3,175,943
		₩ 8,533,924	₩ 10,993,925

18. PROVISIONS

Details of provisions as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Provision for acceptances and guarantees	₩ 106,027	₩ 105,271
Provision for unused credit limit	125,440	158,457
Other provisions	51,599	50,082
	₩ 283,066	₩ 313,810

Acceptances and guarantees (including endorsed bills) as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Confirmed acceptances and guarantees:		
Acceptances and guarantees in Korean won	₩ 623,954	₩ 512,075
Acceptances and guarantees purchased	163,318	150,292
Acceptances and guarantees for imported goods (letter of guarantees)	40,777	42,626
Acceptances and guarantees in foreign currencies	5,580,587	5,755,755
	6,408,636	6,460,748
Unconfirmed acceptances and guarantees:		
Issuance of local letter of credit	306,016	333,784
Issuance of import letter of credit	1,595,333	1,720,484
Others	1,840,352	2,203,213
	3,741,701	4,257,481
Bills endorsed	30,537	15,823
	₩ 10,180,874	₩ 10,734,052

The percentage of provision for acceptances and guarantees to the outstanding balance of acceptances and guarantees as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions and ratio in %):

	Outstanding balance	Provision for acceptances and guarantees	Ratio (%)
June 30, 2014	₩ 10,180,874	₩ 106,027	1.04
December 31, 2013	10,734,052	105,271	0.98

The percentage of provision for unused credit limit to the outstanding balance of unused credit limit as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions and ratio in %):

	Outstanding balance	Provision for unused credit limit	Ratio (%)
June 30, 2014	₩ 55,253,862	₩ 125,440	0.23
December 31, 2013	57,982,349	158,457	0.27

Details of other provisions as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Provision for mileage	₩ 13,051	₩ 12,169
Provision for litigation	3,523	3,636
Provision for donation of public interest	5,426	4,128
Provision for restoration	26,978	26,839
Provisions for refund of dormant deposits	551	551
Others	2,070	2,759
	₩ 51,599	₩ 50,082

18. PROVISIONS (cont'd)

Changes in provision for acceptances and guarantees and unused credit limits for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

Classification	Provision for acceptances and guarantees		Provision for unused credit limits	
January 1, 2014	₩	105,271	₩	158,457
Changes for the period:				
Transfer		4,177		(32,407)
Foreign currency translation		(3,421)		(610)
June 30, 2014	₩	106,027	₩	125,440

Classification	Provision for acceptances and guarantees		Provision for unused credit limits	
January 1, 2013	₩	54,602	₩	136,328
Changes for the period:				
Reversal		60,578		996
Foreign currency translation		3,417		971
June 30, 2013	₩	118,597	₩	138,295

19. OTHER LIABILITIES

Details of other liabilities as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014		December 31, 2013	
Trust accounts payable	₩	1,448,302	₩	1,107,662
Domestic exchange settlement credits		2,116,410		1,987,621
Foreign exchange settlement credits		61,912		28,757
Accounts payable		4,494,672		932,809
Accrued expenses		1,953,703		1,945,510
Guarantee deposit received		94,882		104,106
Agency		1,181,397		1,048,932
Financial guarantee contract		11,231		12,472
Unearned revenue		41,330		26,267
Deferred mileage revenue		53,468		50,486
Suspense receipt		63,101		94,301
Other sundry liabilities		1,472,039		1,539,634
	₩	12,992,447	₩	8,878,557

20. DERIVATIVES AND HEDGE ACCOUNTING

Details of derivatives as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014			
	Derivative assets		Derivative liabilities	
Classification	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 336,250	₩ -	₩ 320,223	₩ -
Currency swap	143,084	-	124,488	-
Currency purchased	17	-	-	-
Currency sold	-	-	17	-
	479,351	-	444,728	-
Interest rate:				
Interest rate swaps	232,135	39,665	263,335	7,131
Stock:				
Stock options purchased	512	-	-	-
Stock options sold	-	-	14,685	-
	512	-	14,685	-
	₩ 711,998	₩ 39,665	₩ 722,748	₩ 7,131

	December 31, 2013			
	Derivative assets		Derivative liabilities	
Classification	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 233,842	₩ -	₩ 235,488	₩ -
Currency swap	180,489	-	168,897	-
	414,331	-	404,385	-
Interest rate:				
Interest rate swaps	257,346	54,855	297,938	13,973
Stock:				
Stock options purchased	9,465	-	-	-
Stock options sold	-	-	14,885	-
	9,465	-	14,885	-
	₩ 681,142	₩ 54,855	₩ 717,208	₩ 13,973

20. DERIVATIVES AND HEDGE ACCOUNTING (cont'd)

The notional amounts outstanding for derivative contracts as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014		
Classification	Trading	Hedging	Total
Currency:			
Currency forwards	₩ 24,825,268	₩ -	₩ 24,825,268
Currency futures (*)	69,994	-	69,994
Currency swap	3,199,004	-	3,199,004
Currency purchased	12,173	-	12,173
Currency sold	12,173	-	12,173
	28,118,612	-	28,118,612
Interest rate:			
Interest rate futures	15,942	-	15,942
Interest rate swaps	21,541,624	2,674,060	24,215,684
	21,557,566	2,674,060	24,231,626
Stock:			
Stock options purchased	53,885	-	53,885
Stock options sold	130,735	-	130,735
	184,620	-	184,620
	₩ 49,860,798	₩ 2,674,060	₩ 52,534,858

(*) Futures transactions are daily settled and reflected in deposits.

	December 31, 2013		
Classification	Trading	Hedging	Total
Currency:			
Currency forwards	₩ 24,802,892	₩ -	₩ 24,802,892
Currency futures (*)	198,544	-	198,544
Currency swap	3,843,970	-	3,843,970
	28,845,406	-	28,845,406
Interest rate:			
Interest rate swaps	25,902,749	2,930,463	28,833,212
Stock:			
Stock options purchased	47,548	-	47,548
Stock options sold	134,294	-	134,294
	181,842	-	181,842
	₩ 54,929,997	₩ 2,930,463	₩ 57,860,460

(*) Futures transactions are daily settled and reflected in deposits.

20. DERIVATIVES AND HEDGE ACCOUNTING (cont'd)

Details of derivatives as at June 30, 2014 and June 30, 2013 and gain or loss on valuation of derivatives for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

For the six month period ended June 30, 2014

	Gain or loss on valuation (statement of comprehensive income)						Accumulated gain or loss on valuation (statement of financial position)	
	Trading		Hedging		Total			
Classification	Gain	Loss	Gain	Loss	Gain	Loss	Assets	Liabilities
Currency:								
Forwards	₩ 306,992	₩ 286,776	₩ -	₩ -	₩ 306,992	₩ 286,776	₩ 336,250	₩ 320,223
Swap	59,203	61,358	-	-	59,203	61,357	148,085	124,488
Options purchased	40	-	-	-	40	-	17	-
Options sold	-	17	-	-	-	17	-	17
	366,235	348,151	-	-	366,235	348,150	479,352	444,728
Interest rate:								
Swap	69,340	62,044	7,399	14,069	76,739	76,114	271,800	270,466
Stock:								
Options purchased	-	9,682	-	-	-	9,682	511	-
Options sold	402	202	-	-	402	202	-	14,685
	402	9,884	-	-	402	9,884	511	14,685
	₩ 435,977	₩ 420,079	₩ 7,399	₩ 14,069	₩ 443,376	₩ 434,148	₩ 751,663	₩ 729,879

For the six month period ended June 30, 2013

	Gain or loss on valuation (statement of comprehensive income)						Accumulated gain or loss on valuation (statement of financial position)	
	Trading		Hedging		Total			
Classification	Gain	Loss	Gain	Loss	Gain	Loss	Assets	Liabilities
Currency:								
Forwards	₩ 345,812	₩ 322,197	₩ -	₩ -	₩ 345,812	₩ 322,197	₩ 242,173	₩ 214,939
Swap	157,270	177,183	-	-	157,270	177,183	220,417	203,712
	503,082	499,380	-	-	503,082	499,380	462,590	418,651
Interest rate:								
Swap	119,993	113,601	6,677	43,170	126,670	156,771	520,680	512,316
Options purchased	-	-	-	-	-	-	120	-
	119,993	113,601	6,677	43,170	126,670	156,771	520,800	512,316
Stock:								
Options purchased	37	56	-	-	37	56	10,799	-
Options sold	30	9	-	-	30	9	-	156
	67	65	-	-	67	65	10,799	156
	₩ 623,142	₩ 613,046	₩ 6,677	₩ 43,170	₩ 629,819	₩ 656,216	₩ 994,189	₩ 931,123

At the end of the reporting period, hedged items applied with fair value hedge include AFS financial assets (debt securities), structured debentures in Korean won and debentures in foreign currencies. Changes in the fair value of derivatives are recognized in net income immediately. Interest rate swap is used as a hedging instrument in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

Details of the Group's hedged items and types of hedge accounting as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Hedged item	Hedged risk	Hedging instrument	Type of hedge accounting	Fair value of hedging instrument: June 30, 2014	Fair value of hedging instrument: December 31, 2013
AFS financial assets	Interest risk	Interest rate swaps	Fair value hedge	₩ (3,295)	₩ (2,815)
Debentures	Interest risk	Interest rate swaps	Fair value hedge	35,828	43,697

20. DERIVATIVES AND HEDGE ACCOUNTING (cont'd)

Details of (loss) gain on valuation of hedged items and hedging instruments for the three and six month periods ended June 30, 2014, and 2013 are as follows (Korean won in millions):

Classification	For the three month period ended June 30, 2014		For the six month period ended June 30, 2014	
	Gain on valuation of hedged items	Gain (loss) on valuation of hedging instrument	Gain on valuation of hedged items	Gain (loss) on valuation of hedging instrument
AFS financial assets	₩ 1,266	₩ (1,165)	₩ 561	₩ (548)
Debentures	182	1,560	8,174	(6,122)
	₩ 1,448	₩ 395	₩ 8,735	₩ (6,670)

Classification	For the three month period ended June 30, 2013		For the six month period ended June 30, 2013	
	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument
AFS financial assets	₩ (4,561)	₩ 5,441	₩ (5,738)	₩ 6,677
Debentures	25,875	(34,431)	33,631	(43,170)
	₩ 21,314	₩ (28,990)	₩ 27,893	₩ (36,493)

21. RETIREMENT BENEFITS

The Group operates a defined benefit plan (the "DB plan") in accordance with Employee Retirement Benefits Laws, which is also classified as DB plan under K-IFRS. Under DB plan, severance pay is made on a lump-sum basis or entitled to pension when an employee retires, based on the employee's service period and salary at retirement. The Group has purchased retirement benefits insurance annuity, etc., and made deposits with Woori Bank and others. The deposit for retirement insurance and assets for DB plan operation are presented as a deduction from defined benefit obligations under an account of plan assets.

If a retiree is up for quasi-retirement age limit of special retirement, the Group pays quasi-retirement age limit payments separately from general severance payments.

The Group is exposed to investment risk and interest risk.

Actuarial valuation for plan assets and defined benefit obligations related to the general severance payments and quasi-age severance payments is performed by an independent actuary as at June 30, 2014 and December 31, 2013 respectively. Current and past service costs related to present value of defined benefit obligations are measured using the projected unit credit method.

Key assumptions for actuarial valuation as at June 30, 2014 and December 31, 2013 are as follows (rate in %):

	June 30, 2014	December 31, 2013
Discount rate	4.00	4.00
Salary increase rate (including inflation):		
Inflation rate	1.79	1.79
Empirical promotion rate	Empirical promotion rate by age	

Details of net defined benefit obligations as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Present value of defined benefit obligations	₩ 727,615	₩ 700,860
Fair value of plan assets	(522,872)	(522,291)
Net liabilities from DB plan	₩ 204,743	₩ 178,569

Changes in net defined benefit obligations for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014		
Classification	Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2014	₩ 700,860	₩ (522,291)	₩ 178,569
Current service cost	69,988	-	69,988
Interest cost (interest income)	14,017	(10,446)	3,571
Remeasurement elements:			
Return on planned assets (on the basis of net interest cost)	-	3,648	3,648
Payment	(78,638)	90,149	11,511
Transfer from related-party	21,393	(19,105)	2,288
Other	(5)	(64,827)	(64,832)
Present value as at June 30, 2014	₩ 727,615	₩ (522,872)	₩ 204,743

21. RETIREMENT BENEFITS (cont'd)

Classification	For the six month period ended June 30, 2013 Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2013	₩ 547,122	₩ (409,448)	₩ 137,674
Current service cost	59,801	-	59,801
Interest cost (interest income)	9,602	(7,186)	2,416
Remeasurement elements:			
Return on planned assets (on the basis of net interest cost)	-	1,106	1,106
Actuarial gains or losses incurred due to changes in financial assumptions	91,210	-	91,210
Payment	(82,579)	71,433	(11,146)
Other	-	(4,427)	(4,427)
Present value as at June 30, 2013	₩ 625,156	₩ (348,522)	₩ 276,634

Portfolio of plan assets as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Fixed deposits	₩ 522,872	₩ 522,291

Investment strategies and policies of plan assets aim to balance risk reduction and pursuit of profit. The objective to minimize the variability of assets in relation to debt is basically achieved through diversified investment of assets, and partial asset-liability matching strategies. In order to reduce (adjust risk) variability of assets in relation to debt and achieve the intended levels of profit, investment is distributed over a vast range of many different types of assets. The distribution of assets is such that a regular income is secured similar to bonds, and partially matches the characteristics of a long maturity period in pension obligations.

22. EQUITY

Capital stock as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions, shares in units):

Classification	June 30, 2014	December 31, 2013
Shares authorized	1,000,000,000	1,000,000,000
Par value (Unit: In Korean won)	₩ 5,000	₩ 5,000
Shares issued	414,791,122	414,791,122
Common stock	₩ 2,073,956	₩ 2,073,956

Other paid-in capital as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification	June 30, 2014	December 31, 2013
Capital surplus		
capital in excess of par value	₩ 8,954,508	₩ 8,954,508
other capital surpluses	35,948	35,948
	8,990,456	8,990,456
Capital adjustments	(3,019)	-
Hybrid bonds (*1)	349,648	699,645
	₩ 9,337,085	₩ 9,690,101

(*1) Agricultural financial bonds have maturity but the Bank holds the right to continuously extend the bond maturity. Agricultural financial bond amounting to ₩350,000 million was repaid for the six month period ended June 30, 2014

22. EQUITY (cont'd)

Changes in capital stock and capital surplus for the six month period ended June 30, 2013 are as follows (Korean won in millions). In the comparative period ended June 30, 2014, there were no changes in capital stock and capital surplus.

Classification	Capital stock		Capital surplus		Total	
Balance at January 1, 2013	₩	1,915,622	₩	9,165,126	₩	11,080,748
Capital increase (*)		75,000		373,918		448,918
Balance at June 30, 2013	₩	1,990,622	₩	9,539,044	₩	11,529,666

(*) The Group has made a capital increase in accordance with the Board of Director's resolution dated March 14, 2013 by offering 15,000,000 shares at ₩30,000 per share.

Details of other components of equity as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification	June 30, 2014		December 31, 2013	
Remeasurements of the net defined benefit liability	₩	(64,909)	₩	(62,144)
Gain on valuation & foreign currency translation of AFS financial assets		206,383		120,859
Exchange differences on translating foreign operations		(958)		(561)
Gain (Loss) on valuation of investments in associates		(207)		(72)
	₩	140,309	₩	58,082

Changes in other components of equity for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

	For the six month period ended June 30, 2014							
Classification	January 1, 2014		Changes for the period		Deferred income tax		June 30, 2014	
Remeasurements of the net defined benefit liability	₩	(62,144)	₩	(3,648)	₩	883	₩	(64,909)
Gain (Loss) on valuation & foreign currency translation of AFS financial assets		120,859		118,361		(32,837)		206,383
Exchange differences on translating foreign operations		(561)		(397)		-		(958)
Gain (Loss) on valuation of investments in associates		(72)		(178)		43		(207)
	₩	58,082	₩	114,138	₩	(31,911)	₩	140,309

	For the six month period ended June 30, 2013							
Classification	January 1, 2013		Changes for the period		Deferred income tax		June 30, 2013	
Remeasurements of the net defined benefit liability	₩	12,067	₩	(92,316)	₩	22,340	₩	(57,909)
Gain (Loss) on valuation & foreign currency translation of AFS financial assets		258,912		(114,819)		18,636		162,729
Gain (Loss) on valuation of investments in associates		(290)		629		(153)		186
	₩	270,689	₩	(206,506)	₩	40,823	₩	105,006

22. EQUITY (cont'd)

Details of retained earnings as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

Classification		June 30, 2014		December 31, 2013
Regulatory reserve for bad debt	₩	1,091,667	₩	999,372
Allowance for profit		58,973		42,729
Voluntary reserve for recapitalization		1,000,000		1,000,000
Voluntary reserve		20,232		-
Unappropriated retained earnings		122,313		110,700
	₩	2,293,185	₩	2,152,801

Changes in retained earnings for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

Classification		For the six month period ended June 30, 2014		For the six month period ended June 30, 2013
Balance as at January 1	₩	2,152,801	₩	1,309,963
Net income		120,267		66,252
Changes in consolidated taxation payment		34,572		4,857
Cash dividends		-		(307,625)
Hybrid bond dividends		(14,455)		(5,915)
Balance as at June 30	₩	2,293,185	₩	1,067,532

Reserve for bad debt as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions):

Classification		June 30, 2014		December 31, 2013
Beginning balance	₩	1,091,667	₩	999,372
Planned reserve for bad debt		6,462		92,295
Expected balance	₩	1,098,129	₩	1,091,667

Provision of reserve for bad debt and adjusted net income after reflecting reserve for bad debt for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

Classification		For the six month period ended June 30, 2014		For the six month period ended June 30, 2013
Net income	₩	120,267	₩	66,252
Provision of reserve for bad debt		6,462		66,252
Adjusted net income after reserve for bad debt		113,805		-
Adjusted basic earnings per share after reserve for bad debt (Unit: In Korean won)		274		-
Adjusted diluted earnings per share after reserve for bad debt (Unit: In Korean won)		274		-

23. CAPITAL MANAGEMENT

23.1 Current state of regulatory capital

The Group reports to the Financial Supervisory Service on a monthly or quarterly basis about Bank for International Settlement ("BIS") capital adequacy ratio, common equity ratio based on market risk, basic common equity ratio and their computation evidences. In addition, the Group reviews the soundness of its capital using the capital adequacy ratio representing capital over the risk-weighted asset (BIS capital adequacy ratio).

The Group's regulatory capitals consist of the following two categories:

- Tier 1 capital (basic capital): Basic capital is composed of capital stock, additional paid-in capital (excluding revaluation reserve), retained earnings (excluding reserve for credit losses and gain on the revaluation of tangible assets), non-controlling interests of consolidated subsidiaries and hybrid bonds.

- Tier 2 capital (supplementary capital): Supplementary capital is composed of revaluation reserve, gains on valuation of AFS financial assets classified as accumulated other comprehensive income, 45 over 100 of capital changes by equity method, allowance for losses on credit for assets classified as normal or precautionary according to the forward-looking criteria and fixed-term subordinated debt with a maturity of five years or more.

The basic and supplementary capital listed above has many restrictions to be recognized as capital and regulatory capital is computed reflecting items deducted from capital.

Besides the BIS ratios reported to the Financial Supervisory Service, the Bank sets up internal policies on capital management for the criteria of capital adequacy and soundness of finance. In addition, the Bank monitors the soundness of finance by allocating the available capital to the limit of internal capital (the amount of capital that ensures that the Bank will be able to continue on its operation, while bearing many risks and the necessary capital amount that covers the unexpected losses ("ULs") under specified probability).

Internal capital, subject to the management, is to consider interest rate risk and credit-concentrated risk in addition to the credit, market and operating risk managed by regulatory capital. The Bank computes on appropriateness of internal capital under regular inspection.

23.2 Allocation of shareholder's equity

Allocation of shareholder's equity is determined by approval of the risk management committee within the available capital after the establishment of risk capital management plan reflecting business plan, strategies and analysis of risk situations. Allocated capitals by risk upon the risk capital management plan are divided by tolerance limits of department and business sector, and managed from risk management council.

The risk management committee and council of the Group review the internal capital policies on a regular basis and have a duty to maintain the stable capital adequacy and the soundness of finance by preliminary authorization process on excess of the limitation of internal capital forecasted due to new or extension of business or exceptionally by an ex post facto approval.

24. INCOME TAX EXPENSE

The components of income tax expense for the six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

Classification	For the six month period ended June 30, 2014		For the six month period ended June 30, 2013	
Income tax currently payable (including additional and refunded income tax)	₩	97,478	₩	44,604
Adjustments recognized for the current period in relation to the current tax of prior periods		(128)		(46,749)
Change in deferred income tax due to temporary differences (*)		(53,484)		(22,959)
Total income tax effect		43,866		(25,104)
Income taxes directly applied to shareholder's equity		(31,911)		40,823
Income tax expense	₩	11,955	₩	15,719
(*)Net deferred income tax assets due to temporary differences as at June 30, 2014		107,550		103,815
Net deferred income tax assets due to temporary differences as at January 1, 2014		54,066		80,856
Change in deferred income tax due to temporary differences		53,484		22,959

A reconciliation of income before income tax and income tax expenses for the six month periods ended June 30, 2014 and 2013 is as follows (Korean won in millions and tax rate in %):

Classification	For the six month period ended June 30, 2014		For the six month period ended June 30, 2013	
Net income (loss) before income tax	₩	132,222	₩	81,971
Income tax expense before adjustments (A)		31,767		19,837
Adjustments (B):				
Non-taxable income		(17,643)		(5,479)
Non-deductible expenses		2,286		7,895
Unrecognized deferred tax assets		(608)		-
Refund of income tax or Supplementary pay of income tax		(3,328)		232
Others		(519)		(6,766)
		(19,812)		(4,118)
Income tax expense (A-B)	₩	11,955	₩	15,719
Effective tax rate		9.04%		19.18%

25. INTEREST INCOME AND EXPENSES

The interest income and expenses for the three and six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

Classification	Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Interest income:				
Due from banks	₩ 13,619	₩ 22,219	₩ 28,366	₩ 33,264
Loans and other receivables	1,548,275	1,579,927	3,097,290	3,197,888
Financial assets at FVTPL	43,543	38,359	81,224	76,877
AFS financial assets	99,290	111,968	193,696	193,568
HTM financial assets	73,489	138,152	158,863	286,982
Others	155,433	153,669	305,293	297,752
	1,933,649	2,044,294	3,864,732	4,086,331
Interest expenses:				
Deposits	734,736	800,384	1,472,205	1,641,568
Debentures	85,080	103,763	192,887	210,672
Borrowings	53,622	60,474	102,466	115,084
Financial liabilities at FVTPL	906	983	1,491	1,717
Others	19,111	16,142	33,404	33,002
	893,455	981,746	1,802,453	2,002,043
Interest income, net	₩ 1,040,194	₩ 1,062,548	₩ 2,062,279	₩ 2,084,288

Interest income of impaired financial assets for the three and six month periods ended June 30, 2014 and 2013 is as follows (Korean won in millions):

Classification	Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Loans	₩ 27,625	28,080	₩ 54,938	55,574
Credit card	216	551	434	551

26. COMMISSION INCOME AND EXPENSES

Commission income and expenses for the three and six month periods ended June 30, 2014 and 2013 are as follows (Korean won in millions):

Classification	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Commission income:				
Deposits	₩ 320	₩ 317	₩ 717	₩ 730
Loans and credits	15,004	14,696	28,688	26,896
Foreign exchange	7,595	5,611	13,682	10,889
Credit card	25,012	26,133	39,819	36,217
Asset management	11,950	12,967	24,354	22,951
Agency business	48,193	45,661	89,746	89,032
Guarantee service	10,616	12,963	20,855	25,416
Trust service	11,726	10,790	21,974	16,467
Others	48,054	42,676	93,322	88,670
	178,470	171,814	333,157	317,268
Commission expenses:				
Loans and credits	2,656	4,109	4,822	7,329
Foreign exchange	2,073	1,419	3,170	3,038
Agency business	5,081	5,599	9,724	10,622
Credit card	54,790	53,002	134,529	114,876
Others	12,092	10,302	24,287	22,869
	76,692	74,431	176,532	158,734
Commission income, net	₩ 101,778	₩ 97,383	₩ 156,625	₩ 158,534

27. GAIN (LOSS) ON FINANCIAL INVESTMENTS

Gain (loss) on trading financial assets for the three and six month periods ended June 30, 2014 and 2013 is as follows (Korean won in millions):

Classification		Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Trading financial instruments					
Trading financial assets					
Gain (loss) on valuation	Gain on valuation of trading financial assets	₩ 6,376	₩ (8,270)	₩ 13,649	₩ 8,472
	Loss on valuation of trading financial assets	(476)	(17,854)	(5,744)	(24,278)
		5,900	(26,124)	7,905	(15,806)
Gain (loss) on disposal	Gain on disposal of trading financial assets	11,694	21,831	20,579	39,325
	Loss on disposal of trading financial assets	(6,938)	(44,401)	(15,459)	(57,160)
		4,756	(22,570)	5,120	(17,835)
Gain (loss) on redemption	Gain on redemption of trading financial assets	461	632	801	703
	Loss on redemption of trading financial assets	(992)	(1,670)	(1,747)	(3,095)
		(531)	(1,038)	(946)	(2,392)
Dividend income	Dividend income of trading financial assets	15	284	1,244	2,194
		10,140	(49,448)	13,323	(33,839)
Trading derivatives					
Gain (loss) on valuation	Gain on valuation of trading financial assets	299,295	223,098	435,977	623,141
	Loss on valuation of trading financial assets	(272,371)	(221,780)	(420,079)	(613,046)
		26,924	1,318	15,898	10,095
Gain (loss) on disposal	Gain on disposal of trading derivatives	685,237	473,312	924,187	831,954
	Loss on disposal of trading derivatives	(627,022)	(479,965)	(836,350)	(869,181)
		58,215	(6,653)	87,837	(37,227)
		85,139	(5,335)	103,735	(27,132)
		₩ 95,279	₩ (54,783)	₩ 117,058	₩ (60,971)

27. GAIN (LOSS) ON FINANCIAL INVESTMENTS (cont'd)

Gain (loss) on financial assets designated at FVTPL for the three and six month periods ended June 30, 2014 and 2013 is as follows (Korean won in millions):

Classification	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Financial instruments designated at FVTPL:				
Loss on redemption of financial assets designated at FVTPL	₩ -	₩ (96)	₩ -	₩ (96)
Financial liabilities designated at FVTPL:				
Gain on valuation of financial liabilities designated at FVTPL	431	430	531	430
Loss on valuation of financial liabilities designated at FVTPL	-	194	-	-
	431	624	531	430
	₩ 431	₩ 528	₩ 531	₩ 334

Gain (loss) on financial investment assets for the three and six month periods ended June 30, 2014 and 2013 is as follows (Korean won in millions):

Classification		Three month period ended June 30		Six month period ended June 30	
		2014	2013	2014	2013
Financial investment assets:					
AFS financial assets					
Gain (loss) on disposal	Gain on disposal of AFS financial assets	₩ 29,404	₩ 53,557	₩ 37,885	₩ 91,752
	Loss on disposal of AFS financial assets	(3,672)	(12,878)	(4,689)	(14,451)
		25,732	40,679	33,196	77,301
Gain (loss) on redemption	Gain on redemption of AFS financial assets	4,659	(10,655)	13,382	1,200
	Loss on redemption of AFS financial assets	-	(163)	(14)	(163)
		4,659	(10,818)	13,368	1,037
Dividend income	Dividend income of AFS financial assets	23,112	16,714	78,510	39,815
Impairment loss	Impairment loss on AFS financial assets	(66,204)	(51,937)	(210,053)	(71,699)
		(12,701)	(5,362)	(84,979)	46,454
HTM financial assets					
Gain on redemption	Gain on redemption of HTM financial assets	4,945	-	4,945	3,253
Gain (loss) on disposal	Gain on disposal of HTM financial assets	(1,926)	-	678	-
Reversal of impairment loss	Reversal of impairment loss of HTM financial assets	1,523	2,380	3,725	6,367
		4,542	2,380	9,348	9,620
		₩ (8,159)	₩ (2,982)	₩ (75,631)	₩ 56,074

27. GAIN ON FINANCIAL INVESTMENTS (cont'd)

Dividend income from financial investments for the three and six month periods ended June 30, 2014 and 2013 is as follows (Korean won in millions):

	Three month period ended June 30		Six month period ended June 30	
Classification	2014	2013	2014	2013
Trading financial assets	₩ 15	₩ 284	₩ 1,244	₩ 2,194
AFS financial assets	23,112	16,714	78,510	39,815
	23,127	16,998	79,754	42,009

28. IMPAIRMENT LOSS ON FINANCIAL ASSETS:

Impairment loss related to financial assets for the three and six month periods ended June 30, 2014, and 2013, is as follows (Korean won in millions):

	Three month period ended June 30		Six month period ended June 30	
Classification	2014	2013	2014	2013
Loans and receivables	₩ 262,616	₩ 335,073	₩ 462,299	₩ 496,970
AFS financial assets	66,204	51,937	210,053	71,699
	328,820	387,010	672,352	568,669

29. OTHER OPERATING INCOME AND EXPENSES:

Other operating income and expenses for the three and six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

	Three month period ended June 30		Six month period ended June 30	
Classification	2014	2013	2014	2013
Other operating income				
Gain on derivatives	₩ 6,244	₩ 8,053	₩ 7,511	₩ 9,726
Gain on fair value hedge	6,732	25,363	16,094	33,631
Point income	7,241	7,838	16,344	15,916
Gain from changes in foreign exchange rate	246,413	325,263	387,949	701,099
Others	23,104	3,933	30,308	6,126
	289,734	370,450	458,206	766,498
Other operating expenses:				
Loss on derivatives	5,916	35,282	14,249	44,458
Loss on fair value hedge	4,981	4,722	7,056	6,411
Point expense	8,120	8,489	18,103	17,159
Loss from changes in foreign exchange rate	306,280	323,788	472,043	684,121
Fund contribution	120,897	113,945	235,460	222,707
Transfer to other provisions	1,009	2,897	4,274	4,778
Others	40,645	20,970	59,449	33,438
	487,848	510,093	810,634	1,013,072
	₩ (198,114)	₩ (139,643)	₩ (352,428)	₩ (246,574)

30. EMPLOYEE BENEFITS:

Details of employee benefits for the three and six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

Classification	Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Employee benefits	₩ 240,689	₩ 236,114	₩ 551,892	₩ 512,889
Fringe benefits	96,789	89,407	191,438	179,832
Retirement benefits	36,780	31,550	73,559	62,217
	374,258	357,071	816,889	754,938

31. OTHER SELLING AND ADMINISTRATIVE EXPENSES:

Other selling and administrative expenses for the three and six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

Classification	Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Tax and dues	₩ 22,462	₩ 19,735	₩ 41,166	₩ 40,632
Travel	1,335	1,515	2,132	3,270
Telecommunications and transportation	5,496	5,832	10,801	10,316
Supplies	5,077	4,308	9,028	7,311
Publication	3,484	3,472	6,583	6,219
Office rental expense	52	43	71	63
Advertising	22,029	19,156	35,646	29,497
Registration and legal fees	56	67	150	165
Development cost	669	395	748	482
Business promotion expenses	3,278	3,760	5,740	6,524
Repairs and maintenance	1,852	3,128	3,162	4,814
Utilities	5,131	3,696	12,256	9,236
Benevolent fee	60	79	3,781	3,892
Rental	32,747	29,526	65,245	56,645
Vehicle maintenance	1,483	1,543	2,514	2,651
Training	1,328	1,270	1,753	1,894
Service contract	32,464	29,035	56,471	52,346
Prizes	1,026	1,235	3,700	3,783
Compensation for overnight duty	4,408	4,210	7,957	7,641
Conference	1,933	1,980	3,460	3,697
Computer service fees	473	36,588	4,724	69,932
Sundry expenses	961	1,626	1,760	2,729
	₩ 147,804	₩ 172,199	₩ 278,848	₩ 323,739

32. OTHER INCOME AND EXPENSES:

Other income and expenses for the three and six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

Classification	Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Other income:				
Gain on sale of write-offs	₩ 14,882	₩ 1,466	₩ 16,472	₩ 2,184
Gain on recovery of write-offs	-	-	-	4,436
Gain on disposal of assets	2,248	34	2,248	34
Rent income	4,715	5,547	8,203	11,726
Gain on subsidy	340	257	375	723
Income from unused gift card	36	97	156	169
Miscellaneous	10,335	12,248	11,923	29,102
Gain on disposal of stocks of affiliated company	249	-	249	-
Others	51	134	154	280
	32,856	19,783	39,780	48,654
Other expense:				
Loss on disposal of assets	1,126	678	1,703	2,213
Brand fee (*)	73,142	105,881	146,284	211,762
Expenses on restoration	87	153	96	242
Miscellaneous	8,685	10,603	17,646	20,429
Depreciation on investment properties	819	876	1,836	1,707
Expense related to collecting receivable	1,415	1,365	2,888	2,728
Others	397	271	1,783	16,018
	85,671	119,827	172,236	255,099
	₩ (52,815)	₩ (100,044)	₩ (132,456)	₩ (206,445)

(*) Brand fee, which is annually paid to NACF, is computed by multiplying the imposed ratio to the average of operating revenue for the recent three years.

33. EARNINGS PER SHARE:

Diluted earnings per share are the computation of net income per common and diluted share. However, the Group's basic earnings per share and diluted earnings per share are the same since diluted share does not exist at the end of the reporting period.

Net income and weighted-average number of common shares used for computation are as follows (Korean won in millions, except per-share amounts):

	Three month period ended June 30 2014	Three month period ended June 30 2013	Six month period ended June 30 2014	Six month period ended June 30 2013
Net income (loss)	₩ 146,902	₩ (44,339)	₩ 120,267	₩ 66,252
Dividends on hybrid equity securities	(4,270)	-	(14,455)	-
Income (loss) attributable to common share	142,632	(44,339)	105,812	66,252
Weighted-average number of common shares	414,791,122	398,124,456	414,791,122	390,914,511
Basic earnings per share (in Korean won)	₩ 344	₩ (111)	₩ 255	₩ 169

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

The Group is exposed to various financial risks, such as credit, market and liquidity, associated with financial instruments.

For risk management, the Group has the risk management committee; the top legislative organization; the risk management council; the operational legislative organization; and other executive departments, such as risk management task force department, individual risk management department and independent monitoring department.

The risk management committee consists of five directors, chief executive officer, non-executive director and three outside directors, and deliberates and determines major issues, such as establishment of risk management policies and strategies and determination of risk tolerance limit. Some ordinary and continual issues can be deliberated and determined by the risk management council.

The Group retains various risk management policies and systems, such as establishment of risk tolerance limit, constant monitoring to maintain optimum level of risk and performance evaluation and capital distribution considering the risk. The conditions and results of risk management, including risk management and analysis, are periodically reported to risk management committee and council.

The risk management task force team establishes and manages the risk tolerance limit by business sector and accounting, and those risk measurement and analysis are monthly reported to the risk management council. Also, the Group regularly calculates and monitors the integrated risk so as to merge exposed risks into a single indicator and manage it comprehensively to be within the reasonable level of risk.

34.1 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in non-payment of the principal and interest to the payables and potential financial loss to the Group. Credit risk arises from deposits, securities, loans, off-balance accounts, etc. The purpose of credit risk management is to improve asset soundness and to secure the stable revenue by minimizing the probability of credit risk through the establishment and management of credit risk tolerance limit and the proper management of portfolios.
For credit risk management of loan process, the Group separated operation and underwriting process in the business process and monitored such various segments of its credit risk portfolio. The Group also established and operated a total exposure to credit risk limit management system to reduce concentration of credit risk by specific type of loans or borrowers to acceptable level and to diversify risk in the loan portfolio and manage risks in the individual exposure limit system. Furthermore, a credit risk is managed through an early alert system in the event of non-performance by counterparties and underwriting risk is managed by loan underwriting specialists to maintain the tight underwriting standards.

The Group separately measures expected and unexpected losses. Expected losses (“EL”) are expected credit risks based on past experience and computed by multiplying exposure at default by probability of default and loss given default. Unexpected losses (“UL”) mean maximum credit losses under certain probability deducting EL.

The Group’s maximum level of exposure to credit risk as at June 30, 2014 and December 31, 2013, is summarized as follows (Korean won in millions):

Classification	June 30, 2014		December 31, 2013	
Deposits	₩	8,812,962	₩	7,377,981
Loans		157,987,188		153,049,356
Receivables		6,783,535		2,973,098
Debt securities		24,768,514		23,422,386
Derivative assets		751,663		735,997
Loans and credit commitment		55,253,862		57,982,349
Guarantees and endorsed bills		10,180,874		10,734,052
	₩	264,538,598	₩	256,275,219

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS(cont'd)

34.2 Market risk

Market risk is the risk of loss in the value of portfolio and financial instruments caused by adverse movements in market variables, such as interest rates, stock price, foreign exchange rates and commodity prices. The Group manages and divides market risk into two risks, generated through trading position or non-trading position. The trading market risk that the Group is mainly exposed to is the interest rate risk arising from the adverse change in the value of debt instruments and interest rate-embedded securities due to changes in market interest rate. The Group is additionally exposed to stock price, foreign exchange rate risk and commodity price risk arising from equity securities, debt securities and derivatives. In non-trading market risk, the Group is exposed to the interest rate risk.

34.2.1 Trading position

a) The trading position in accordance with 'Regulation of Trading Policy' is subject to the trading market management. The basic requirements of the trading position are as follows:

- The target position is not restricted to the sale. It is evaluated daily at fair value and should be a hedge against important risks in the market.
- The trading position should be controlled by the instruction of the trading policy and managed by a separate trading department.
- The target position is operated in accordance with a documented trading strategy and the limit of trading should be controlled.
- Without the prior approval, a professional dealer or an operation division for the target position should be authorized to handle transactions within the predetermined limit.
- The target position for the risk management should be periodically reported to the management.

b) Details of risk management by risk type

① Interest rate risk

Interest rate risk from trading positions arises mainly from the trades of Korean won-denominated debt securities. As the financial instruments in the trading accounts are marked to market daily, the Group manages the interest rate risk related to its trading accounts using market-value-based tools used to measure risk, such as Value at Risk ("VaR") and sensitivity analysis.

② Equity price risk

Equity price risk arises from the Group's equity trading portfolio in Korean won since the Group has no trading position of equity securities denominated in foreign currencies. The equity trading portfolio in Korean won consists of exchange-traded stocks and nearest month or second nearest-month futures contracts under the strict restrictions considering diversification as well as stop-loss limits and position limits.

③ Foreign exchange rate risk

Foreign exchange rate risk arises when the Group has assets and liabilities that are denominated in currencies other than Korean won as well as atf-balance-sheet items, such as foreign exchange forwards and currency swaps. Assets and liabilities denominated in U.S. dollars, Japanese yen and Euro are typically accounted for the majority of the Group's foreign currency assets and liabilities.

c) Measurement of market risk occurring at the trading position

① VaR measurement

Daily VaR is a statistically estimated maximum amount of loss that could occur in a holding (or trading) period for a given confidence interval due to changes in market variables, such as interest rate, stock price, exchange rate and commodity price. The Group monitors risk arising from trading activities in business sectors and departments, and measures market risk of all the trading assets and liabilities in both Korean won and foreign currencies using VaR.

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS(cont'd)

34.2 Market risk(cont'd)

34.2.1 Trading position(cont'd)

The Group calculates VaR using historical simulation model when the Bank measures market risk arising from the trading position. Under historical simulation model, VaR is calculated as sublevel (1 - confidence level) of a normal distribution of risk resulting from revaluation of loan portfolio applying a scenario of actual profit ratio movements for the past 250 business days to currently holding loan portfolio. The Bank discloses 10-day VaR measured at 99% confidence level.

VaR is a commonly used market risk measurement technique with the following limitations. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, 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 changes in assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or 10 days, are assumed 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 Back testing

The Group conducts back testing of results against daily actual gain (loss) and expected gain (loss) on a daily basis. By performing back testing, the Group checks the validity of the model and any losses that might exceed a predetermined 99% confidence level.

③ Stress testing

The Group conducts stress testing to assess its market risk exposure to abnormal market fluctuations, such as changes in interest rate, equity price, exchange rate and implied volatility of derivatives, subject to the changes in the value of the portfolio. The Group uses not only hypothetical scenarios as a main scenario, but also historical scenarios as a supplementary analysis. Stress testing is conducted on a monthly basis.

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS(cont'd)

34.2 Market risk(cont'd)

34.2.1 Trading position(cont'd)

The Group calculates VaR based on its consolidated financial statements and the following table shows average VaR, maximum VaR and minimum VaR at a 99% confidence level of interest rate risk, stock price risk and foreign exchange rate risk, commodity price risk and other risk for trading positions with a 10-day holding period as at June 30, 2014 and December 31, 2013 (total VaR is computed by considering the correlations of the risk factors):

Classification	June 30, 2014			
	Max	Min	Average	June 30, 2014
Interest rate risk	₩ 32,758	₩ 21,308	₩ 28,033	₩ 21,308
Stock price risk	13,638	7,076	12,430	12,818
Foreign currency risk	11,974	245	3,008	516
Dispersion effect	(13,339)	(2,249)	(6,949)	(6,058)
Total risk (*)	₩ 45,031	₩ 26,380	₩ 36,522	₩ 28,584

Classification	December 31, 2013			
	Max	Min	Average	December 31, 2013
Interest rate risk	₩ 30,536	₩ 8,294	₩ 19,344	₩ 24,696
Stock price risk	30,850	7,000	18,887	12,131
Foreign currency risk	14,033	169	1,694	1,263
Dispersion effect	(25,444)	4,668	(8,129)	(3,217)
Total risk (*)	₩ 49,975	₩ 20,131	₩ 31,796	₩ 34,873

(*) It is not equal to the sum of the individual risks because it is computed taking into consideration the correlations of the risks.

34.2.2 Non-trading positions

Non-trading positions refer to all positions, excluding trading positions. The Bank's principal market risk from non-trading activities is interest rate risk. Interest rate risk refers to the risk of exposure to losses from reduction of net interest income or net asset value as a result of interest rate changes due to mismatched maturities between interest earning assets and interest-bearing liabilities or mismatched interest rate change periods.

The subject for interest rate risk measurement includes non-trading positions, such as interest-bearing assets, interest-bearing liabilities, transaction of derivatives held for hedging, and others among off-balance transactions. The Bank has measured and managed the interest rate risk, which affects the Bank's earnings and the economic value of the Bank's net assets. From the Bank's earnings perspective, the Bank has measured and managed interest rate risk through interest rate gap, interest rate accumulated gap ratio, net interest income simulations, interest rate EaR and others to manage changes in net interest income as a result of interest rate changes. With respect to the economic value of the Bank's net assets, the Bank has measured and managed interest rate risk through duration gap, net asset value simulations, interest rate VaR and others to manage changes in the value of net assets of future cash flow as a result of interest rate changes.

The objective of interest risk management is to manage changes in interest income at a sustainable level due to change in interest rates, and is to manage stable net asset value through effective management of interest-earning asset and interest-bearing liabilities. The limits for interest rate accumulated gap ratio, interest rate EaR, interest rate VaR and others are approved annually by the risk management committee for interest rate risk management.

Interest rate VaR for non-trading portfolios in at June 30, 2014 and December 31. 2013 are as follows (Korean won in millions):

	June 30, 2014	December 31, 2013
Interest rate risk	₩ 375,936	₩ 600,598

34. **RISK MANAGEMENT OF FINANCIAL INSTRUMENTS(cont'd)**

34.3 Liquidity risk

34.3.1 General

Liquidity risk is the risk of loss that the Group is unable to meet its payment obligations arising from financial liabilities as they fall due or raise funds with high interest rates and unfavorable disposal of securities to solve the shortage of funds or facing inability to pay due to unexpected cash flows.

The cash flows disclosed in maturity analysis do not correspond to the amounts of discounted principals and interest payments at the contracts in the consolidated statements of financial position.

34.3.2 Liquidity risk management

The Group classifies and discloses contractual maturity of all financial liabilities in relation to liquidity risk into six categories, such as less than one month, one month to three months, three to six months, six months to one year, one year to five years and more than five years. The Group manages liquidity risk by analyzing cash flows of the liabilities in the groups of homogeneous accounts under the appropriate criteria (remaining contractual maturity, contract period, etc.).

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS(cont'd)

34.3 Liquidity risk(cont'd)

34.3.2 Liquidity risk management(cont'd)

The term structure of liabilities as at June 30, 2014 and December 31, 2013, is as follows (Korean won in millions):

	June 30, 2014						
Classification (*)	Less than 1 month	1 month– 3 months	3–6 months	6 months– 1 year	1 year– 5 years	More than 5 years	Total
Deposits	₩ 65,351,510	₩ 19,825,518	₩ 29,494,484	₩ 35,959,741	₩ 5,610,902	₩ 2,376,951	₩ 158,619,106
Financial liabilities at FVTPL	563	-	302	645	50,638	-	52,148
Trading derivative liabilities	722,748	-	-	-	-	-	722,748
Hedging derivative liabilities	450	(1,091)	952	(186)	7,268	(85)	7,308
Borrowings	5,077,667	545,317	893,405	1,594,993	4,725,578	2,362,554	15,199,514
Debentures	28,371	578,238	623,761	1,240,581	4,393,744	2,941,390	9,806,085
Other financial liabilities	11,094,503	1,678	4,596	75,768	3,014	-	11,179,559
	₩ 82,275,812	₩ 20,949,660	₩ 31,017,500	₩ 38,871,542	₩ 14,791,144	₩ 7,680,810	₩ 195,586,468

(*) Cash flows of principal and interest are included.

	December 31, 2013						
Classification (*)	Less than 1 month	1 month– 3 months	3–6 months	6 months– 1 year	1 year– 5 years	More than 5 years	Total
Deposits	₩ 65,719,499	₩ 20,204,383	₩ 17,079,763	₩ 38,068,398	₩ 4,569,243	₩ 2,152,076	₩ 147,793,362
Financial liabilities at FVTPL	432	-	660	1,362	52,082	-	54,536
Trading derivative liabilities	717,208	-	-	-	-	-	717,208
Hedging derivative liabilities	451	(1,224)	1,162	481	13,524	-	14,394
Borrowings	5,776,424	475,209	1,160,305	1,096,157	4,740,970	2,544,498	15,793,563
Debentures	73,179	794,230	1,819,615	1,246,313	5,535,999	3,003,949	12,473,285
Other financial liabilities	6,992,467	1,748	3,441	67,467	3,276	-	7,068,399
	₩ 79,279,660	₩ 21,474,346	₩ 20,064,946	₩ 40,480,178	₩ 14,915,094	₩ 7,700,523	₩ 183,914,747

(*) Cash flows of principal and interest are included.

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS(cont'd)

34.3 Liquidity risk(cont'd)

34.3.3 Maturity analysis of off-balance accounts

Guarantees and loan commitments, including guarantees for debenture issuance and guarantees for loans, which are financial guarantees provided by the Group, have expiration dates. However, under the term of the guarantees and loan commitments, timely payment shall be made upon demand by the counterparty. Details of off-balance accounts as at June 30, 2014 and December 31, 2013 are as follows (Korea won in millions):

Classification	June 30, 2014	December 31, 2013
Financial guarantee contract	₩ 1,529,670	₩ 1,477,012
Loan commitment	55,253,862	57,982,349
	₩ 56,783,532	₩ 59,459,361

34.4 Offsetting financial assets and liabilities

Details of financial assets that are set off and subject to an enforceable master netting arrangement or similar agreement as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014					
				Non offsetting amount		
Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amounts
Derivative assets	₩ 669,388	₩ -	₩ 669,388	₩ 492,181	₩ 14,708	₩ 162,499
Loans-bonds purchased under resale agreements	2,387,100	-	2,387,100	2,387,100	-	-
Receivables-receivable spot exchange	1,785,949	-	1,785,949	1,785,734	-	215
Receivables-receivable spot exchange in foreign currency	2,023,960	-	2,023,960	2,017,904	-	6,056
Receivables-domestic exchange settlement debits	7,236,079	6,936,052	300,027	-	-	300,027
	₩ 14,102,476	₩ 6,936,052	₩ 7,166,424	₩ 6,682,919	₩ 14,708	₩ 468,797

	December 31, 2013					
				Non offsetting amount		
Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amounts
Derivative assets	₩ 735,997	₩ -	₩ 735,997	₩ 469,689	₩ 14,632	₩ 251,676
Loans-bonds purchased under resale agreements	2,438,000	-	2,438,000	2,438,000	-	-
Receivables-receivable spot exchange	145,980	-	145,980	145,980	-	-
Receivables-receivable spot exchange in foreign currency	661,737	-	661,737	661,737	-	-
Receivables-domestic exchange settlement debits	6,761,246	6,422,526	338,720	-	-	338,720
	₩ 10,742,960	₩ 6,422,526	₩ 4,320,434	₩ 3,715,406	₩ 14,632	₩ 590,396

34. RISK DISCLOSURE OF FINANCIAL INSTRUMENTS (cont'd)

34.4 Offsetting financial assets and liabilities (cont'd)

Details of financial liabilities that are set off and subject to an enforceable master netting arrangement or similar agreement as at June 30, 2014 and December 31, 2013 are as follows (Korean won in millions):

	June 30, 2014					
				Non-offsetting amount		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral provided	Net amounts
Derivative liabilities	₩ 665,049	₩ -	₩ 665,049	₩ 492,181	₩ -	₩ 172,868
Borrowings-bonds sold under repurchase agreements	951,743	-	951,743	951,743	-	-
Other financial liabilities-payable spot exchange	2,018,236	-	2,018,236	2,017,904	-	332
Other financial liabilities-payable spot exchange in foreign currency	2,228,632	-	1,791,102	21,785,734	-	5,368
Other financial liabilities-domestic exchange settlement credits	9,052,462	6,936,052	2,116,410	-	-	2,116,410
	₩ 14,478,592	₩ 6,936,052	₩ 7,542,540	₩ 5,247,562	₩ -	₩ 2,294,978

	December 31, 2013					
				Non-offsetting amount		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral provided	Net amounts
Derivative liabilities	₩ 731,181	₩ -	₩ 731,181	₩ 469,689	₩ 16,318	₩ 245,174
Borrowings-bonds sold under repurchase agreements	399,384	-	399,384	399,384	-	-
Other financial liabilities-payable spot exchange	617,271	-	617,271	617,271	-	-
Other financial liabilities-payable spot exchange in foreign currency	190,428	-	190,428	190,428	-	-
Other financial liabilities-domestic exchange settlement credits	8,410,147	6,422,526	1,987,621	-	-	1,981,621
	₩ 10,348,411	₩ 6,422,526	₩ 3,925,885	₩ 1,676,772	₩ 16,318	₩ 2,232,795

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS:

Fair value hierarchy of financial instruments as at June 30, 2014 and December 31, 2013 is as follows (Korean won in millions).

All financial instruments at fair value are categorized into one of the following three fair value hierarchy levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3: Inputs for the asset or liability that are not based on the observable market data (unobservable inputs)

Classification	June 30, 2014 Level 1	Level 2	Level 3	Total
Assets:				
Trading financial assets	₩ 3,982,492	₩ 1,617,088	₩ -	₩ 5,599,580
Derivative assets	-	733,864	17,799	751,663
AFS financial assets	4,515,338	10,084,350	756,866	15,356,554
	₩ 8,497,830	₩ 12,435,302	₩ 774,665	₩ 21,707,797
Liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 53,812	₩ -	₩ 53,812
Derivative liabilities	-	699,858	30,021	729,879
	₩ -	₩ 753,670	₩ 30,021	₩ 783,691

Classification	December 31, 2013 Level 1	Level 2	Level 3	Total
Assets:				
Trading financial assets	₩ 2,382,148	₩ 2,200,486	₩ -	₩ 4,582,634
Derivative assets	-	702,920	33,077	735,997
AFS financial assets	3,695,952	9,058,185	807,089	13,561,226
	₩ 6,078,100	₩ 11,961,591	₩ 840,166	₩ 18,879,857
Liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 54,344	₩ -	₩ 54,344
Derivative liabilities	-	693,694	37,487	731,181
	₩ -	₩ 748,038	₩ 37,487	₩ 785,525

In principle, AFS financial assets are measured subsequently at fair value, but since there are no market prices quoted in the active market and the fair value cannot be reliably measured, the AFS financial assets measured at cost are ₩19,745 million and ₩27,272 million as at June 30, 2014 and December 31, 2013, respectively.
The AFS financial assets have been measured at cost since the financial information necessary for the evaluation of investments, in special-purpose entities, which is classified as non-marketable or unlisted securities, could not be sufficiently obtained, and even if the information was obtained, the variance in the estimated cash flows was significant or the probabilities for the various estimates of cash flows could not be reliably measured.

Financial assets and liabilities designated at FVTPL, trading financial assets and liabilities, AFS financial assets and derivative assets and liabilities are recognized at fair value. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (cont'd)

Fair value of financial instruments traded in an active market is determined by using the published price quotations based on market prices. However, if the market for a financial instrument is not active, fair value is determined by using a valuation method.

The fair value of debt securities is calculated by the average of the appraised values of KIS Pricing INC., Korea Asset Pricing, CO., NICE P&I INC., and FN Pricing INC.

The following table gives information about how the fair values of these financial assets and financial liabilities included in the Level 2 and Level 3 are determined (in particular, the valuation technique, significant unobservable inputs and relationship of unobservable inputs to fair value)

Classification	Valuation techniques	Input variables, which are significant but unobservable in measurement of fair value	Range
Financial assets and financial liabilities that are measured at fair value:			
Financial instruments	Discounted cash flow	Risk-free rate of return,	-
at FVTPL	and others	Forward rate and others	-
Derivatives	Discounted cash flow,	Risk-free rate of return,	-
	Intrinsic forward rate,	Forward rate	-
	Option-pricing model	Volatility of the underlying assets	17 - 30%
		Discount curve and	15 - 35%
		Interest correlation coefficient	(-)100 - 100%
AFS financial assets	Discounted cash flow, comparable companies	Expected growth rate	(-)1 – 1%
	valuation method, FCFE model,	Discount rate	(-)1 – 1%
	dividend discount model and		
	net asset value method, etc.		
Financial assets and financial liabilities that not measured at fair value (but fair value disclosures are required):			
HTM financial assets	Discounted cash flow	Market yield	-
Loans	Discounted cash flow	Market yield, credit spread,	-
		liquidity risk premium	-
		and other spread	-
Deposits and borrowings	Discounted cash flow	Market yield, other spread	-
Debentures	Discounted cash flow	Risk-free rate of return,	-
		Credit spread	-

Financial instruments that are classified as Level 3 are measured at fair value based on the valuation performed by independent professionals or the estimated amount using the valuation model of the Group. Unobservable input variables are calculated from an internal system, and suitability of the unobservable input variables is reviewed at all times. The valuation council of fair value reviews the valuation model of the Group, and reviews and approves the suitability of the valuation model.

The following table shows the sensitivity analysis of the fair value of Level 3 financial instruments.

The sensitivity analysis of the financial instruments has been performed by classifying with favorable and unfavorable changes based on how changes in unobservable assumptions have effects on the fluctuations of financial instruments' value. When the fair value of a financial instrument is affected by more than one unobservable assumption, the below table reflects the most favorable or the most unfavorable changes which result from varying the assumptions individually. The sensitivity analysis was performed for two types of Level 3 financial instruments: (a) interest rate derivatives and equity derivatives, that fair value changes are recognized as current income and (b) equity securities that fair value changes are recognized as other comprehensive income.

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (cont'd)

Sensitivity analysis by type of financial instruments as a result of varying input parameters as at June 30, 2014 and December 31, 2013, is as follows (Korean won in millions):

	June 30, 2014				
		Net income (loss)		Other comprehensive income (loss)	
Classification	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 17,799	₩ 26,251	₩ (24,810)	₩ -	₩ -
Equity securities (*2)	732,849	-	-	77,675	(40,833)
	₩ 750,648	₩ 26,251	₩ (24,810)	₩ 77,675	₩ (40,833)
Financial liabilities:					
Derivative liabilities (*1)	₩ 30,021	₩ 29,472	₩ (30,340)	₩ -	₩ -

(*1) Fair value changes of derivatives are calculated by increasing or decreasing historical fluctuation rate of stock price by 20%, interest by 2% and exchange rate by 10%. The historical fluctuation rate of stock price and correlation are major unobservable variables.
(*2) Fair value changes of equity securities are calculated by increasing or decreasing the growth rate (0–1%) and the discount rate or the correlation between liquidation value (-1–1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable variables.

	DECEMBER 31, 2013				
		Net income (loss)		Other comprehensive income (loss)	
Classification	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 33,077	₩ 28,615	₩ (28,281)	₩ -	₩ -
Equity securities (*2)	779,817	-	-	48,374	(25,077)
	₩ 812,894	₩ 28,615	₩ (28,281)	₩ 48,374	₩ (25,077)
Financial liabilities:					
Derivative liabilities (*1)	₩ 37,487	₩ 34,126	₩ (33,815)	₩ -	₩ -

(*1) Fair value changes of derivatives are calculated by increasing or decreasing historical fluctuation rate of stock price by 20%, interest by 2% and exchange rate by 10%. The historical fluctuation rate of stock price and correlation are major unobservable variables.
(*2) Fair value changes of equity securities are calculated by increasing or decreasing the growth rate (0–1%) and the discount rate or the correlation between liquidation value (-1–1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable variables.

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (cont'd)

Changes in Level 3 financial instruments for the six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

	For the six month period ended June 30,						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3	Ending
Financial assets:							
AFS financial assets	₩ 807,089	₩ (29,145)	₩ (21,251)	₩ 12,926	₩ (12,753)	₩ -	₩ 756,866
Derivative assets	(4,410)	(8,541)	-	1,561	(832)	-	(12,222)
	₩ 802,679	₩ (37,686)	₩ (21,251)	₩ 14,487	₩ (13,585)	₩ -	₩ 744,644

	For the six month period ended June 30, 2013						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3	Ending
Financial assets:							
Financial assets designated at FVTPL	₩ 89	₩ (89)	₩ -	₩ -	₩ -	₩ -	₩ -
AFS financial assets	925,831	(19,198)	26,693	48,511	(132,929)	(157,797)	691,111
Derivative assets	22,050	(3,067)	-	-	(11,347)	-	7,636
	₩ 947,970	₩ (22,354)	₩ 26,693	₩ 48,511	₩ (144,276)	₩ (157,797)	₩ 698,747

For the six month periods ended June 30, 2014 and 2013, gain (loss) related to financial assets and liabilities is included in gain (loss) on financial instruments at FVTPL and gain (loss) on financial investments in the consolidated statements of comprehensive income.

Total valuation gains and losses, which are recognized as other comprehensive income (loss), are related to unlisted equity securities as at June 30, 2014, and are recognized as changes in valuation gain (loss) of AFS financial assets.

The Group recognizes transfers between the fair value hierarchy levels as at the event or change in circumstances that caused the transfer. There are no changes in valuation techniques, which are used as measurement methods of fair value of financial instruments, which are classified as Level 2 and Level 3. There are no significant changes to the business environment or economic environment, which affect the fair value of financial instruments owned by the Group for the six month period ended June 30, 2014.

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (cont'd)

Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost as at June 30, 2014 and December 31, 2013, are as follows (Korean won in millions):

	June 30, 2014				
Classification	Level 1	Level 2	Level 3	Fair value	Book value
Assets:					
HTM financial assets	₩ 1,459,091	₩ 5,194,702	₩ 36,545	₩ 6,690,338	₩ 6,511,396
Loans and receivables	-	-	166,246,776	166,246,776	164,770,723
	₩ 1,459,091	₩ 5,194,702	₩ 166,283,321	₩ 172,937,114	₩ 171,282,119
Liabilities:					
Deposits	₩ -	₩ -	₩ 157,215,826	₩ 157,215,826	₩ 155,670,135
Borrowings	-	13,600	14,729,901	14,743,501	14,736,637
Debentures	-	-	8,753,894	8,753,894	8,533,924
Other financial liabilities (*1)	-	-	12,737,973	12,737,973	12,738,151
	₩ -	₩ 13,600	₩ 193,437,594	₩ 193,451,194	₩ 191,678,847

(*1) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

	December 31, 2013				
Classification	Level 1	Level 2	Level 3	Fair value	Book value
Assets:					
HTM financial assets	₩ 1,450,769	₩ 5,890,611	₩ 645,793	₩ 7,987,173	₩ 7,810,366
Loans and receivables	-	-	157,445,255	157,445,255	156,022,454
	₩ 1,450,769	₩ 5,890,611	₩ 158,091,048	₩ 165,432,428	₩ 163,832,820
Liabilities:					
Deposits	₩ -	₩ -	₩ 146,430,890	₩ 146,430,890	₩ 144,919,171
Borrowings	-	-	15,230,446	15,230,446	15,302,400
Debentures	-	11,195,923	-	11,195,923	10,993,925
Other financial liabilities (*1)	-	-	7,068,399	7,068,399	8,599,202
	₩ -	₩ 11,195,923	₩ 168,729,735	₩ 179,925,658	₩ 179,814,698

(*1) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

Fair value of financial instruments traded in an active market is determined by using the published price quotations based on market prices. However, if the market for a financial instrument is not active, fair value is determined by using a valuation technique.

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (cont'd)

Changes in Day 1 profit and loss for the three and six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

	Gain	Loss
January 1, 2014	₩ -	₩ -
Increase	-	-
Amortization and redemption	-	-
June 30, 2014	₩ -	₩ -

	Gain	Loss
January 1, 2013	₩ 14	₩ 10
Increase	-	-
Amortization and redemption	(12)	(8)
June 30, 2013	₩ 2	₩ 2

36. RELATED-PARTY TRANSACTIONS:

Details of related-party transactions of the Group as at June 30, 2014, are as follows:

Classification	Company
Ultimate parent company	NACF
Parent company	NH Financial Group Inc.
Associates	Korea Credit Bureau; Nanumlotto; NH Agri-Best 1st PEF; NH Kolon Green 1st; NH SG 2nd PEF; STX Offshore & Shipbuilding Co., Ltd.; NH-QCP Global Partnership PEF; IBK-NH Smallgiant PEF; NH-Glenwood 1st PEF
Others	NH Life Insurance Co., Ltd.; Wooriaviva Life Insurance Co., Ltd.; NH Property & Casualty Insurance Co., Ltd.; Woori Investment & Securities Co., Ltd.; NH NongHyup Securities Co., Ltd.; NH NongHyup Capital Co., Ltd.; NH NongHyup Futures Co., Ltd.; NH Savings Bank.; Tongyang Global REF private mixed investment trust; Maps NH private placed real estate investment trust 1-2th; HDC(Samsung) Newstar PEF 20st and 73 incestment trusts; Sinyoung Private Equity N-34 and 21 investment trusts; Woori Futures Co., Ltd.; Woori Investment ＆ trust Securities Co., Ltd; Woori Securities (H.K.) Ltd.; Woori Investment Asia Pte, Ltd.; Woori Absolute Global Opportunity Fund; Woori Absolute Return Investment Strategies Fund; Woori CBV Securities Corporation ; Woori Securities Int'l Ltd.; Woori Securities America, Inc.; Woori Absolute Partners Pte, Ltd.; Woori Korindo Securities Indonesia; LG Investment Holdings B.V; Beijing Woori Investment Advisory Co., Ltd; KoFC Woori Growth Champ Private Equity Fund; G3 Pro Short-Term and other beneficiary interest; Alpenrose 2nd SPC, Inc; IBS 11th SPC, Inc; Woori Credit 1st Co., Ltd;. Woori Credit 2nd Co., Ltd;. Woori Giant 1st Co., Ltd.; Woori Renaissance 1st PEF; NH Revolution Private Equity Fund No. 1; Champs 1st Co., Ltd. and 9 SPC SE; NH-CA Asset Management Co., Ltd; Woori NewAlpha Fund, L.P; Clover Investment Advisory Co., Ltd; Kokam Co., Ltd; BLUE OCEAN Corporate"s Financial Stabilization Private Equity Fund No. 11; EZGOLF D&C Co., Ltd; Sandonghansangchieop Co., Ltd.; Yeosu Bluetopia Co., Ltd.; Seoul Seongbo chieop Co., Ltd.; Yeosu New City Complex Development Co., Ltd.; Daguang real estate developing Co., Ltd.; Edupalace Co., Ltd.; NH-LB Growth Champ 2011-4th PEF; NH Agribusiness Group Inc.; NH Development, Ltd.; NH Information System Co., Ltd.; NH Economic Research Institute, Inc.; Agricultural Cooperative Asset Management Co., Ltd.; NH Hyupdong Planning; The Farmers' Newspaper; Nonghyup foundation; Korea Agriculture Cooperative Marketing Inc.; Agricultural Cooperative Pusan Gyeongnam Marketing, Inc; Agricultural Cooperative Chungbuk Marketing Co., Ltd; Daejeon Agricultural Products Marketing Co., Ltd.; Nonghyup Logistics Service Inc.; NH Trading Co., Ltd.; Nonghyup Chemical Co., Ltd.; Nonghyup-Agro; Nonghyup RedGinseng Co., Ltd.; Namhae Chemical Corporation; Nonghyup Moguchon Inc.; Nonghyup Feed Inc.; NH-Hay INC; NH Heuk Sarang Co., Ltd.; Nonghyup TMR Co., Ltd; Nisso-namhae Agro Co., Ltd.; Japan Nonghyup International;.KUNHYUNG; Home and Shopping Kokam Co., Ltd

36. RELATED-PARTY TRANSACTIONS (cont'd)

Significant receivables and payables with related parties as at June 30, 2014 and December 31, 2013, are summarized as follows (Unit: Korean won in millions):

	June 30, 2014		
Company	Receivables	Allowances	Payables
Ultimate parent company:			
NACF	₩ 304,991	₩ 57	₩ 539,835
Parent company:			
NH Financial Group Inc.	174	3	832
Associates:			
Nanumlotto	10,135	32	10,334
Korea Credit Bureau	-	-	1,518
NH Agri-Best 1st PEF	-	-	3,023
NH Kolon Green 1st	-	-	512
STX Offshore & Shipbuilding Co., Ltd.	426,585	25,333	24
NH-Glenwood 1st PEF	-	-	1,500
Other related parties:			
NH NongHyup Securities Co., Ltd.	1,263	1	8,549
NH NongHyup Futures Co., Ltd.	2	-	4,318
NH NongHyup Capital Co., Ltd.	1,126	1	14,499
NH-CA Asset Management Co., Ltd.	87	3	43,154
NH Life Insurance Co., Ltd.	1,932	1	78,868
NH Property & Casualty Insurance Co., Ltd.	882	1	13,321
NH Agribusiness Group Inc.	6	-	9,137
Namhae Chemical Corporation	81,003	140	7,684
NH Heuk Sarang Co., Ltd.	847	1	-
Nisso-namhae Agro Co., Ltd.	8	-	970
Cheju Fertilizer. Co., Ltd.	2,372	34	57
NH Economic Research Institute, Inc.	14	-	7,306
Daejeon Agricultural Products Marketing Co., Ltd.	319	-	4,370
Nonghyup Moguchon Inc.	27,855	6	14,549
Nonghyup Logistics Service Inc.	51	-	2,508
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	38	-	16,136
Nonghyup Feed Inc.	301,504	911	1,040
Nonghyup-Agro	12	-	2,035
Korea Agriculture Cooperative Marketing Inc.	181	-	76,979
NH Information System Co., Ltd.	154	-	33,719
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	49	-	1,286
Nonghyup Chemical Co., Ltd.	171,351	103	858
Nonghyup RedGinseng Co., Ltd.	21,073	390	183
NH Hyupdong Planning	67	2	5,066
NH Development, Ltd.	1,094	2	8,014
NH Trading Co., Ltd.	699	4	1,385
The Farmers' Newspaper	1,136	39	12,134
Nonghyup foundation	13	-	-
Agricultural Cooperative Asset Management Co., Ltd.	181,027	52	986
Maps NH private placed real estate investment trust 1-2th and 68 investment trusts.	1,946	-	-
Grand Eighth. Co., Ltd.	-	-	19
Chams first Co.,Ltd	-	-	29
Chams seventh. Co., Ltd.	-	-	18
Woori Investment & Securities Co., Ltd.	2,947	-	7,782

36. RELATED-PARTY TRANSACTIONS (cont'd)

	June 30, 2014		
Company	Receivables	Allowances	Payables
Wooriaviva Life Insurance Co., Ltd.	₩ -	₩ -	₩ 1,038
HDC(Samsung) Newstar PEF 20st and 73 incestment	30	-	59,498
Sinyoung Private Equity N-34 and 21 investment trusts	6	-	4,162

36. RELATED-PARTY TRANSACTIONS (cont'd)

Company	December 31, 2013		
	Receivables	Allowances	Payables
Ultimate parent company:			
NACF	₩ 280,679	₩ 56	₩ 623,298
Parent company:			
NH Financial Group Inc.	99	4	14,570
Associates:			
Nanumlotto	10,116	11	10,866
Korea Credit Bureau	-	-	1,634
NH Agri-Best 1st PEF	-	-	2,989
NH Kolon Green 1st	83	-	868
NH SG 2nd	-	-	8
Other related parties:			
NH NongHyup Securities Co., Ltd.	1,027	2	27,007
NH NongHyup Futures Co., Ltd.	43	-	4,599
NH NongHyup Capital Co., Ltd.	209,597	217	54,164
NH-CA Asset Management Co., Ltd.	118	4	49,814
NH Life Insurance Co., Ltd.	2,229	-	30,283
NH Property & Casualty Insurance Co., Ltd.	1,233	3	2,823
NH Agribusiness Group Inc.	17	-	14,664
Namhae Chemical Corporation	97,664	267	21,194
Cheju Fertilizer. Co., Ltd.	-	-	15
Nonghyup Feed Inc.	314,256	1,628	1,740
Korea Agriculture Cooperative Marketing Inc.	203	-	92,033
Nonghyup Moguchon Inc.	27,457	34	21,174
Nonghyup RedGinseng Co., Ltd.	24,063	446	1,379
The Farmers' Newspaper	771	26	18,379
Nonghyup Logistics Service Inc	3,734	2	5,944
NH Trading Co., Ltd.	4,195	13	6,838
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	42	-	15,215
Agricultural Cooperative Chungbuk Marketing Co., Ltd	71	-	997
Daejeon Agricultural Products Marketing Co., Ltd.	1,315	4	10,777
Nonghyup-Agro	11	-	2,006
NH Hyupdong Planning	89	3	3,491
Nisso-namhae Agro Co., Ltd.	11	1	241
Agricultural Cooperative Asset Management Co., Ltd.	205,192	59	1,024
NH Development, Ltd.	865	1	14,488
NH Information System Co., Ltd.	174	-	44,104
NH Economic Research Institute, Inc.	28	1	40,967
KB (NH Futures) Neulpureun private 80th and 70 others	30	-	54,899
Grand 5th Corp.	-	-	157
Grand 8th Corp.	-	-	63
Champs1th Corp.	-	-	25
NH Heuk Sarang Co., Ltd.	860	1	-
Nonghyup Chemical Co., Ltd.	18,348	58	317
Maps NH private placed real estate investment trust 1-2th	1,330	-	789

36. RELATED-PARTY TRANSACTIONS (cont'd)

Significant transactions with related parties for six month periods ended June 30, 2014, and 2013, are as follows (Unit: Korean won in millions):

	For the six month period ended June 30, 2014		
Company	Income	Provision (reversal) of allowance	Expense
Ultimate parent company:			
NACF	₩ 25,971	₩ 1	₩ 198,585
Parent company:			
NH Financial Group Inc.	156	(1)	1,398
Associates:			
Nanumlotto	-	21	208
Korea Credit Bureau	-	-	28
NH Agri-Best 1st PEF	1	-	36
NH Kolon Green 1st	-	-	3
STX Offshore & Shipbuilding Co., Ltd.	8,320	25,333	-
Other related parties:			
NH NongHyup Securities Co., Ltd.	3,219	(1)	1,471
NH NongHyup Futures Co., Ltd.	8	-	8
NH NongHyup Capital Co., Ltd.	811	(216)	2,351
NH-CA Asset Management Co., Ltd.	3	(1)	694
NH Life Insurance Co., Ltd.	5,217	1	17,875
NH Property & Casualty Insurance Co., Ltd.	1,340	(2)	1,511
NH Agribusiness Group Inc.	-	-	186
Namhae Chemical Corporation	1,358	(127)	62
NH Heuk Sarang Co., Ltd.	-	(1)	-
Nisso-namhae Agro Co., Ltd.	-	34	-
NH Economic Research Institute, Inc.	-	(1)	1,032
Daejeon Agricultural Products Marketing Co., Ltd.	7	(4)	138
Nonghyup Moguchon Inc.	434	(28)	321
Nonghyup Logistics Service Inc.	51	(2)	10,049
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	257	-	313
Nonghyup Feed Inc.	1,458	(717)	19
Nonghyup-Agro	-	-	24
Korea Agriculture Cooperative Marketing Inc.	711	-	1,199
NH Information System Co., Ltd.	100	-	14,183
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	1	-	145
Nonghyup Chemical Co., Ltd.	1,607	45	15
Nonghyup RedGinseng Co., Ltd.	764	(56)	38
NH Hyupdong Planning	3	(1)	11,183
NH Development, Ltd.	259	1	23,809
NH Trading Co., Ltd.	202	(9)	75
The Farmers' Newspaper	-	13	390
Agricultural Cooperative Asset Management Co., Ltd.	3,537	(7)	2,979
Maps NH private placed real estate investment trust 1-2th	-	-	182

36. RELATED-PARTY TRANSACTIONS (cont'd)

Company	For the six month period ended June 30, 2013 Income	Provision (reversal) of allowance	Expense
Ultimate parent company:			
NACF	₩ 44,616	₩ (3)	₩ 302,401
Parent company:			
NH Financial Group Inc.	-	(1)	864
Associates:			
Nanumlotto	-	-	87
Korea Credit Bureau	-	-	42
NH Kolon Green 1st	245	-	10
NH SG first PEF	69	-	-
NH Agri-Best 1st PEF	1	-	35
NH SG 2nd PEF	54	-	-
Other related parties:			
NH NongHyup Securities Co., Ltd.	5,758	-	1,200
NH NongHyup Futures Co., Ltd.	4	-	9
NH NongHyup Capital Co., Ltd.	6,883	13	1,745
NH-CA Asset Management Co., Ltd.	-	2	1,884
NH Life Insurance Co., Ltd.	29,937	-	982
NH Property & Casualty Insurance Co., Ltd.	4,640	-	5,175
NH Agribusiness Group Inc.	139	(11)	228
Namhae Chemical Corporation	1,975	471	8
Cheju Fertilizer Co., Ltd.	-	(18)	5
Nonghyup Feed Inc.	1,512	711	146
Korea Agriculture Cooperative Marketing Inc.	724	(2)	1,537
Nonghyup Moguchon Inc.	388	23	80
Nonghyup Hansamin Co., Ltd.	1,081	(82)	254
Youngil Chemical Co., Ltd.	1,736	150	3
The Farmers' Newspaper	-	4	466
Nonghyup Logistics Service Inc.	102	(18)	9,438
NH Trading Co., Ltd.	143	9	195
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	537	(2)	344
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	41	(1)	111
Daejeon Agricultural Products Marketing Co., Ltd.	44	1	288
Nonghyup-Agro	-	-	28
NH Heuk Sarang Co., Ltd.	-	3	-
NH Hyupdong Planning	3	(1)	10,451
Nisso-namhae Agro Co., Ltd.	-	2	-
Agricultural Cooperative Asset Management Co., Ltd.	2,394	1	3,239
NH Development, Ltd.	216	(24)	21,452
NH Information System Co., Ltd.	-	-	10,191
NH Economic Research Institute, Inc.	-	(1)	1,957
Maps NH private placed real estate investment trust 1-2th	-	-	88
KB(NH) Evergreen PEF 80st and 77 incestment	176	-	659
YuRi(NH) Premium alpha PEF 1st and 26 incestment	33	-	111
NH-CA(HIGH) Dynamic Equity 7st and 6 incestment	5	-	30
Korea(NH) Value Plus Private Equity 4th and 12 trusts	13	-	47
Korea Investment Management (NH NongHyup Securities) basic private placed investment trust 14th and 14 trusts	12	-	44

36. RELATED-PARTY TRANSACTIONS (cont'd)

The Group's acceptances and guarantees and unused credit limits with related parties as at June 30, 2014 and December 31, 2013, are summarized as follows (Unit: Korean won in millions):

	June 30, 2014	
Classification	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 2,868,316	NACF
Unused credit limit in Korean won	255	NH Financial Group Inc.
Unused credit limit in Korean won	94	NH Agribusiness Group Inc.
Unused credit limit in Korean won	83,187	NH Life Insurance
Unused credit limit in Korean won	31,119	NH Property & Casualty Insurance
Unused credit limit in Korean won	42,385	NH NongHyup Securities Co., Ltd.
Unused credit limit in Korean won	30,155	NH NongHyup Futures Co., Ltd.
Unused credit limit in Korean won	2,374	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won	213	NH-CA Asset Management Co., Ltd.
Unused credit limit in Korean won	1	Korea Credit Bureau
Unused credit limit in Korean won	10,368	Nanumlotto
Acceptances and guarantees in Korean won	10,564	Nonghyup Hansamin Co., Ltd.
Unused credit limit in Korean won	3,347	Nonghyup Hansamin Co., Ltd.
Acceptances and guarantees in foreign currencies	12,407	NH Trading Co., Ltd.
Unused credit limit in Korean won	24,727	NH Trading Co., Ltd.
Unused credit limit in Korean won	3,568	Nonghyup-Agro
Unused credit limit in Korean won	881	Korea Agriculture Cooperative Marketing Inc.
Acceptances and guarantees in won	2,062	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	22,017	Namhae Chemical Corporation
Unused credit limit in Korean won	385,791	Namhae Chemical Corporation
Unused credit limit in Korean won	641	Cheju Fertilizer. Co., Ltd.
Acceptances and guarantees in foreign currencies	1,114	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	104,373	Nonghyup Chemical Co., Ltd
Unused credit limit in Korean won	217	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won	5,453	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	1,721	Daejeon Agricultural Products Marketing Co., Ltd.
Unused credit limit in Korean won	5,113	Nonghyup Logistics Service Inc.
Acceptances and guarantees in foreign currencies	122,191	Nonghyup Feed Inc.
Unused credit limit in Korean won	285,389	Nonghyup Feed Inc.
Unused credit limit in Korean won	7,474	Nonghyup Moguchon
Acceptances and guarantees in Korean won	22,233	NH Development, Ltd.
Unused credit limit in Korean won	50,511	NH Development, Ltd.
Unused credit limit in Korean won	70,286	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	370	NH Information System Co., Ltd.
Unused credit limit in Korean won	56	NH Economic Research Institute, Inc.
Unused credit limit in Korean won	53	NH Heuk Sarang Co., Ltd.
Unused credit limit in Korean won	187	Nonghyup foundation
Unused credit limit in Korean won	233	NH Hyupdong Planning
Unused credit limit in Korean won	2,557	The Farmers' Newspaper
Unused credit limit in Korean won	32	Nisso-namhae Agro Co., Ltd
Unused credit limit in Korean won	770	Wooriaviva Life Insurance Co., Ltd.

36. RELATED-PARTY TRANSACTIONS (cont'd)

	June 30, 2014	
Classification	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 340	NH Savings Bank.
Acceptances and guarantees in foreign currencies	1,011,700	STX Offshore & Shipbuilding Co., Ltd.
Unused credit limit in Korean won	79,029	STX Offshore & Shipbuilding Co., Ltd.

36. RELATED-PARTY TRANSACTIONS (cont'd)

	December 31, 2013	
Classification	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 3,705,326	NACF
Unused credit limit in Korean won	120	NH Financial Group Inc.
Unused credit limit in Korean won	131,389	NH Life Insurance
Unused credit limit in Korean won	40,383	NH Property & Casualty Insurance
Unused credit limit in Korean won	142,333	NH NongHyup Securities Co., Ltd.
Unused credit limit in Korean won	30,139	NH NongHyup Futures Co., Ltd.
Unused credit limit in Korean won	112,918	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won	182	NH-CA Asset Management Co., Ltd.
Unused credit limit in Korean won	1	Korea Credit Bureau
Unused credit limit in Korean won	10,390	Nanumlotto
Unused credit limit in Korean won	63	NH Agribusiness Group Inc.
Unused credit limit in Korean won	726	Daejeon Agricultural Products Marketing Co., Ltd.
Acceptances and guarantees in Korean won	10,564	Nonghyup RedGinseng Co., Ltd.
Unused credit limit in Korean won	3,386	Nonghyup RedGinseng Co., Ltd.
Acceptances and guarantees in foreign currencies	6,720	NH Trading Co., Ltd.
Unused credit limit in Korean won	28,084	NH Trading Co., Ltd.
Unused credit limit in Korean won	3,569	Nonghyup-Agro
Unused credit limit in Korean won	759	Korea Agriculture Cooperative Marketing Inc.
Acceptances and guarantees in won	1,808	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	67,484	Namhae Chemical Corporation
Unused credit limit in Korean won	341,254	Namhae Chemical Corporation
Unused credit limit in Korean won	751	Cheju Fertilizer. Co., Ltd.
Unused credit limit in Korean won	29	Nisso-namhae Agro Co., Ltd.
Unused credit limit in Korean won	247	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won	5,431	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	5,090	Nonghyup Logistics Service Inc.
Acceptances and guarantees in foreign currencies	92,818	Nonghyup Feed Inc.
Unused credit limit in Korean won	344,246	Nonghyup Feed Inc.
Unused credit limit in Korean won	7,324	Nonghyup Moguchon
Acceptances and guarantees in foreign currencies	111	Nonghyup Moguchon
Unused credit limit in Korean won	3,141	NH Development, Ltd.
Unused credit limit in Korean won	125	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	95,958	NH Information System Co., Ltd.
Unused credit limit in Korean won	42	NH Economic Research Institute, Inc.
Unused credit limit in Korean won	211	NH Hyupdong Planning
Unused credit limit in Korean won	2,922	The Farmers' Newspaper
Unused credit limit in Korean won	40	NH Heuk Sarang Co., Ltd.
Acceptances and guarantees in foreign currencies	4,027	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	158,404	Nonghyup Chemical Co., Ltd.

36. RELATED-PARTY TRANSACTIONS (cont'd)

The key management compensations for the three and six month periods ended June 30, 2014, and 2013, are as follows (Korean won in millions):

Classification	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Short-term employee benefits	₩ 720	₩ 655	₩ 1,553	₩ 1,321
Retirement expenses	168	231	399	305
	₩ 888	₩ 886	₩ 1,952	₩ 1,626

37. COMMITMENTS AND CONTINGENCIES:

As at June 30, 2014, the Group provided the credit line with the limit of ₩407,700 million and made the commercial paper purchase agreement with the limit of ₩413,150 million as collaterals to repay the principals and interests of debentures and commercial papers issued by the JB Woori Capital Auto the 2nd Securitization Specialty Co.,Ltd. and 22 other SPEs.

The Group is involved in various pending legal proceedings arising in the normal course of business. As at June 30, 2014, the Group is named as a plaintiff in 252 cases with related aggregate claims amounting to ₩100,354 million, and as a defendant in 299 cases with related aggregate claims amounting to ₩202,922 million. Accordingly, the Group accrued for a litigation-related liability of ₩3,523 million in other liabilities.

Except for accrued litigations-related liabilities, the Group believes that the outcome of litigations will not have a material impact on the consolidated financial statements.

The Group holds written-off loans, on which the statute of limitation was not completed or the Group has not lost its claim rights to borrowers and guarantors, amounting to ₩3,161,387 million and ₩3,438,085 million as at June 30, 2014 and December 31, 2013, respectively.

The Group underwent lawsuits (1st trial) for recent massive data leakage of NH Card. The Group can not expect whether the outcome of litigations will have a material impact on the consolidated financial statements or not.

38. CONSOLIDATED STATEMENTS OF CASH FLOWS:

38.1 Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist of cash and due from banks (excluding restricted due from banks) from the consolidated statements of financial position. Cash and cash equivalents as at June 30, 2014 and June 30, 2013, are adjusted as follows (Korean won in millions):

Classification	June 30, 2014	June 30, 2013
Cash and due from banks	₩ 10,622,299	₩ 10,993,964
Less: Restricted due from bank (refer to Note 5)	(7,929,390)	(8,274,182)
Less: Due from banks with a maturity of three months or more at acquisition	(220,668)	(350,000)
	₩ 2,472,241	₩ 2,369,782

38.2 Non-cash transactions

Significant non-cash transactions not included in the consolidated statement of cash flows for the six month periods ended June 30, 2014, and 2013 are as follows (Korean won in millions):

Classification	For the six month period ended June 30, 2014	For the six month period ended June 30, 2013
Decrease in loans due to write off	₩ 270,340	₩ 274,236
Increase(Decrease) in gain on valuation of AFS financial assets	112,828	(24,065)
Transfer to land of investment properties from land of tangible assets	-	109,526
Transfer to land of tangible assets from land of investment properties	106,032	-

39. ACQUISITION OF IT DEPARTMENT OF NACF

The Bank acquired the IT department including personnels from NACF, ultimate parent company, as at January 2, 2014. The Bank expects the period of decision making for investments to shorten and the operating systems to be stabilized through the unification of the investor and operator of IT department.

This acquisition is the transaction under the same control and acquired assets and liabilities are recognized as book value in the financial statements. Acquired assets and liabilities as at the reporting date are as follows. (Korean won in millions)

Classification	June 30, 2014
Tangible Assets	₩ 44,727
Intangible Assets	64,780
Plan Assets	19,105
Total Asset	128,612
Defined Benefit Obligation	21,393
Total liabilities	21,393
Net Asset	₩ 107,219

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Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholder and the Board of Directors of
NongHyup Bank:

We have audited the accompanying consolidated financial statements of NongHyup Bank and its subsidiaries (the "Group"). The financial statements consist of the consolidated statements of financial position as of December 31, 2013 and 2012, respectively, and the related consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, respectively. The Group's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, respectively, and the results of its operations and its cash flows for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, respectively, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

As described in Note 2, as the Group has adopted new standards that made changes in accounting policies retrospectively, the consolidated statement of financial position as of December 31, 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the period from March 2, 2012, to December 31, 2012, were restated.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, 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. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Deloitte Anjin LLC

March 28, 2014

Notice to Readers

This report is effective as of March 28, 2014, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditor's report.

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS:	(Unit: Korean won in millions)	
Cash and due from banks (Notes 2, 4, 5, 34 and 38)	₩ 9,216,363	₩ 9,402,633
Trading financial assets (Notes 2, 4, 6, 34 and 35)	4,582,634	4,459,423
Financial assets at fair value through profit or loss ("FVTPL") (Notes 4, 6, 34 and 35)	-	89
Derivative assets (Notes 4, 6, 20, 34 and 35)	735,997	1,200,228
Available-for-sale ("AFS") financial assets (Notes 4, 7, 34 and 35)	13,561,226	11,504,037
Held-to-maturity ("HTM") financial assets (Notes 4, 7, 34 and 35)	7,810,366	12,817,305
Loans and receivables (Notes 2, 4, 8, 34 and 35)	156,022,454	154,979,578
Investments in associates (Note 9)	25,559	38,023
Tangible assets (Note 10)	2,267,183	2,195,984
Investment properties (Note 11)	546,091	494,177
Intangible assets (Note 12)	262,771	203,928
Current income tax assets	110,819	-
Deferred income tax assets (Notes 2 and 24)	54,066	64,329
Other assets (Notes 2 and 13)	151,353	137,221
Assets classified as held for sale (Notes 8 and 11)	15	15
Total assets	₩ 195,346,897	₩ 197,496,970
LIABILITIES AND SHAREHOLDER'S EQUITY:		
LIABILITIES:		
Deposits (Notes 2, 14, 15, 34 and 35)	₩ 144,919,171	₩ 142,711,764
Trading financial liabilities (Notes 14, 34 and 35)	-	21,153
Financial liabilities at FVTPL (Notes 14, 34 and 35)	54,344	55,978
Derivative liabilities (Notes 14, 20, 34 and 35)	731,181	1,045,914
Borrowings (Notes 14, 16, 34 and 35)	15,302,400	13,341,589
Debentures (Notes 14, 17, 34 and 35)	10,993,925	10,194,160
Retirement benefit obligations (Note 21)	178,569	137,674
Provisions (Notes 18 and 37)	313,810	242,062
Current income tax liabilities	-	104,111
Other liabilities (Notes 2, 14, 19, 34 and 35)	8,878,557	16,596,352
Total liabilities	181,371,957	184,450,757

(Continued)

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
	(Unit: Korean won in millions)	
SHAREHOLDER'S EQUITY:		
Capital stock (Note 22)	2,073,956	1,915,622
Other paid-in capital (Notes 2 and 22)	9,690,101	9,551,071
Retained earnings (Notes 2 and 22) (reserves for credit losses as of December 31, 2013: ₩ 999,732 million, and as of December 31, 2012: ₩ 888,374 million; required reserves for credit losses for transfer for the year ended December 31, 2013: ₩ 92,295 million, and for the period from March 2, 2012, to December 31, 2012: ₩110,998 million; and expected reserves for credit losses for transfer for the year ended December 31, 2013: ₩ 92,295 million, and for the period from March 2, 2012, to December 31, 2012: ₩110,998 million)	2,152,801	1,308,831
Other component of equity (Notes 2 and 22)	58,082	270,689
Non-controlling interests	-	-
Total shareholder's equity	13,974,940	13,046,213
Total liabilities and shareholder's equity	₩ 195,346,897	₩ 197,496,970

(Concluded)

See accompanying notes to consolidated financial statements.

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013,

AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
	(Unit: Korean won in millions)	
Net interest income (Notes 2 and 25):		
Interest income	₩ 8,104,937	₩ 7,505,845
Interest expenses	3,905,770	3,856,416
	4,199,167	3,649,429
Net commission income (Notes 2 and 26):		
Commission income	638,772	533,728
Commission expenses	319,134	234,542
	319,638	299,186
Loss on trading financial assets, net (Notes 2 and 27)	(38,786)	(151,118)
Gain (loss) on financial assets at FVPTL, net (Note 27)	1,538	(4,334)
Gain on financial investment assets, net (Note 27)	143,919	83,580
Other operating expenses, net (Note 29)	(426,558)	(307,317)
Operating income before provision for allowances for losses on credit and general and administrative expenses	4,198,918	3,569,426
Provision for allowances for losses on credit (Notes 2, 8 and 18)	1,147,557	745,108
Operating income before general and administrative expenses	3,051,361	2,824,318
General and administrative expenses:		
Employee benefits (Notes 2 and 30)	1,519,923	1,184,821
Depreciation and amortization expenses (Notes 10 and 12)	153,912	125,928
Other selling and administrative expenses (Note 31)	732,882	622,965
	2,406,717	1,933,714
Operating income	644,644	890,604
Share of net income of associates (Note 9)	6,646	1,164
Other expenses, net (Notes 2 and 32)	(424,860)	(414,901)
Income before income tax expense	226,430	476,867

(Continued)

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2013,

AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
	(Unit: Korean won in millions)	
Income tax expense (Notes 2 and 24)	₩ 52,871	₩ 90,833
Net income	173,559	386,034
(net income after reserves for credit losses for the year ended December 31, 2013: ₩ 81,264 million, and for the period from March 2, 2012, to December 31, 2012: ₩ 275,036 million)		
Controlling interests (Note 22)	173,559	386,034
Non-controlling interests	-	-
	173,559	386,034
Other comprehensive loss:		
Items that are not subsequently reclassified to profit or loss:		
Remeasurements of the net defined benefit liabilities (Notes 2, 21 and 22)	(74,211)	12,067
	(74,211)	12,067
Items that are subsequently reclassified to profit or loss:		
Loss on translation of AFS financial assets (Note 22)	(5,724)	(16,108)
Loss on valuation of AFS financial assets (Note 22)	(132,329)	(7,916)
Loss on overseas business translation (Note 22)	(561)	-
Gain (loss) on valuation of investments in associates (Note 22)	218	(290)
	(138,396)	(24,314)
	(212,607)	(12,247)
Total comprehensive income (loss):		
Controlling interests	(39,048)	373,787
Non-controlling interests	-	-
	₩ (39,048)	₩ 373,787
Basic earnings per share (Note 33)	₩ 366	₩ 946
Diluted earnings per share (Note 33)	₩ 366	₩ 946

(Concluded)

See accompanying notes to consolidated financial statements.

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013,

AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

(Unit: Korean won in millions)	Capital stock	Other paid-in capital: Capital surplus	Other paid-in capital: Capital adjustments	Other paid-in capital: Hybrid bond	Retained earnings	Other component of equity	Non-controlling interests	Total
Balance at March 2, 2012	₩ 1,915,622	₩ 10,053,500	₩ (12,271)	₩ 349,997	₩ -	₩ 282,936	₩ -	₩ 12,589,784
Change in accounting policies	-	35,948	12,271	-	-	-	-	48,219
Restated amount	1,915,622	10,089,448	-	349,997	-	282,936	-	12,638,003
Net income					386,034			386,034
Changes due to consolidated tax					58,083			58,083
Remeasurements of the net defined benefit liabilities						12,067		12,067
Loss on valuation of AFS financial assets						(16,108)		(16,108)
Loss on translation of AFS financial assets						(7,916)		(7,916)
Change in equity under equity method						(290)		(290)
Reserve for credit losses		(888,374)			888,374			-
Hybrid bond dividend					(23,660)			(23,660)
Balance at December 31, 2012	₩ 1,915,622	₩ 9,201,074	₩ -	₩ 349,997	₩ 1,308,831	₩ 270,689	₩ -	₩ 13,046,213
Balance at January 1, 2013	₩ 1,915,622	₩ 9,201,074	₩ -	₩ 349,997	₩ 1,308,831	₩ 270,689	₩ -	₩ 13,046,213
Net income					173,559			173,559
Changes due to consolidated tax					5,966			5,966
Remeasurements of the net defined benefit liabilities						(74,211)		(74,211)
Loss on valuation of AFS financial assets						(132,329)		(132,329)
Loss on overseas business translation						(561)		(561)
Loss on translation of AFS financial assets						(5,724)		(5,724)
Change in equity under equity method						218		218
Hybrid bond dividend					(27,930)			(27,930)
Issue of hybrid bond				349,648				349,648
Increased paid-in capital	158,334	789,382						947,716
Transfer from capital surplus		(1,000,000)			1,000,000			-
Cash dividends					(307,625)			(307,625)
Balance at December 31, 2013	₩ 2,073,956	₩ 8,990,456	₩ -	₩ 699,645	₩ 2,152,801	₩ 58,082	₩ -	₩ 13,974,940

See accompanying notes to consolidated financial statements.

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013,

AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
	(Unit: Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 173,559	₩ 386,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest expense	3,905,770	3,856,416
Income tax expense	52,871	90,833
Loss on valuation of trading financial assets	5,029	23,242
Loss on valuation of financial liabilities at FVTPL	-	3,166
Loss on disposal and redemption of AFS financial assets	36,928	18,980
Impairment loss on AFS financial assets	84,375	126,576
Loss on valuation of trading derivatives	481,930	574,716
Loss on valuation of hedging derivatives	57,823	13,822
Loss related to fair value hedge	7,536	14,663
Loss on disposal of investments in subsidiaries	1,109	7,028
Depreciation	89,186	76,203
Amortization of intangible assets	68,172	53,116
Loss on disposal of assets	3,319	2,561
Provision for allowance for losses on credit	1,073,767	768,947
Provision for allowance for acceptances and guarantees	51,466	-
Provision for allowance for unused credit limits	22,324	-
Loss on transaction of foreign exchange	212,863	580,052
Retirement expense	124,434	113,420
Transfer in other provisions	10,528	12,467
Other losses	88,285	13,295
	6,377,715	6,349,503
Adjustments to reconcile net income to net cash used in operating activities:		
Interest income	8,104,937	7,505,845
Dividend income	74,192	60,589
Gain on valuation of trading financial assets	8,300	34,354
Gain on valuation of financial instruments at FVTPL	1,634	21
Gain on disposal and redemption of AFS financial assets	159,851	118,353
Gain on redemption of HTM financial assets	22,962	44,124
Reversal of impairment loss on HTM financial assets	10,558	7,067
Gain on valuation of trading derivatives	483,624	576,926
Gain on valuation of hedging derivatives	7,488	14,800
Gain related to fair value hedge	49,464	14,663
Share of net income of associates	6,646	1,164
Gain on disposal of investments in subsidiaries	-	33,104
Gain on disposal of assets	211	2,346

(Continued)

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2013,

AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
	(Unit: Korean won in millions)	
Reversal of provision for acceptances and guarantees	₩ -	₩ 1,259
Reversal of provision for unused credit limit	-	22,580
Gain on transaction of foreign exchange	147,906	687,529
Other gains	144,072	10,347
	(9,221,845)	(9,135,071)
Changes in operating assets and liabilities:		
Increase in trading financial assets	(151,244)	(854,474)
Decrease in financial assets at FVTPL	96	44,256
Decrease in trading derivative assets	515,766	425,355
Decrease (increase) in loans	(10,012,923)	6,979,809
Decrease (increase) in due from banks	651,650	(3,749,889)
Decrease in other receivables	7,869,027	255,045
Decrease in other assets	18,261	32,262
Increase (decrease) in deposits	2,182,737	(5,556,926)
Decrease in trading financial liabilities	(414,504)	(413,671)
Increase (decrease) in provisions	(9,213)	120,159
Payment of retirement benefits and change resulting from transfer of staff among affiliates	(81,111)	(5,336)
Increase in plan assets	(100,332)	(174,043)
Decrease in other liabilities	(630,681)	(72,091)
	(162,471)	(2,969,544)
Cash provided by operating activities:		
Net cash received for interest	7,987,546	8,027,065
Net cash received for dividend	81,764	59,211
Refund of tax expense	-	13,795
	8,069,310	8,100,071
Cash used in operating activities:		
Payment of interest expense	4,406,184	5,366,674
Payment of income tax	170,223	125,973
	(4,576,407)	(5,492,647)
Net cash provided by (used in) operating activities	659,861	(2,761,654)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash flows provided by investing activities:		
Disposal of AFS financial assets	25,649,478	33,075,481
Disposal of HTM financial assets	6,147,750	2,458,791
Disposal of investments in associates	10,717	20,626
Disposal of investment properties	77	9,516
Disposal of tangible assets	3,019	42,367
Disposal of intangible assets	1,934	1,738
Other cash inflows	-	24,534
	31,812,975	35,633,053

(Continued)

NONGHYUP BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2013,

AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
	(Unit: Korean won in millions)	
Cash flows used in investing activities:		
Purchase of AFS financial assets	₩ 27,724,593	₩ 30,408,344
Purchase of HTM financial assets	1,128,842	2,048,038
Purchase of investment properties	2,904	11,363
Purchase of tangible assets	214,357	124,392
Purchase of intangible assets	128,949	88,124
	(29,199,645)	(32,680,261)
Net cash provided by investing activities	2,613,330	2,952,792
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash flows provided by financing activities:		
Increase in paid-in capital	947,716	-
Increase in hybrid bonds	349,648	-
Increase in borrowings, net	2,087,540	-
Increase in debentures	3,742,838	3,567,943
Increase in borrowings from trust accounts, net	270,068	441,415
Other cash inflows	-	3,820,548
	7,397,810	7,829,906
Cash flows used in financing activities:		
Payment of dividend	335,555	23,660
Decrease in borrowings, net	-	2,023,328
Decrease in debentures	2,833,048	6,073,633
Other cash outflows	7,087,577	-
	(10,256,180)	(8,120,621)
Net cash in financing activities	(2,858,370)	(290,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	414,821	(99,577)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD	2,001,663	2,107,880
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(13,797)	(6,640)
CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (Note 38)	₩ 2,402,687	₩ 2,001,663

(Concluded)

See accompanying notes to consolidated financial statements.

NONGHYUP BANK AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013 AND 2012,

AND FOR THE YEAR ENDED DECEMBER 31, 2012,
AND FOR THE PERIOD FROM MARCH 2, 2012, TO DECEMBER 31, 2012

1. GENERAL:

(1) NongHyup Bank as the parent company

NongHyup Bank (the "Bank") was established by the split-off of the Credit and Banking Business from National Agricultural Cooperative Federation ("NACF") on March 2, 2012. The Bank's headquarters is located at 120 Tongil-ro Joong-gu in Seoul.

As of December 31, 2013, the Bank's capital stock amounts to ₩2,073,956 million, with 414,791,122 shares of common stock outstanding, which are 100% owned by NongHyup Financial Group. As of December 31, 2013, the Bank operates 157 regional offices, 718 branches, 314 depositary offices and four branches and offices abroad.

(2) Subsidiaries in consolidation as of December 31, 2013 and 2012, are as follows:

DECEMBER 31, 2013

Subsidiaries	Main business	Location	Percentage of ownership (%)	Available financial statement date
Personal pension trusts and 10 other trusts (*1)	Trust business	Korea	-	December 31
Arirang SF Co., Ltd., and another (*2)	Asset securitization Business and others	Korea	-	December 31
Mirae (Kyobo) triumph medium and small 1st and 19 others (*3)	Beneficiary certificate	Korea	100.00	December 31

(*1) The NongHyup Bank and its subsidiaries (the "Group") control the trust because they have power that determines the operating performance over the trust and are exposed to variable returns to absorb losses through the guarantees of the principal or principal and interest.
(*2) The Group controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to use power over the investee to affect the amount of those returns, even though it holds less than a majority of the voting rights of the investees.
(*3) The Group controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to use power over the investee to affect the amount of those returns.

DECEMBER 31, 2012

Subsidiaries	Main business	Location	Percentage of ownership (%)	Available financial statement date
Personal pension trusts and 10 other trusts (*1)	Trust business	Korea	-	December 31
NH Halloween 1st (*2)	Other finance business	Korea	30.00	December 31
KAMCO Value Recreation 4th Securitization Specialty Ltd. and another (*2)	Asset securitization Business and others	Korea	-	December 31
Korea basic mixed investment 17th and 21 others (*3)	Beneficiary certificate	Korea	100.00	December 31

(*1) The Group controls the trust because it has power that determines the operating performance over the trust and is exposed to variable returns to absorb losses through the guarantees of the principal or principal and interest.
(*2) The Group controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to use power over the investee to affect the amount of those returns, even though it holds less than a majority of the voting rights of the investees.
(*3) The Group controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to use power over the investee to affect the amount of those returns.

The Group include the structured entity in the consolidation scope because the Group controls the structured entity based on the three elements of control, such as 'Power', 'Returns' and the 'Link Between Power and Returns,' as defined in Korean International Financial Reporting Standards ("K-IFRS") 1110 *Consolidated financial statements* and K-IFRS 1112 *Disclosure of Interests in Other Entities*, and not based solely on the voting rights of the shareholders.

(3) Summary of financial information of subsidiaries in consolidation as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Subsidiaries	Asset	Liabilities	Equity	Operating income	Net income	Total comprehensive income
Personal pension trusts and 10 other trusts	₩ 2,890,339	₩ 2,890,339	₩ -	₩ 133,271	₩ -	₩ -
Arirang SF Co., Ltd.	4,948	176,184	(171,236)	17,076	6,981	6,981
KAMCO Value Recreation 4th Securitization Specialty Ltd.	730	73,408	(72,678)	14,825	12,084	12,084
Consolidated beneficiary certificate	1,044,867	90,412	954,455	8,734	4,455	4,455

DECEMBER 31, 2012

Subsidiaries	Asset	Liabilities	Equity	Operating income	Net income	Total comprehensive income
NH Halloween 1st	₩ 17	₩ -	₩ 17	₩ 12,214	₩ 9,522	₩ 9,522
Personal pension trusts and 10 other trusts	2,743,295	2,743,295	-	117,894	-	-
Arirang SF Co., Ltd.	25,839	204,056	(178,217)	16,955	5,710	5,710
KAMCO Value Recreation 4th Securitization Specialty Ltd.	251	85,013	(84,762)	20,005	13,721	13,721
Consolidated beneficiary certificate	1,256,813	182,326	1,074,487	42,805	14,488	14,488

(4) Nature of the risks associated with interests in consolidated structured entities

a. The terms of contractual arrangements for provision for financial support to consolidated structured entities

① The Group has purchased subordinated bonds issued by its subsidiary, KAMCO Value Recreation 4th Securitization Specialty Ltd., and has made the purchase agreement for the purchase of asset-backed commercial paper ("ABCP") issued by Arirang SF Co., Ltd., and purchased ABCP in accordance with the agreement.

② The Group provides a guarantee of the principal and interest and a guarantee of the principal to certain instruments among trust instruments. The guarantee of the principal and interest and the guarantee of the principal require the Group to reimburse the trust participants for losses incurred when the underlying assets do not perform up to the guaranteed amounts of their contractual cash flows.

b. Intentions to provide financial or other support to a consolidated structured entity

① The Group has made the purchase agreement for the purchase of ABCP issued by its subsidiaries, structured entities, which issues ABCP based on the underlying assets of loans that the structured entities purchased.

② The Group provides a guarantee of the principal and interest and a guarantee of the principal as a trustee to enhance the credit of trust instruments in operation.

(5) Changes in subsidiaries

Shinyoung private N-23rd and 29 other private-placed funds have been newly included in the consolidation scope during the year ended December 31, 2013, while Kyobo AXA Tomorrow mixed bond 8th and 31 other private-placed funds and NH Halloween 1st have been excluded upon liquidation.

(6) A structured entity is designed such that voting rights or similar rights are not the dominant factor in deciding who controls the entity, and the Group is accordingly involved in the structured entity through asset-backed securitization, project financing, investment fund contracts and others as of December 31, 2013. Of the structured entities, the interests and nature of the risks of unconsolidated structured entities, for which the Group does not have control, are as follows:

- Asset-backed securitization

The unconsolidated structured entity, whose objective is the securitization of assets, issues asset-backed securities based on the securitized assets and pays the redemption proceeds on such asset-backed securities with profits from the management, operation and sales of the securitized assets. The Group is liable for the risks associated with the issuance of asset-backed securities through the purchase of subordinated bonds, execution of asset-backed securities purchase agreements and granting of credit and, thus, recognizes the related interest income and commission income.

- Project financing

Project financing is the main financing method for large-scale risky project, where investors will make investment decisions based on the project economic feasibility, instead of the credit rating of the principal party driving the project or the physical collateral involved, and will receive the profits that incur upon project progression. For effective implementation of the project financing, structured entities will be established as special-purpose entities ("SPEs"), funded through investment or lending institutions and participating entities. Structured entities for project financing include investment companies for real estate project financing, business infrastructure enforcement corporations and special-purpose companies for acquisition of ships and airlines. The Group has an influence on the structured entities' investment, loans and granting of credit and, thus, recognizes the related interest income, gains and losses on valuation of equity investments and dividend income. Although the entities that provide financial support in the form of funding guarantees, bonds and senior credit facilities exist, the Group may still be exposed to risk of losses resulting from failure of return on capital investment or discontinuation of the project, joint and several liabilities on guarantees, etc.

- Investment funds

Non-consolidated structured entities, which are classified as investment funds, include investment trusts and private equity funds. An investment trust is formed by funding from various investors, engaging a manager at the trust to operate and distributing proceeds from investments to the investors according to the trust agreements. A private equity fund is normally established in order to acquire ownership interests in a target company with exit strategy for a return to be distributed to the investors, after implementing financial and operational restructuring. The Group recognizes gains and losses on valuation of investments in relation to the Group's interest in investment funds. It is exposed to losses of principals when the value of investment fund decreases.

Total asset size of the unconsolidated structured entities, book value for the line items as recognized in the consolidated financial statements, maximum exposure to loss and loss incurred for the year ended December 31, 2013, are as follows. The maximum exposure to loss includes investment amounts recognized in the consolidated financial statements and the amounts that are determined in the future by meeting certain condition in the future based on the agreements of purchase, granting credit, etc. (Unit: Korean won in millions).

Classification	Asset-backed securitization	Investment fund	Project financing	Total
Total assets of unconsolidated structured entity	₩ 20,479,895	₩ 47,481,731	₩ 14,863,804	₩ 82,825,430
Recognized assets related to unconsolidated structured entities:	740,564	989,818	1,843,743	3,574,125
Loans	82,617	-	1,823,560	1,906,177
Securities	657,947	989,818	20,183	1,667,948
Recognized liabilities related to unconsolidated structured entities	167,260	-	-	167,260
Loss on unconsolidated structured entity	-	9,217	51,125	60,342
Maximum exposure to loss:	1,276,514	989,818	1,843,743	4,110,075
Commitments and guarantees	535,950	-	-	535,950
Securities (including derivatives)	657,947	989,818	20,183	1,667,948
Loans	82,617	-	1,823,560	1,906,177

2. SIGNIFICANT BASIS OF PREPARATION AND ACCOUNTING POLICIES:

The Group has prepared its consolidated financial statements in accordance with the K-IFRS for the annual period beginning on March 2, 2012. The accompanying consolidated financial statements will be approved by the board of directors on February 23, 2014.

The significant accounting policies are set out below, and significant accounting policies applied in the preparation of the consolidated financial statements are correspondent to the accounting policies as of December 31, 2012, except for the amendments as explained in the accounting policies below.

The accompanying consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values at the end of the reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

(1) The Group has newly adopted the following new standards and interpretations that affected the Group's accounting policies:

Amendments to K-IFRS 1001 *Presentation of Financial Statements*

The amendments of K-IFRS 1001 relate to the separate presentation of other comprehensive income items that would not be reclassified as net income subsequently or would be reclassified as net income under specific circumstances. The amendments have effect on the presentation of consolidated financial statements and no effects on the financial position and financial performance. The Group applied the amendments retrospectively and restated the comparative consolidated financial statements.

Amendments to K-IFRS 1019 *Employee Benefits*

The amendments to K-IFRS 1019 relate to the elimination of the 'corridor approach' permitted under the previous version of K-IFRS 1019. Accordingly, the actuarial gains and losses are recognized in other comprehensive income immediately. The amendment replaces the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability. The expected return on plan assets is included in net interest on the net defined benefit liability (asset). The past service costs incurred under changes of plans are recognized at the earlier of the dates when the plan amendment or curtailment occurs and when the entity recognizes related restructuring costs or termination benefits.

The Group has applied the amendments retrospectively and has restated the comparative consolidated financial statements accordingly. Following such amendments, the retained earnings decreased by ₩12,067 million and other components of equity increased by ₩12,067 million in the consolidated statement of financial position as of December 31, 2012. Furthermore, the net income decreased by ₩12,067 million and the other comprehensive income increased by ₩12,067 million in the consolidated statement of comprehensive income for the period from March 2, 2012, to December 31, 2012.

Amendments to K-IFRS 1107 *Financial Instruments: Disclosures*

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. Irrespective of whether they meet the offset requirement between financial assets and financial liabilities in accordance with K-IFRS 1032 *Financial Instruments: Presentation*, the amendments to K-IFRS 1107 establish legally enforceable master netting agreements or, in accordance with similar agreement, right to offset financial instruments and the information about offset agreement like collateral agreement.

Enactment of K-IFRS 1110

K-IFRS 1110 replaces the parts of K-IFRS 1027, *Consolidated and Separate Financial Statements*, that deal with consolidated financial statements and K-IFRS 2012, *Consolidation – Special Purpose Entities*, and establishes a single basis for consolidation for all entities, including structured entities.

The K-IFRS 1110, *Consolidated Financial Statements*, defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to apply the control principle when it is difficult to assess whether it controls an investee.

In accordance with transition of K-IFRS 1110, the consolidated financial statements for earlier comparative periods are restated to ensure conformity with the conclusion of K-IFRS 1110, unless it is impracticable to do so. At the date of initial application, a reporting entity that has no change in consolidation scope is not required to make adjustments to the previous accounting treatments.

Upon reviewing the impact of the adoption of K-IFRS 1110, the Group decided to consolidate nine trusts, structured entities, including the personal pension trusts. Such decisions have been based on the judgment that the definition of power, as defined in K-IFS 1110, is satisfied as the Group has power over the trusts as a trustee, the Group is exposed to significant variable returns where loss protection is required for when the total amount of trusted properties is less than the principal amount and the Group has the ability to affect the variable returns through its power over the trusts.

1) The entities newly included in the consolidation scope due to the adoption of K-IFRS 1110

Subsidiaries	Location	Main business
Household money trust	Korea	Trust
Old-age pension trusts	Korea	Trust
Corporate money trust	Korea	Trust
Installment money in trust	Korea	Trust
Retirement trusts	Korea	Trust
Personal pension trusts	Korea	Trust
New personal pension trusts	Korea	Trust
New old-age pension trusts	Korea	Trust
Pension trusts	Korea	Trust

Enactment of K-IFRS 1111 *Joint Arrangements*

K-IFRS 1111 classifies joint arrangements, where two or more parties have joint control, into two types: joint operations and joint ventures depending on the rights and obligations of the parties to the arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement, i.e., joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement, i.e., joint venturers, have rights to the net assets of the arrangement. This standard requires a joint operator to recognize and measure the assets, and liabilities, and recognize the related revenues and expenses in relation to its interest in the arrangement and a joint venturer to recognize an investment and to account for the investment using the equity method. The enactment of this standard has no effect on the Group's consolidated financial statements.

Enactment to K-IFRS 1112

The enactment of K-IFRS 1112 establishes disclosure requirements for entities that have an interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The K-IFRS 1112 establishes the nature of, and risks associated with, its interests in other entities, and the effects of those interests on the financial position, financial performance and cash flows of the Group. The adoption of this standard has no significant effect on the Group's consolidated financial statements.

Enactment of K-IFRS 1113 – *Fair Value Measurement*

The enactment of K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The K-IFRS 1113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions. The K-IFRS 1113 explains that a fair value measurement requires an entity to determine the particular asset or liability being measured, the market in which an orderly transaction would take place for the asset or liability and the appropriate valuation technique(s) used when measuring fair value. K-IFRS 1113 stated extensive disclosures related to fair value measurement. The adoption of the enactment has no significant effect on the Group's consolidated financial statements.

The newly adopted standards and interpretations and the change in accounting policy due to the application of these standards and interpretation and the impact on the consolidated financial statements are as follows (Unit: Korean won in millions):

Consolidated Statements of Financial Position

	December 31, 2012		
	Reported	Adjustment	Restated
Cash and due from banks	₩ 9,256,633	₩ 146,000	₩ 9,402,633
Trading financial assets	2,116,349	2,343,074	4,459,423
Financial assets at FVTPL	89	-	89
Derivative assets	1,200,228	-	1,200,228
AFS financial assets	11,504,037	-	11,504,037
HTM financial assets	12,817,305	-	12,817,305
Loans and receivables	154,886,288	93,290	154,979,578
Investments in associates	38,023	-	38,023
Tangible assets	2,195,984	-	2,195,984
Investment properties	494,177	-	494,177
Intangible assets	203,928	-	203,928
Deferred income tax assets	80,856	(16,527)	64,329
Other assets	136,537	684	137,221
Assets classified as held for sale	15	-	15
Total assets	₩ 194,930,449	₩ 2,566,521	₩ 197,496,970
Deposits	₩ 140,160,799	₩ 2,550,965	₩ 142,711,764
Trading financial liabilities	21,153	-	21,153
Financial liabilities at FVTPL	55,978	-	55,978
Derivative liabilities	₩ 1,045,914	₩ -	₩ 1,045,914
Borrowings	13,341,589	-	13,341,589
Debentures	10,194,160	-	10,194,160
Provisions	242,062	-	242,062
Retirement benefit obligations	137,674	-	137,674
Current income tax liabilities	104,111	-	104,111
Other liabilities	16,632,561	(36,209)	16,596,352
Total liabilities	₩ 181,936,001	₩ 2,514,756	₩ 184,450,757
Capital stock	1,915,622	-	1,915,622
Other paid-in capital	9,502,852	48,219	9,551,071
Retained earnings	1,317,352	(8,521)	1,308,831
Other component of equity	258,622	12,067	270,689
Non-controlling interests	-	-	-
Total equity	12,994,448	51,765	13,046,213
Total liabilities and equity	₩ 194,930,449	₩ 2,566,521	₩ 197,496,970

Consolidated Statements of Comprehensive Income

	For the period from March 2, 2012 to December 31, 2012		
	Reported	Adjustment	Restated
Net interest income	₩ 3,628,433	₩ 20,996	₩ 3,649,429
Net commission income	283,397	15,789	299,186
Loss on trading financial assets, net	(152,192)	1,074	(151,118)
Loss on financial assets at FVTPL, net	(4,334)	-	(4,334)
Gain on financial investment assets, net	83,580	-	83,580
Other operating expenses, net	(273,993)	(33,324)	(307,317)
Operating income before credit losses and general and administrative expenses	3,564,891	4,535	3,569,426
Provision for allowances for losses on credit	745,244	(136)	745,108
Operating income before general and administrative expenses	2,819,647	4,671	2,824,318
General and administrative expenses:	1,917,795	15,919	1,933,714
Employee benefits	867,656	317,165	1,184,821
Depreciation and amortization expenses	125,928	-	125,928
Other selling and administrative expenses	924,211	(301,246)	622,965
Operating income	901,852	(11,248)	890,604
Share of net income of associates	1,164	-	1,164
Other expenses, net	(414,908)	7	(414,901)
Income before income tax expense	488,108	(11,241)	476,867
Income tax expense	93,553	(2,720)	90,833
Net income:	394,555	(8,521)	386,034
Controlling interests	394,555	(8,521)	386,034
Non-controlling interests	-	-	-
Other comprehensive loss:	(24,314)	12,067	(12,247)
Loss on translation of AFS financial assets	(7,916)	-	(7,916)
Loss on valuation of AFS financial assets	(16,108)	-	(16,108)
Loss on valuation of investments in associates	(290)	-	(290)
Remeasurements of the net defined benefit liabilities	-	12,067	12,067
Total comprehensive income:	370,241	3,546	373,787
Controlling interests	370,241	3,546	373,787
Non-controlling interests	-	-	-

(2) The Group has not applied the following K-IFRS that have been issued, but are not yet effective:

Amendments to K-IFRS 1032

The amendments to K-IFRS 1032 clarify the requirements of presentation of financial assets and financial liabilities on a net basis. That is, a right of setoff must not be conditional to future events and can be exercised always during the contract periods. A right of setoff becomes enforceable and affects the realization or settlement of financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the ordinary course of business. The amendments to K-IFRS 1032 are effective for the annual period beginning on January 1, 2014.

Amendments to K-IFRS 1039 *Financial Instruments: Recognition and Measurement*

The amendments to K-IFRS 1039 allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty or entity acting in a similar capacity and certain conditions are met. The amendment to K-IFRS 1039 is effective for annual periods beginning on or after January 1, 2014.

Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027

The amendments introduce an exception to the principle under K-IFRS 1110 that all subsidiaries shall be consolidated and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries, but instead to measure its subsidiaries at FVTPL in its consolidated financial statements. In addition, consequential amendments have been made to K-IFRS 1112 and K-IFRS 1027 to introduce new disclosure requirements for investment entities. The investment entities amendments are effective for annual periods beginning on or after January 1, 2014.

Enactment of K-IFRS 2121 – *Levies*

K-IFRS 2121 defines a levy as a payment to a government for which an entity receives no specific goods or services. The interpretation requires that a liability is recognized when the obligating event occurs. The obligating event is the activity that triggers payment of the levy and is typically specified in the legislation that imposes the levy. The interpretation is effective for annual periods beginning on or after January 1, 2014.

The list above does not include some other amendments, such as the amendments to K-IFRS 1036 *Impairment of Assets*, relating to recoverable amount disclosures for non-financial assets that are effective from January 1, 2014, with earlier application permitted.

The Group does not anticipate that the application of these new and revised K-IFRS that have been issued, but not effective will have any impact on the Group's consolidated financial statements.

(3) Consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group (and its subsidiaries). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries that are acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. The carrying amount of non-controlling interests is adjusted to reflect their proportional share of changes in equity subsequent to the initial recognition. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for transactions and events in similar circumstances, appropriate adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

All intragroup balances and transactions, income and expenses are fully eliminated in consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the controlling interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(4) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 *Share-Based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 or K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(5) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not having control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis it would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*, to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 by comparing its recoverable amount (higher of value in use and fair value, less costs to sell) with its carrying amount, and any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(6) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value.

(7) Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

1) Dividend and interest income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

2) Commission income

According to the imposition purpose of the commission and related accounting standards for financial assets, commission income is classified and accounted for as follows:

Classification	Details
Commission composing effective revenues of the financial instruments	Accounted for as an adjustment to the effective interest rate
Commission by rendering services	Recognized revenue when the services are provided
Commission by performing significant activities	Recognized revenue when significant activities have been completed

3) Customer royalty program

The Group provides its customers with incentives to buy goods or services by providing awards ("customer loyalty programs") and allocates the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. The Group supplies the awards, such as discounted payments or free gifts. The consideration allocated to the award credits is measured by reference to their fair value, i.e., the amount for which the award credits could be sold separately. The fair value of the consideration allocated to the award credits is estimated by taking into account expected redemption rates, etc., and recognized as deferred revenue until the Group fulfills its obligations to deliver awards to customers. The amount of revenue recognized is to be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed. If a third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be the net amount retained on its own account.

(8) Foreign currencies

In preparing the Group's consolidated financial statements, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in net income in the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2 (18) above for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which, in the foreseeable future, settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(9) Retirement benefit costs and termination benefits

The Group operates defined benefit retirement benefit plans. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with an independent actuary being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses; the effect of the changes to the asset ceiling (if applicable); and the return on plan assets (excluding interest) is reflected immediately in the statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

(10) Income tax

Income tax consists of current tax and deferred tax.

1) Current tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit in the consolidated statements of comprehensive income because taxable profit excludes items taxable or deductible for different tax years or not taxable or deductible permanently. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured using the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized, 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 assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group shall offset deferred tax assets and deferred tax liabilities if, and only if, the Group 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 entities, which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

If a deferred tax liability or asset arises from investment property that is measured using the fair value model in K-IFRS 1040 *Investment Property*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(11) Tangible assets

Tangible assets are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of tangible assets is directly attributable to their purchase or construction, which includes any cost 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. It also includes the initial estimate of the costs of dismantling and removing the assets and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset separately if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. The carrying amount of those parts that are replaced is derecognized. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the straight-line method, and the estimated useful lives of the assets are as follows:

Classification	Estimated useful life
Buildings	10–60 years
Leasehold improvements	4–5 years
Furniture and equipment	4 years

Each part of property and equipment with a cost that is significant in relation to the total cost is depreciated separately.

The Group assesses the depreciation method, the estimated useful lives and residual values of property and equipment at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

A tangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income in the period in which the asset is derecognized.

(12) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. The carrying amount of parts that are replaced is derecognized due to subsequent expenditure. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 10 to 60 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An investment property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of investment properties, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income in the period in which the asset is derecognized.

(13) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development cost

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset, so that it will be available for use or sale;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses.

3) Derecognition of intangible assets

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income in the period in which the asset is derecognized.

(14) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(15) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and the amount of the obligation is reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

The Group recognizes provisions related to unused credit card point, guarantees and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are utilized as the place of business under the rental agreements. Decommissioning or restoration costs are present value of expected costs of restoration using future cash outflows.

(16) Financial assets

A financial asset is recognized when the Group becomes a party to the contract and at initial recognition. A financial asset, excluding a financial asset at FVTPL, is measured at its fair value, plus or minus transaction costs that are directly attributable to the acquisition of the financial asset. Otherwise, the transaction cost that is directly attributable to the acquisition of the financial asset at FVTPL is recognized in profit or loss immediately when it arises.

A regular-way purchase and sale of financial assets is recognized and derecognized at trade date. It is 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 marketplace concerned.

1) Effective interest method

The effective interest rate method is used for calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the discounting rate used to estimate the net carrying amount of future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) throughout the expected life of the debt instrument or, where appropriate, a shorter period.

Interest income for debt instruments, except for those financial assets classified as at FVTPL, is recognized using an effective interest rate method.

2) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading (trading financial assets) and financial assets designated at FVTPL upon initial recognition. A financial asset that is acquired or incurred principally for the purpose of selling or repurchasing in the near term and all derivatives, including embedded derivatives bifurcated from host contract (except for a derivative that is a designated and effective hedging instrument), are classified as held for trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated as effective hedging instrument

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;,
- in accordance with the Group’s documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, performance is evaluated based on its fair value and this information is provided internally on that basis; or
- it forms a part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire syndicated contract (asset or liability) to be designated as at financial assets FVTPL.

3) AFS financial assets

Non-derivative financial assets that are not classified as at HTM, held-for-trading, designated as at FVTPL or loans and receivables are classified as at financial assets AFS.

Financial assets AFS are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognized and accumulated in other comprehensive income, with the exception of interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary AFS financial assets, which are recognized in income (loss) for the period when the AFS financial assets are disposed of or is determined to be impaired, and the cumulative gains or losses previously accumulated in the other comprehensive income is recognized in income (loss) for the period.

Dividends from AFS equity instruments are recognized in income (loss) for the period when the Group's right to receive payment of the dividends is established.

Fair value of monetary financial assets AFS denominated in foreign currencies is measured in foreign currencies and translated at the rates prevailing at the end of reporting period. Gains on translation of the assets recognized in income (loss) for the period are determined based on amortized cost of the monetary assets and other gains on translation of the assets are recognized in other comprehensive income.

The AFS investments in equity instruments that do not have a quoted price in an active market for an identical instrument and their fair value are not reliably measurable and derivative assets that are linked to those investments and must be settled by delivery of such an equity instrument are measured at cost, net of identified impairment losses.

4) HTM financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM financial assets. HTM financial assets are measured at amortized cost using the effective interest rate method, less any accumulated impairment losses, and the interest revenue is recognized on an effective yield basis.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans, due from banks and guarantee money for business premises of the Group are classified as loans and receivables.

Loans and receivables are measured at amortized cost using the effective interest rate method, less any allowance for losses on credit. Interest income is recognized by applying the effective interest rate method, except for short-term receivables whose recognition of interest revenue would be immaterial.

6) Deferred loan origination cost and loan origination fee

Loan origination fees incurred from loan origination are deferred and presented as a deduction from the balance of loan, and loan origination fees accompanying the future economic benefits that are separately identified and reconciled to the loan transaction are deferred and presented as an addition to the balance of loan. The deferred LOC/LOF is amortized using the effective interest rate method, with the amortization recognized as adjustments to interest revenue.

7) Impairment of financial assets

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

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

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

For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

AFS financial assets

When an AFS financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease for AFS debt instruments can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that it does not exceed what the amortized cost would have been had the impairment loss never been recognized.

In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income.

HTM financial assets

For HTM financial assets measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events occurred after recognition of impairment, the impairment loss previously recognized is reversed through net income to the extent that it does not exceed what the amortized cost would have been had the impairment loss never recognized.

Loans and receivables

For loans and receivables measured at amortized cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows, discounted at the financial asset's original effective interest rate. The Group first assesses whether the loans and receivables are individually significant and then whether objective evidence of impairment exists individually for the financial assets that are individually significant (individual assessment of impairment).
For financial assets that are not individually significant, the Group assesses whether the objective evidence of impairment exists individually or collectively. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Impairment loss of loans and receivables, that is the allowance for losses on credit, is deducted from the balance of loans and receivables. It is deducted from allowance for losses on credit when the asset is considered unrecoverable. If it is subsequently recovered, allowance for losses on credit increases and the changes are recognized in net income.

① Allowance for losses on credit by individual assessment

Allowance for losses on credit is recognized as the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering borrower's future ability to repay the debt, including its management performance and financial position, overdue period and mortgage amount.

② Allowance for losses on credit by collective assessment

Allowance for losses on credits is recognized by adjusting Probability of Default ("PD") and Loss Given Default ("LGD") from Basel II for the purpose of accounting and applying that to carrying amount. Such approach considers various elements, including loan and borrower type, credit rating and size of portfolio, loss emergence period and collection period and applies consistent assumptions so as to model the measurement of built-in loss and determine input variables based on historical loss experience and current conditions.

8) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and recognize a liability for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount of the asset and the consideration received shall be recognized as a gain or loss on derecognition in net income in the current period.

If the transfer of a part of a financial asset is qualified for derecognition, the entire carrying amount of the transferred financial asset shall, between the part that is derecognized and the part that is still recognized, be apportioned according to their respective relative fair value of that part. The difference between (1) the consideration for the part derecognized and (2) the sum of accumulated other comprehensive income and the carrying amount allocated to the part derecognized is recognized in net income in the current period.

9) Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Group has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(17) Financial Liabilities and Equity Instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement and the definition of financial liabilities and equity instruments.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

3) Financial liabilities

A financial liability is recognized when the Group becomes a party to the contract and at initial recognition. A financial liability other than financial liability at FVTPL is measured at its fair value, plus or minus transaction costs that are directly attributable to the issue of the financial liability. Otherwise, the transaction cost that is directly attributable to the issue of the financial liability at FVTPL is recognized in income (loss) for the period immediately when it arises.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability either is held for trading or is designated as liability at FVTPL.

A financial liability is classified as held for trading if:
- it has been issued principally for the purpose of repurchasing in the near term;
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated as a hedging instrument and that is ineffective for hedging

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- in accordance with the Group's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, and information about the performance is provided internally on that basis; or
- it forms a part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in net income. In addition, the transaction costs incurred related to issuance upon initial recognition are recognized in net income.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on an effective yield basis.

The effective interest rate method is used for calculating the amortized cost of a financial liability, and of allocating interest expense over the relevant period. The effective interest rate is the discounted rate used to estimate the net carrying value of future cash payment, including commission and points to be paid or received, transaction cost and other premium or discounts throughout the expected life of financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or expired. The difference between the consideration paid and the carrying amount of a derecognized financial liability is recognized in net income.

4) Hybrid bonds

Hybrid bonds are classified as equity when all requirements for equity classification are satisfied in conformity with contract terms at issuance.

5) Financial guarantee contract

A financial guarantee contract refers to the contract that requires the issuer to pay the specified amounts to reimburse the holder for a loss because the specified debtor fails to make payment when due under original or revised contractual terms of debt instruments. The financial guarantee contract is measured on initial recognition at the fair value, and the fair value is amortized over the financial guarantee contract term.

After initial recognition, financial guarantee contract is measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 (the present value of the payments expected from the current financial guarantee contract) and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

(18) Derivative Financial Instruments

The Group enters into a variety of derivative contracts to manage its exposure to interest rate and foreign exchange rate risk associated with the financials instruments, including currency forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives used for trading purposes are recognized as financial assets and liabilities at FVTPL, and derivatives for hedging purposes are recognized as hedging-purpose derivative assets and liabilities in the consolidated financial statements at fair value. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in net income depends on the nature of the hedge relationship. The fair value hedge or cash flow hedge accounting is applied to the derivatives when the derivatives meet the certain requirements for hedging.

A derivative with a positive fair value is recognized as a financial asset, and a derivative with a negative fair value is recognized as a financial liability.

1) Embedded derivatives

Derivatives embedded in the financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and changes in fair value of the host contracts are not recognized in net income.

2) Hedge accounting

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify for fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting treatment is no longer applied when the Group revokes the hedge designation; when the derivative expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

4) Day 1 profit

When the Group assesses fair values of over-the-counter ("OTC") derivatives using inputs that are not based on the observable market data, the Group does not recognize the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statements of other comprehensive income, but defers and recognizes it as an asset. The difference is depreciated during the trading period of financial instruments using the straight-line method.

In accordance with the exemptions in K-IFRS 1101, *First-Time Adoption of International Financial Reporting Standards*, a Day 1 profit and loss for the OTC derivatives is applied prospectively for the transactions that are settled after the first date of adoption of K-IFRS, March 2, 2012.

(19) Fair values

1) Valuation techniques and assumptions applied for the measurement of fair values

Fair values of financial assets or liabilities are determined as follows:

Classification	Fair value measurement
Financial assets and liabilities designated at FVTPL	Financial assets and liabilities designated at FVTPL are measured at fair value based on valuation performed by independent professionals or the estimated amount using valuation model of the Group.
Trading financial assets/liabilities and AFS financial assets	Government and public bonds and listed stocks in trading financial assets/liabilities and AFS financial assets are measured at fair value based on the quoted prices in active market. If quoted price in active market or the estimated amount using valuation model of the Group does not exist, the Group uses fair value based on valuation performed by independent professionals.
HTM financial assets	Fair value of HTM financial assets is based on valuation performed by independent professionals.
Loans and receivables	Fair value of loans and receivables is computed by discounting expected future cash flows using the market interest rate used for homogeneous loans.
Derivative assets and liabilities	Fair value of derivatives is computed using the quoted prices if they are traded in active market. If quoted price in active market does not exist, fair value of derivatives is computed using internal valuation techniques.
Deposits and borrowings	Fair value of deposits and borrowings is computed by discounting future cash flows using the yield of debentures issued by the Bank.
Debentures	In principle, fair values of debentures are computed by discounting future cash flows using the yield of debentures issued by the Group. However, some of them are based on valuation performed by independent professionals.

2) Three-level fair value hierarchy

The Group classifies financial assets or liabilities measured by fair values by reference to the source of inputs used to derive the fair values. The classification is as follows:

Classification	Details
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3	Inputs for the asset or liability that are not based on the observable market data (unobservable inputs)

(20) Reclassification of fringe benefits

For the year ended December 31, 2013, certain expenses among fringe benefits were reclassified from other selling and administrative expenses to employee benefits. The Group applied the amendments retrospectively and restated comparative consolidated statement of comprehensive income.

Reclassification has no impact on the Group's net assets and net income.

The effect of the reclassification for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification			For the period from March 2, 2012, to December 31, 2012
Reported	Employee benefits	₩	883,575
	Other selling and administrative expenses		924,211
	Total	₩	1,807,786
Adjustments	Employee benefits	₩	301,246
	Other selling and administrative expenses		(301,246)
	Total	₩	-
Restated	Employee benefits	₩	1,184,821
	Other selling and administrative expenses		622,965
	Total	₩	1,807,786

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

Under K-IFRS, management is required to make judgments, estimates and assumptions that affect the accounting policies and the reported amounts of assets, liabilities, income and expenses in preparation of consolidated financial statements. When the estimates and associated assumptions based on the management's optimal determination at the end of reporting period are not consistent with the actual environment, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1) Critical judgment in applying accounting policies

① Impairment of AFS financial assets

As described in Note 2(16), a significant or prolonged decline in the fair value of AFS equity securities below their cost is considered objective evidence of impairment. Therefore, a 30% or more decline in fair value compared to the cost is regarded as "significant" and continuous decline in market price for consecutive six months or more is regarded as "prolonged."

② HTM financial assets

Management has reviewed the recognition basis of the Group's HTM financial assets in light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity.

③ Effective hedge relationships

As described in Note 2(18), the Group designates certain derivatives as hedges when the hedge is expected to be highly effective in offsetting the exposure to changes in the hedged item's fair value or cash flows. The Group continuously assesses the effectiveness of the hedge during the hedging period and determines if the hedge actually has been highly effective throughout the financial reporting periods for which the hedge was designated.

Also, fair value hedge accounting is applied for the purpose of avoiding risk of fair value changes of recognized asset, liabilities or unrecognized confirmed contract as a whole or in part. Cash flow hedge accounting is applied for the purpose of avoiding risk of cash flow changes of recognized asset, liabilities and expected transactions that are highly likely to happen.

2) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

① Determination of fair value

In order to determine fair values of financial assets and liabilities without observable market values, valuation techniques are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors and assumptions related to price determination and broad range of judgment of other risks. Management believes that valuation techniques and assumptions used in the determination of fair values for financial instruments are reasonable.

② Allowance for losses on credit (allowance for losses on credit, provision for acceptances and guarantees and unused credit limits)

It is necessary to reserve liabilities for acceptances and guarantees and unused credit limits and to record the allowance for losses on credit for loans and receivables by performing impairment test. The accuracy of allowance for losses on credit is determined by assumptions and variables, used in the model to estimate expected cash flows by individual borrowers for individual assessment and estimation of allowance for losses on credit by collective method and guarantees/unused credit limit liabilities.

③ Measurement of present value of defined benefit obligation

Present value of defined benefit obligation is calculated by performing actuarial valuation using the projected unit credit method at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate the discount rate, rates of future salary increase, mortality, etc. The present value of defined benefit obligation includes significant uncertainty of the ultimate cost of defined benefit plan on such estimation as it may last in the long term.

4. FINANCIAL ASSETS:

(1) Details of financial assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification		Book value	Fair value
Financial assets at FVTPL:			
Trading financial assets		₩ 4,582,634	₩ 4,582,634
Trading derivative assets		681,142	681,142
		5,263,776	5,263,776
Hedging derivative assets		54,855	54,855
AFS financial assets		13,561,226	13,561,226
HTM financial assets		7,810,366	7,987,174
Loans and receivables:			
Deposits	Deposits in Korean won	6,780,701	6,780,701
	Deposits in foreign currency	32,975	32,975
		6,813,676	6,813,676
Loans	Loans in Korean won	139,950,983	141,730,688
	Loans in foreign currency	2,216,098	2,211,102
	Credit card receivables	3,591,080	3,460,486
	Others	7,291,147	7,309,746
		153,049,308	154,712,022
Receivables (*1 and *2)		2,973,146	2,733,185
		162,836,130	164,258,883
		₩ 189,526,353	₩ 191,125,914

(*1) Accrued interests on loans are included in fair value of receivables.
(*2) Receivables consist of domestic exchange settlement debits, leasehold deposits, etc. Those amounts are presented in net carrying amount after deduction of allowance for losses on credit and present value of discounts.

DECEMBER 31, 2012

Classification		Book value	Fair value
Financial assets at FVTPL:			
Trading financial assets		₩ 4,459,423	₩ 4,459,423
Financial assets designated at FVTPL		89	89
Trading derivative assets		1,101,146	1,101,146
		5,560,658	5,560,658
Hedging derivative assets		99,082	99,082
AFS financial assets		11,504,037	11,504,037
HTM financial assets		12,817,305	13,204,523
Loans and receivables:			
Deposits	Deposits in Korean won	7,297,891	7,297,891
	Deposits in foreign currency	103,079	103,079
		7,400,970	7,400,970
Loans	Loans in Korean won	130,655,622	134,364,008
	Loans in foreign currency	2,619,029	2,611,281
	Credit card receivables	3,390,065	3,413,244
	Others	7,573,782	7,640,162
		144,238,498	148,028,695
Receivables (*1 and *2)		₩ 10,741,080	₩ 10,478,239
		162,380,548	165,907,904
		₩ 192,361,630	₩ 196,276,204

(*1) Accrued interests on loans are included in the fair value of receivables.
(*2) Receivables consist of domestic exchange settlement debits, leasehold deposits, etc. Those amounts are presented in net carrying amount after deduction of allowance for losses on credit and present value of discounts.

(2) Book values of financial assets by category as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

	Financial assets at FVTPL							
	Trading	Designated at FVTPL	Trading derivatives	Loans and receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 4,582,634	₩ -	₩ 681,142	₩ -	₩ -	₩ -	₩ -	₩ 5,263,776
Hedging derivative assets	-	-	-	-	-	-	54,855	54,855
AFS financial assets	-	-	-	-	13,561,226	-	-	13,561,226
HTM financial assets	-	-	-	-	-	7,810,366	-	7,810,366
Deposits	-	-	-	6,813,676	-	-	-	6,813,676
Loans	-	-	-	153,049,308	-	-	-	153,049,308
Receivables	-	-	-	2,973,146	-	-	-	2,973,146
	₩ 4,582,634	₩ -	₩ 681,142	₩ 162,836,130	₩ 13,561,226	₩ 7,810,366	₩ 54,855	₩ 189,526,353

DECEMBER 31, 2012

	Financial assets at FVTPL							
	Trading	Designated at FVTPL	Trading derivatives	Loans and receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 4,459,423	₩ 89	₩ 1,101,146	₩ -	₩ -	₩ -	₩ -	₩ 5,560,658
Hedging derivative assets	-	-	-	-	-	-	99,082	99,082
AFS financial assets	-	-	-	-	11,504,037	-	-	11,504,037
HTM financial assets	-	-	-	-	-	12,817,305	-	12,817,305
Deposits	-	-	-	7,400,970	-	-	-	7,400,970
Loans	-	-	-	144,238,498	-	-	-	144,238,498
Receivables	-	-	-	10,741,080	-	-	-	10,741,080
	₩ 4,459,423	₩ 89	₩ 1,101,146	₩ 162,380,548	₩ 11,504,037	₩ 12,817,305	₩ 99,082	₩ 192,361,630

5. CASH AND DUE FROM BANKS:

(1) Cash and deposits as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	Details	Interest rate (%)	2013	2012
Cash in Korean won	Cash on hand	-	₩ 1,615,080	₩ 1,684,038
Cash equivalents	Bank deposits	-	564,305	114,092
Cash in foreign currency	Cash on hand	-	223,302	203,533
Due from banks in Korean won	Reserve deposits	-	5,331,385	6,066,344
	Non-monetary financial institution deposits	0.00–4.00	501	501
	Other deposits	2.65–2.67	1,448,815	1,231,046
			6,780,701	7,297,891
Due from banks in foreign currency	From other banks	0.00–0.25	32,975	101,076
	Others	-	-	2,003
			32,975	103,079
			₩ 9,216,363	₩ 9,402,633

(2) Due from banks as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Classification	Financial institution	2013	2012
In Korean won:			
Reserve deposits	The Bank of Korea	₩ 5,331,385	₩ 6,066,344
Non-monetary financial institution deposit	Other financial institutions	501	501
Other deposits	The Bank of Korea	1,360,000	800,000
	Commercial Bank	88,550	276,042
	Other financial institutions	265	155,004
		1,448,815	1,231,046
		6,780,701	7,297,891
In foreign currency:			
Deposit in other banks	The Bank of Korea	32,975	46,122
	Overseas financial institutions	-	54,954
		32,975	101,076
Interest rate derivative-related deposits	Other financial institutions	-	2,003
		32,975	103,079
		₩ 6,813,676	₩ 7,400,970

(3) Restricted due from banks in Korean won and in foreign currency as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Classification	Financial institution	2013	2012	Reason for restriction
Reserve deposits in Korean won	The Bank of Korea	₩ 5,331,385	₩ 6,066,344	Required under the Bank Act and other related regulations
Monetary stabilization account	The Bank of Korea	1,360,000	800,000	Required by the Bank of Korea for the purpose of liquidity management
Non-monetary financial institution deposits in Korean won	Korea Exchange	501	501	Penalty joint fund related to government bond transaction and guarantee deposit
Reserve deposits in foreign currency	The Bank of Korea	₩ 32,975	₩ 46,122	Required under the Bank Act and other related regulations
Non-monetary financial institution deposits in foreign currency	NH NongHyup Futures Co., Ltd.	-	2,003	Required for interest rate derivative transaction
		₩ 6,724,861	₩ 6,914,970	

6. FINANCIAL ASSETS AT FVTPL:

(1) Details of financial assets at FVTPL as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013	2012
Trading securities:		
Equity securities	₩ 204,393	₩ 288,332
Debt securities	4,319,309	4,129,686
Securities lent and pledged as collaterals	58,932	41,405
	4,582,634	4,459,423
Financial assets designated at FVTPL	-	89
Trading derivative assets	681,142	1,101,146
	₩ 5,263,776	₩ 5,560,658

(2) Trading securities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable securities	₩ -	₩ 163,370	₩ -	₩ 167,481	₩ 167,481
Beneficiary certificates	-	33,000	-	33,048	33,048
Mutual funds	-	3,683	-	3,864	3,864
	-	200,053	-	204,393	204,393
Debt securities:					
Government and public bonds	1,318,600	1,337,288	1,333,236	1,334,433	1,334,433
Financial bonds	2,030,800	2,023,897	2,022,739	2,023,117	2,023,117
Corporate bonds	764,000	764,865	765,325	765,338	765,338
Public bonds	144,000	143,679	143,548	143,721	143,721
Others	53,598	52,564	52,535	52,700	52,700
Securities lent and pledged as collateral	58,000	58,767	58,255	58,932	58,932
	4,368,998	4,381,060	4,375,638	4,378,241	4,378,241
	₩ 4,368,998	₩ 4,581,113	₩ 4,375,638	₩ 4,582,634	₩ 4,582,634

DECEMBER 31, 2012

Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable securities	₩ -	₩ 230,604	₩ -	₩ 240,236	₩ 240,236
Mutual funds	-	41,915	-	41,914	41,914
Others	-	6,019	-	6,182	6,182
	-	278,538	-	288,332	288,332
Debt securities:					
Government and public bonds	1,308,850	1,329,974	1,328,714	1,235,072	1,235,072
Financial bonds	1,971,700	1,968,020	1,966,621	1,967,356	1,967,356
Corporate bonds	762,500	762,789	762,356	863,102	863,102
Others	94,717	94,123	94,114	64,156	64,156
Securities lent and pledged as collateral	40,000	40,595	40,186	41,405	41,405
	4,177,767	4,195,501	4,191,991	4,171,091	4,171,091
	₩ 4,177,767	₩ 4,474,039	₩ 4,191,991	₩ 4,459,423	₩ 4,459,423

(3) Trading securities, by industry, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Book value	Ratio (%)
Government and government-sponsored institutions	₩ 2,343,712	51.14
Finance and insurance	1,464,431	31.96
Manufacturing	74,954	1.64
Others	699,537	15.26
	₩ 4,582,634	100.00

DECEMBER 31, 2012

Classification	Book value	Ratio (%)
Government and government-sponsored institutions	₩ 1,563,635	35.06
Finance and insurance	2,098,803	47.06
Manufacturing	389,725	8.74
Others	407,260	9.14
	₩ 4,459,423	100.00

(4) Trading securities, by country, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Book value	Ratio (%)
Korea	₩ 4,582,634	100.00

DECEMBER 31, 2012

Classification	Book value	Ratio (%)
Korea	₩ 4,459,423	100.00

(5) Trading securities provided as collateral as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Provided to	Remarks	Pledged amount	Book value
Citi Bank Korea Inc. and nine others	Credit enhancement for derivative transactions	₩ 36,800	₩ 37,003
NH NongHyup Futures Co., Ltd., and another	Substituted securities for derivative transactions	40,000	40,836
Kookmin Bank and three others	Others	108,000	108,239
		₩ 184,800	₩ 186,078

DECEMBER 31, 2012

Provided to	Remarks	Pledged amount	Book value
Citi Bank Korea Inc. and 13 others	Credit enhancement for derivative transactions	₩ 49,404	₩ 50,278
NH NongHyup Futures Co., Ltd., and another	Substituted securities for derivative transactions	40,000	41,405
KB Asset Management Co., Ltd., and 6 others	Others	164,100	165,518
		₩ 253,504	₩ 257,201

(6) Details of financial assets designated at FVTPL as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	Fair value 2013	Fair value 2012
Debt securities in foreign currency (*)	₩ -	₩ 89

(*)The above debt securities are entirely classified as financial assets designated at FVTPL as they are compound contracts, including embedded derivatives.

7. AFS AND HTM FINANCIAL ASSETS:

(1) AFS and HTM financial assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 647,533	₩ -	₩ 558,529	₩ 558,529
Non-marketable securities	-	335,060	-	308,486	308,486
Beneficiary certificates	-	1,477,903	-	505,282	505,282
Mutual funds	-	161,567	-	163,249	163,249
Foreign currency	-	300,215	-	305,134	305,134
Others	-	405,638	-	486,767	486,767
	-	3,327,916	-	2,327,447	2,327,447
Debt securities:					
Government and public bonds	4,160,000	4,204,470	4,194,160	4,137,021	4,137,021
Financial bonds	3,780,000	3,760,101	3,759,730	3,760,021	3,760,021
Public bonds	1,990,000	1,988,143	1,988,006	1,978,224	1,978,224
Corporate bonds	1,044,600	1,044,348	1,024,706	1,019,126	1,019,126
Foreign currency	345,052	374,728	370,265	339,387	339,387
Others	56	56	56	-	-
	11,319,708	11,371,846	11,336,923	11,233,779	11,233,779
Total AFS financial assets	11,319,708	14,699,762	11,336,923	13,561,226	13,561,226
HTM financial assets:					
Debt securities:					
Government and public bonds	2,306,200	2,216,993	2,253,798	2,253,797	2,314,184
Financial bonds	1,075,000	1,075,818	1,075,201	1,075,201	1,104,067
Public bonds	2,738,403	2,736,060	2,738,205	2,738,205	2,804,462
Corporate bonds	1,385,200	1,384,422	1,384,925	1,384,925	1,396,588
Foreign currency	48,544	45,967	43,913	43,913	47,768
Others	20	20	20	20	20
Securities lent and pledged as collateral	313,800	315,802	314,305	314,305	320,085
Total HTM financial assets	7,867,167	7,775,082	7,810,367	7,810,366	7,987,174
	₩ 19,186,875	₩ 22,474,844	₩ 19,147,290	₩ 21,371,592	₩ 21,548,400

DECEMBER 31, 2012

Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 587,596	₩ -	₩ 476,139	₩ 476,139
Non-marketable securities	-	192,883	-	223,774	223,774
Beneficiary certificates	-	963,175	-	983,492	983,492
Mutual funds	-	153,757	-	153,630	153,630
Foreign currency	-	228,357	-	213,653	213,653
Others	-	426,543	-	412,184	412,184
Securities lent and pledged as collateral	-	5,327	-	4,823	4,823
	-	2,557,638	-	2,467,695	2,467,695
Debt securities:					
Government and public bonds	1,710,000	1,680,204	1,681,233	1,678,930	1,678,930
Financial bonds	3,750,000	3,750,286	3,750,111	3,785,972	3,785,972
Public bonds	1,650,000	1,652,835	1,653,260	1,661,532	1,661,532
Corporate bonds	1,454,000	1,452,851	1,433,322	1,449,597	1,449,597
Foreign currency	423,626	429,236	425,740	431,126	431,126
Others	56	56	-	-	-
Securities lent and pledged as collateral	30,000	29,656	29,661	29,185	29,185
	9,017,682	8,995,124	8,973,327	9,036,342	9,036,342
Total AFS financial assets	9,017,682	11,552,762	8,973,327	11,504,037	11,504,037
HTM financial assets:					
Debt securities:					
Government and public bonds	2,399,409	2,264,017	2,321,040	2,321,040	2,438,612
Financial bonds	2,280,000	2,280,747	2,280,394	2,280,394	2,347,920
Public bonds	5,872,460	5,859,576	5,870,132	5,870,132	6,020,862
Corporate bonds	1,513,600	1,512,645	1,513,172	1,513,172	1,552,700
Foreign currency	128,788	121,416	121,416	70,086	70,251
Others	38	38	38	38	38
Securities lent and pledged as collateral	761,000	764,323	762,443	762,443	774,140
Total HTM financial assets	12,955,295	12,802,762	12,868,635	12,817,305	13,204,523
	₩ 21,972,977	₩ 24,355,524	₩ 21,841,962	₩ 24,321,342	₩ 24,708,560

(2) Details of AFS financial assets measured at acquisition costs as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013 (*)		2012 (*)	
Seoul Light Co., Ltd.	₩	1,131	₩	9,689
Jeolla Line Co., Ltd.		-		8,369
Korea Asset Management Corporation		6,670		6,670
Megabowlcity Co., Ltd.		925		4,920
Chungju Company Town Corp.		4,800		4,800
Wonju Company Town Corp.		4,140		4,140
Yeongnam Intermodel Logistics Corp.		1,080		3,344
Others		8,526		23,269
	₩	27,272	₩	65,201

(*) Measured at acquisition costs as it is difficult to estimate the future cash flows; comparable companies, which have similar business and size, do not exist; and it is impossible to have fair values reliably measured by an outside valuation agency.

In principle, AFS financial assets are measured subsequently at fair value, but as the fair value cannot be reliably measured, ₩17,983 million of the book value of AFS financial assets, which have been measured at cost, is derecognized from the consolidated financial statement due to disposal for the year ended December 31, 2013. Loss on disposal of the AFS financial assets is ₩12,044 million for the year ended December 31, 2013.

(3) Portfolio of AFS and HTM financial assets, by industry, as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions, %):

DECEMBER 31, 2013

Classification	Book value		Ratio (%)
Government and government-sponsored institutions	₩	11,507,635	53.85
Finance and insurance		5,226,176	24.45
Manufacturing		528,085	2.47
Others		4,109,696	19.23
	₩	21,371,592	100.00

DECEMBER 31, 2012

Classification	Book value		Ratio (%)
Government and government-sponsored institutions	₩	12,412,807	51.03
Finance and insurance		6,500,331	26.73
Manufacturing		337,849	1.39
Others		5,070,355	20.85
	₩	24,321,342	100.00

(4) AFS and HTM financial assets, by country, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions, %):

DECEMBER 31, 2013

Classification		Book value	Ratio (%)
Korea	₩	21,037,024	98.43
USA		205,330	0.96
Japan		37,268	0.17
Others		91,970	0.44
	₩	21,371,592	100.00

DECEMBER 31, 2012

Classification		Book value	Ratio (%)
Korea	₩	23,930,566	98.40
USA		217,072	0.89
Japan		33,977	0.14
Others		139,727	0.57
	₩	24,321,342	100.00

(5) Details of AFS and HTM financial assets provided as collateral as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Provided to	Remarks		Pledged amount		Book value of securities provided as collateral
Repo:					
Korea Securities Depository	Customer repurchase sale	₩	2,240,000	₩	2,239,859
Nomura International plc	Interinstitutional repurchase sale		313,800		314,305
Others:					
The Bank of Korea	Payment risk		1,960,000		1,934,467
The Bank of Korea	Daylight overdraft		510,000		500,618
The Bank of Korea	Borrowing		410,000		411,014
NH NongHyup Futures. Co., Ltd., and three others	Substituted securities for derivative transaction		24,500		23,739
Others	Others		15,200		14,791
		₩	5,473,500	₩	5,438,793

DECEMBER 31, 2012

Provided to	Remarks	Pledged amount		Book value of securities provided as collateral	
Repo:					
Korea Securities Depository	Customer repurchase sale	₩	1,000,000	₩	999,633
Daiwa Capital Markets Hong Kong Ltd. and another	Interinstitutional repurchase sale		728,500		731,357
Others:					
The Bank of Korea and another	Payment risk		1,960,000		1,912,020
The Bank of Korea	Daylight overdraft		500,000		470,223
The Bank of Korea	Borrowing		280,000		278,908
NH NongHyup Futures. Co., Ltd., and three others	Substituted securities for derivative transaction		32,500		31,086
Korea Securities Depository and another	Securities lent		30,000		34,008
Korea Securities Depository	Payment fund by stock agencies and others		7,000		6,795
		₩	4,538,000	₩	4,464,030

(6) Structured securities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013		2012	
Interest rate-related structured securities:				
Range accrual note	₩	150,000	₩	450,000
Spread accrual note		100,000		150,000
		250,000		600,000
Credit risk-related structured securities:				
Collateralized debt obligations		-		89
Others		47,411		46,287
		47,411		46,376
Callable bonds		417,888		432,322
	₩	715,299	₩	1,078,698

8. LOANS AND RECEIVABLES:

(1) Loans and receivables as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	Type	2013	2012
Loans in Korean won	Corporate	₩ 66,408,370	₩ 62,516,942
	Household	66,609,990	63,837,677
	Public	7,304,400	4,470,559
	Integrated	1,534,137	1,735,439
	Subtotal	141,856,897	132,560,617
	Allowance	(1,905,914)	(1,904,995)
	Book value, net	139,950,983	130,655,622
Loans in foreign currency	Loans	2,276,137	2,685,780
	Offshore loans	-	19,070
	Credit loan	2,406	4,481
	Subtotal	2,278,543	2,709,331
	Allowance	(62,445)	(90,302)
	Book value, net	2,216,098	2,619,029
Others	Credit card receivables	3,660,776	3,465,604
	Bills purchased	58,821	46,759
	Foreign exchange purchased	1,181,639	954,561
	Private placement bonds	194,455	278,696
	Advances for customers	53,483	47,418
	Domestic import usance	2,264,307	2,623,866
	Other loans	3,551,095	3,594,766
	Subtotal	10,964,576	11,011,670
	Allowance	(262,128)	(188,250)
	Book value, net	10,702,448	10,823,420
Receivables	Receivables	3,036,033	10,802,373
	Allowance	(39,805)	(37,448)
	Book value, net	2,996,228	10,764,925
Total loans and receivables		158,136,049	157,083,991
Total allowance for losses on credit		(2,270,292)	(2,220,995)
Deferred LOF/LOC		191,340	141,595
Deferred LOF/LOC – Allowance for losses on credit		(48)	146
Present value discounts – Loans		(11,513)	(1,314)
Present value discounts – Receivables		(23,082)	(23,845)
Total loans and receivables, net		₩ 156,022,454	₩ 154,979,578

(2) Loans, by industry, country and customer, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) By industry

DECEMBER 31, 2013

Industry	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowances (*1)
Manufacturing	₩ 11,915,527	₩ 588,130	₩ 2,851,700	₩ 15,355,357	₩ (402,169)
Construction	4,664,184	6,021	134,855	4,805,060	(491,856)
Retail and wholesale	3,082,432	44,445	813,887	3,940,764	(119,028)
Finance and insurance	3,341,596	-	3,054,728	6,396,324	(34,875)
Member cooperatives	13,832,653	941	1,078,375	14,911,969	(82,016)
Others	105,020,505	1,639,006	3,031,031	109,690,542	(1,100,543)
	₩ 141,856,897	₩ 2,278,543	₩ 10,964,576	₩ 155,100,016	₩ (2,230,487)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

DECEMBER 31, 2012

Industry	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowances (*1)
Manufacturing	₩ 10,369,551	₩ 548,492	₩ 3,168,121	₩ 14,086,164	₩ (400,193)
Construction	4,811,446	26,210	162,971	5,000,627	(370,447)
Retail and wholesale	2,699,646	65,832	628,795	3,394,273	(60,711)
Finance and insurance	3,885,218	-	3,495,790	7,381,008	(24,246)
Member cooperatives	14,071,811	3,686	1,026,973	15,102,470	(92,129)
Others	96,722,945	2,065,111	2,529,020	101,317,076	(1,235,821)
	₩ 132,560,617	₩ 2,709,331	₩ 11,011,670	₩ 146,281,618	₩ (2,183,547)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

2) By country

DECEMBER 31, 2013

Country	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowances (*1)
Korea	₩ 141,856,897	₩ 1,921,437	₩ 6,766,617	₩ 150,544,951	₩ (2,153,627)
China	-	10,553	631,775	642,328	(10,745)
Japan	-	-	182,489	182,489	(2,682)
USA	-	65,894	726,273	792,167	(6,393)
Indonesia	-	16,654	91,863	108,517	(354)
Hong Kong	-	28,430	210,728	239,158	(1,674)
Panama	-	166,727	-	166,727	(6,602)
Singapore	-	-	115,196	115,196	(282)
Others	-	68,848	2,239,635	2,308,483	(48,128)
	₩ 141,856,897	₩ 2,278,543	₩ 10,964,576	₩ 155,100,016	₩ (2,230,487)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

DECEMBER 31, 2012

Country	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowances (*1)
Korea	₩ 132,560,617	₩ 2,283,186	₩ 6,692,694	₩ 141,536,497	₩ (2,135,889)
China	-	4,498	618,118	622,616	(4,479)
Japan	-	-	293,560	293,560	(1,097)
USA	-	94,816	865,875	960,691	(7,721)
Indonesia	-	5,998	35,496	41,494	(278)
Hong Kong	-	32,599	168,924	201,523	(1,800)
Panama	-	200,803	2,368	203,171	(7,832)
Singapore	-	-	231,612	231,612	(985)
Others	-	87,431	2,103,023	2,190,454	(23,466)
	₩ 132,560,617	₩ 2,709,331	₩ 11,011,670	₩ 146,281,618	₩ (2,183,547)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

3) By customer

DECEMBER 31, 2013

Customer	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowances (*1)
Household	₩ 59,465,201	₩ 15,718	₩ 1,569,695	₩ 61,050,614	₩ (242,372)
Individual business	28,757,413	200,480	604,855	29,562,748	(125,563)
Corporate	30,073,444	2,054,281	4,003,758	36,131,483	(1,744,592)
Member cooperatives	13,832,653	941	1,078,375	14,911,969	(82,016)
Financial institution	2,760,905	-	3,035,040	5,795,945	(5,878)
Government and others	6,967,281	7,123	672,853	7,647,257	(30,066)
	₩ 141,856,897	₩ 2,278,543	₩ 10,964,576	₩ 155,100,016	₩ (2,230,487)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

DECEMBER 31, 2012

Customer	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowances (*1)
Household	₩ 57,310,674	₩ 18,802	₩ 1,510,164	₩ 58,839,640	₩ (319,098)
Individual business	25,601,814	287,982	584,578	26,474,374	(151,435)
Corporate	28,135,746	2,380,648	4,198,661	34,715,055	(1,588,715)
Member cooperatives	14,071,811	3,686	1,026,973	15,102,470	(92,129)
Financial institution	3,145,794	-	3,471,803	6,617,597	(4,301)
Government and others	4,294,778	18,213	219,491	4,532,482	(27,869)
	₩ 132,560,617	₩ 2,709,331	₩ 11,011,670	₩ 146,281,618	₩ (2,183,547)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

(3) As of December 31, 2013 and 2012, the percentage of allowance for losses on credit of loans and receivables to total amounts of loans and receivables is as follows (Unit: Korean won in millions, %):

Classification	2013	2012
Total amount of loans and receivables (*)	₩ 158,327,390	₩ 157,225,586
Allowance for losses on credit	2,270,340	2,220,849
Ratio (%)	1.43	1.41

(*) Receivables and deferred LOF/LOC are included in total amounts of loans and receivables.

(4) Classification of loans by credit rating

1) Details of impaired loans as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	2,056,863	62	-	2,056,925	(938,840)
	2,056,863	62	-	2,056,925	(938,840)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	179,325	728,347	149,000	1,056,672	(288,429)
Unrated (*3)	673	-	-	673	(450)
	179,998	728,347	149,000	1,057,345	(288,879)
	₩ 2,236,861	₩ 728,409	₩ 149,000	₩ 3,114,270	₩ (1,227,719)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions, are classified as unrated.

DECEMBER 31, 2012

Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	1,422,694	35	-	1,422,729	(535,633)
	1,422,694	35	-	1,422,729	(535,633)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	264,041	920,399	149,000	1,333,440	(398,181)
Unrated (*3)	1,185	-	-	1,185	(800)
	265,226	920,399	149,000	1,334,625	(398,981)
	₩ 1,687,920	₩ 920,434	₩ 149,000	₩ 2,757,354	₩ (934,614)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions, are classified as unrated.

2) Details of loans, neither overdue nor impaired, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 38,791,044	₩ 76,451,744	₩ 24,169,809	₩ 139,412,597	₩ (494,709)
Rating 7	2,452,919	1,040,410	23	3,493,352	(339,946)
Rating 8	305,120	2,391	-	307,511	(119,569)
Rating 9–10	-	-	-	-	-
Unrated (*3)	170,739	4,686,051	2,331,893	7,188,683	(10,029)
	₩ 41,719,822	₩ 82,180,596	₩ 26,501,725	₩ 150,402,143	₩ (964,253)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions, are classified as unrated.

DECEMBER 31, 2012

Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 37,720,938	₩ 76,014,500	₩ 21,568,740	₩ 135,304,178	₩ (495,019)
Rating 7	2,119,546	1,231,166	64	3,350,776	(542,803)
Rating 8	494,691	2,679	-	497,370	(162,566)
Rating 9–10	-	-	-	-	-
Unrated (*3)	153,039	170,528	2,641,859	2,965,426	(8,327)
	₩ 40,488,214	₩ 77,418,873	₩ 24,210,663	₩ 142,117,750	₩ (1,208,715)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions, are classified as unrated.

3) Details of loans, overdue but not impaired, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 145,927	₩ 358,393	₩ 1,994	₩ 506,314	₩ (7,054)
Rating 7	80,698	809,915	-	890,613	(16,647)
Rating 8	11,886	108,038	-	119,924	(13,536)
Rating 9–10	-	-	-	-	-
Unrated (*3)	1,787	64,851	114	66,752	(1,278)
	₩ 240,298	₩ 1,341,197	₩ 2,108	₩ 1,583,603	₩ (38,515)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions, are classified as unrated.

DECEMBER 31, 2012

Classification		Corporate (*1)		Retail (*1)		Others (*1 and *2)		Total		Allowances (*1)
Rating 1–6	₩	59,698	₩	215,204	₩	9,262	₩	284,164	₩	(3,670)
Rating 7		95,911		853,370		-		949,281		(21,729)
Rating 8		20,468		139,829		-		160,297		(12,565)
Rating 9–10		-		-		-		-		-
Unrated (*3)		2,681		10,010		81		12,772		(2,254)
	₩	178,758	₩	1,218,413	₩	9,343	₩	1,406,514	₩	(40,218)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.
(*3) Loans made without credit evaluation to borrowers, such as loans to public institutions and overseas subsidiaries, and loans of which total amounts are guaranteed by public institutions. are classified as unrated.

4) Aging analysis of loans, overdue but not impaired, as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification		Corporate (*1)		Retail (*1)		Others (*1 and *2)		Total		Allowances (*1)
Less than 30 days	₩	186,412	₩	1,203,517	₩	2,106	₩	1,392,035	₩	(25,136)
30–60 days		23,208		87,832		2		111,042		(8,399)
60–90 days		30,678		49,848		-		80,526		(4,980)
More than 90 days		-		-		-		-		-
	₩	240,298	₩	1,341,197	₩	2,108	₩	1,583,603	₩	(38,515)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

DECEMBER 31, 2012

Classification		Corporate (*1)		Retail (*1)		Others (*1 and *2)		Total		Allowances (*1)
Less than 30 days	₩	125,959	₩	975,462	₩	9,343	₩	1,110,764	₩	(25,750)
30–60 days		40,424		142,857		-		183,281		(8,970)
60–90 days		12,375		100,094		-		112,469		(5,498)
More than 90 days		-		-		-		-		-
	₩	178,758	₩	1,218,413	₩	9,343	₩	1,406,514	₩	(40,218)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

(5) Financial impact of collateral on loans

The extent of reducing credit risk due to collateral and other credit enhancement as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Classification		2013		2012
Loans	₩	2,162,639	₩	1,857,443
Receivables		67,318		59,783
Acceptances and guarantees		5,465		13,250
Loans and credit commitment		12,700		13,236
	₩	2,248,122	₩	1,943,712

(6) Assets acquired by exercise of security rights

Details of assets acquired by exercise of security rights as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification		2013		2012
Property and equipment (*)	₩	15	₩	15

(*) They are presented as assets classified as held for sale in the consolidated statements of financial position.

(7) Restructured loans

Details of restructured loans as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification		Loans		Allowance
Reorganization and composition	₩	70,185	₩	(5,760)
Workout		594,269		(160,936)
	₩	664,454	₩	(166,696)

DECEMBER 31, 2012

Classification		Loans		Allowance
Reorganization and composition	₩	53,352	₩	(10,645)
Workout		681,681		(228,973)
	₩	735,033	₩	(239,618)

(8) Receivables

Details of receivables as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013		2012	
Domestic exchange settlement debits	₩	338,720	₩	6,626,962
Accrued income		739,611		759,196
Accounts receivable		925,839		1,737,824
Suspense payment		20,564		17,140
Guarantee deposits paid		518,237		519,020
Unsettled credit card receivables		36,951		18,004
Intercompany receivables		444,623		1,042,276
Receivables from proxy sale of NACF		3,997		5,230
Others		7,491		76,721
Total receivables		3,036,033		10,802,373
(Allowance for losses on credit)		(39,805)		(37,448)
(Present value discounts)		(23,082)		(23,845)
Total of receivables, net	₩	2,973,146	₩	10,741,080

(9) Changes in deferred LOF/LOC

Changes in deferred LOF/LOC for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	January 1, 2013		Increase		Decrease		December 31, 2013	
Deferred LOF	₩	(17,069)	₩	(4,097)	₩	(4,105)	₩	(17,061)
Deferred LOC		158,664		70,553		20,816		208,401
Deferred LOC, net	₩	141,595	₩	66,456	₩	16,711	₩	191,340

DECEMBER 31, 2012

Classification	March 2, 2012		Increase		Decrease		December 31, 2012	
Deferred LOF	₩	(21,457)	₩	(2,873)	₩	(7,261)	₩	(17,069)
Deferred LOC		86,904		91,260		19,500		158,664
Deferred LOC, net	₩	65,447	₩	88,387	₩	12,239	₩	141,595

(10) Changes in allowance for losses on credit

Changes in allowance for losses on credit for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

		Amount
January 1, 2013	₩	2,220,849
Provision for allowance for losses on credit		1,073,767
Transactions during the period		(865,040)
Foreign exchange translation		(1,970)
Unwinding effect		(110,954)
Other changes		(46,312)
		49,491
December 31, 2013	₩	2,270,340

DECEMBER 31, 2012

		Amount
March 2, 2012	₩	2,524,981
Provision for allowance for losses on credit		768,947
Transactions during the period		(948,687)
Foreign exchange translation		(4,905)
Unwinding effect		(103,049)
Other changes		(16,438)
		(304,132)
December 31, 2012	₩	2,220,849

9. INVESTMENTS IN ASSOCIATES:

(1) Details of investments in associates as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

	Main business	Location	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	Korea	180	9.00	₩ 6,015
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	Korea	1,000	10.00	5,488
NH Agri best 1st (*2)	Other financial business	Korea	6	70.29	1,762
NH Kolon green 1st (*2)	Other financial business	Korea	2	57.50	3,101
NH SG 2nd	Other financial business	Korea	9,000,000	29.80	9,193
					₩ 25,559

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of a director and others.
(*2) Excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.

DECEMBER 31, 2012

	Main business	Location	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	Korea	180	9.00	₩ 5,579
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	Korea	1,000	10.00	5,544
NH Agri best 1st (*2)	Other financial business	Korea	7	70.29	2,306
NH Kolon green 1st (*2)	Other financial business	Korea	5	57.50	7,272
NH SG 1st	Other financial business	Korea	7,600,000	39.80	8,334
NH SG 2nd	Other financial business	Korea	9,000,000	29.80	8,988
					₩ 38,023

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of a director and other.
(*2) Excluded from consolidated subsidiaries since there is no control due to multiple general partners, including the Group.

(2) Changes in investments in associates for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

	January 1, 2013	Disposal	Dividend	Share of net income of associates	Gain (loss) on valuation of investments in associates	December 31, 2013
Korea Credit Bureaus	₩ 5,579	₩ -	₩ -	₩ 436	₩ -	₩ 6,015
Nanumlotto Co., Ltd.	5,544	(120)	-	9	55	5,488
NH Agri best 1st	2,306	(242)	-	(302)	-	1,762
NH Kolon green 1st	7,272	(2,875)	(4,948)	3,758	(106)	3,101
NH SG 1st	8,334	(8,589)	(2,294)	2,549	-	-
NH SG 2nd	8,988	-	(330)	196	339	9,193
	₩ 38,023	₩ (11,826)	₩ (7,572)	₩ 6,646	₩ 288	₩ 25,559

DECEMBER 31, 2012

	March 2, 2012	Disposal	Dividend	Share of net income of associates	Loss on valuation of investments in associates	December 31, 2012
Korea Credit Bureaus	₩ 5,360	₩ -	₩ -	₩ 548	₩ (329)	₩ 5,579
Nanumlotto Co., Ltd.	5,229	-	-	370	(55)	5,544
NH Agri best 1st	3,633	(1,727)	-	400	-	2,306
NH Kolon green 1st	9,473	(2,070)	-	(131)	-	7,272
NH SG 1st	8,833	(400)	(88)	(11)	-	8,334
NH SG 2nd	-	9,000	-	(12)	-	8,988
	₩ 32,528	₩ 4,803	₩ (88)	₩ 1,164	₩ (384)	₩ 38,023

(3) Summary of financial information of associates as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

	Assets	Liability	Equity	Operating income	Net income (loss)
Korea Credit Bureaus	₩ 63,043	₩ 16,542	₩ 46,501	₩ 51,571	₩ 4,843
Nanumlotto Co., Ltd.	71,762	30,001	41,761	34,196	(146)
NH Agri best 1st	2,991	486	2,505	10	(430)
NH Kolon green 1st	5,884	490	5,394	7,266	6,535
NH-SG 2nd	30,849	-	30,849	871	658

DECEMBER 31, 2012

	Assets	Liability	Equity	Operating income	Net income (loss)
Korea Credit Bureaus	₩ 57,014	₩ 15,356	₩ 41,658	₩ 43,219	₩ 6,094
Nanumlotto Co., Ltd.	58,934	4,386	54,548	38,822	3,697
NH Agri best 1st	3,767	487	3,280	578	569
NH Kolon green 1st	12,759	112	12,647	401	(229)
NH-SG 1st	18,456	2	18,454	223	(26)
NH-SG 2nd	30,181	22	30,159	-	(41)

10. TANGIBLE ASSETS:

(1) Details of tangible assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Subsidy	Book value
Land	₩ 1,477,815	₩ -	₩ -	₩ -	₩ 1,477,815
Buildings	638,858	(55,573)	-	(202)	583,083
Leasehold improvements	203,863	(152,025)	-	(103)	51,735
Movable properties	467,614	(323,580)	-	(50)	143,984
Construction in progress	10,566	-	-	-	10,566
	₩ 2,798,716	₩ (531,178)	₩ -	₩ (355)	₩ 2,267,183

DECEMBER 31, 2012

Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Subsidy	Book value
Land	₩ 1,469,617	₩ -	₩ -	₩ -	₩ 1,469,617
Buildings	602,023	(33,685)	-	(205)	568,133
Leasehold improvements	185,093	(138,420)	-	(156)	46,517
Movable properties	431,168	(334,096)	-	(77)	96,995
Construction in progress	14,722	-	-	-	14,722
	₩ 2,702,623	₩ (506,201)	₩ -	₩ (438)	₩ 2,195,984

(2) Changes in acquisition cost of tangible assets for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	January 1, 2013	Acquisition	Disposal	Depreciation	Transfer (*)	Others	December 31, 2013
Land	₩ 1,469,617	₩ 60,297	₩ (1,936)	₩ -	₩ (50,163)	₩ -	₩ 1,477,815
Buildings	568,339	30,721	(1,632)	(22,387)	8,244	-	583,285
Leasehold improvements	46,672	22,086	(363)	(18,794)	2,096	140	51,837
Movable properties	97,072	90,819	(749)	(44,642)	1,522	13	144,035
Construction in progress	14,722	10,434	(392)	-	(14,198)	-	10,566
Subsidy	(438)	-	-	83	-	-	(355)
	₩ 2,195,984	₩ 214,357	₩ (5,072)	₩ (85,740)	₩ (52,499)	₩ 153	₩ 2,267,183

(*) ₩51,894 million of tangible assets were transferred to investment properties due to changes in ratio of leased area of land and building. ₩9,975 million, ₩2,096 million, ₩1,522 million and ₩605 million of construction in progress were transferred to buildings of tangible assets, leasehold improvements of tangible assets, movable properties of tangible assets and investment properties, respectively.

DECEMBER 31, 2012

Classification	March 2, 2012	Acquisition	Disposal	Depreciation	Transfer (*)	Others	December 31, 2012
Land	₩ 1,386,975	₩ 2,138	₩ (14,193)	₩ -	₩ 94,697	₩ -	₩ 1,469,617
Buildings	586,329	18,128	(10,860)	(18,057)	(11,607)	4,406	568,339
Leasehold improvements	46,497	21,865	(470)	(17,248)	3	(3,975)	46,672
Movable properties	78,353	57,093	(4,056)	(37,583)	3,265	-	97,072
Construction in progress	44,784	25,172	(10,621)	-	(44,613)	-	14,722
Subsidy	₩ (510)	₩ (4)	₩ -	₩ 76	₩ -	₩ -	₩ (438)
	₩ 2,142,428	₩ 124,392	₩ (40,200)	₩ (72,812)	₩ 41,745	₩ 431	₩ 2,195,984

(*) ₩67,479 million of tangible assets were transferred from investment properties due to changes in ratio of leased area of land and building. ₩1,730 million, ₩13,881 million, ₩3 million, ₩ 3,265 million, ₩ 25,269 million and ₩465 million of construction in progress were transferred to land of tangible assets, buildings of tangible assets, leasehold improvements of tangible assets, movable properties of tangible assets, investment properties and other intangible asset, respectively.

11. INVESTMENT PROPERTIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE:

(1) Details of investment properties as of December 31, 2012 and March 2, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 449,190	₩ -	₩ -	₩ 449,190
Buildings	104,264	(7,363)	-	96,901
	₩ 553,454	₩ (7,363)	₩ -	₩ 546,091

DECEMBER 31, 2012

Classification	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 399,064	₩ -	₩ -	₩ 399,064
Buildings	98,787	(3,674)	-	95,113
	₩ 497,851	₩ (3,674)	₩ -	₩ 494,177

(2) Fair values of investment properties amount to ₩563,858 million and ₩498,898 million as of December 31, 2013 and 2012, respectively. Fair values are measured based on valuation performed by independent professionals. The fair value of investment properties is classified as Level 3 based on the input variables used in the valuation technique. Valuation techniques for investment properties and input variables, which are significant but unobservable in measurement of fair value, are as follows:

Classification	Valuation techniques	Input variables, which are significant but unobservable in measurement of fair value
Investment property	Calculated upon consideration of the yearly fluctuation of declared land value of standard sites, fluctuation of subject land prices, and escalation rate of the construction cost index.	Yearly fluctuation of declared land value of standard sites, fluctuation of subject land prices, escalation rate of the construction cost index.

Rental income from investment properties for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, amounts to ₩23,964 million ₩21,030 million, respectively.

(3) Changes in investment properties for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	January 1, 2013	Acquisition	Disposal	Depreciation	Transfer (*)	December 31, 2013
Land	₩ 399,064	₩ 3	₩ (40)	₩ -	₩ 50,163	₩ 449,190
Buildings	95,113	2,901	(3)	(3,446)	2,336	96,901
	₩ 494,177	₩ 2,904	₩ (43)	₩ (3,446)	₩ 52,499	₩ 546,091

(*) ₩51,894 million were transferred from tangible assets due to changes in ratio of leased area of land and buildings. ₩605 million were transferred from construction in progress.

DECEMBER 31, 2012

Classification	March 2, 2012	Acquisition	Disposal	Depreciation	Transfer (*)	December 31, 2012
Land	₩ 501,181	₩ 366	₩ (9,516)	₩ -	₩ (92,967)	₩ 399,064
Buildings	62,703	10,997	(25,953)	(3,391)	50,757	95,113
	₩ 563,884	₩ 11,363	₩ (35,469)	₩ (3,391)	₩ (42,210)	₩ 494,177

(*) ₩ 67,479 million were transferred to tangible assets due to changes in ratio of leased area of land and buildings. ₩25,269 million were transferred from construction in progress.

(4) At the end of reporting period, the book value of non-current assets held for sale is ₩15 million, and there have been no changes for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012.

12. INTANGIBLE ASSETS:

(1) Details of intangible assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Development cost	₩ 177,923	₩ (107,820)	₩ -	₩ 70,103
Other intangible assets	367,618	(172,895)	(2,055)	192,668
	₩ 545,541	₩ (280,715)	₩ (2,055)	₩ 262,771

DECEMBER 31, 2012

Classification	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Development cost	₩ 147,912	₩ (91,648)	₩ -	₩ 56,264
Other intangible assets	270,613	(120,894)	(2,055)	147,664
	₩ 418,525	₩ (212,542)	₩ (2,055)	₩ 203,928

(2) Changes in book value of intangible assets for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	January 1, 2013	Acquisition	Disposal	Amortization	December 31, 2013
Development cost	₩ 56,264	₩ 30,010	₩ -	₩ (16,172)	₩ 70,102
Other intangible assets	147,664	98,939	(1,934)	(52,000)	192,669
	₩ 203,928	₩ 128,949	₩ (1,934)	₩ (68,172)	₩ 262,771

DECEMBER 31, 2012

Classification	March 2, 2012	Acquisition	Disposal	Amortization	Transfer (*)	December 31, 2012
Development cost	₩ 41,492	₩ 29,638	₩ -	₩ (14,866)	₩ -	₩ 56,264
Other intangible assets	128,813	58,486	(1,850)	(38,250)	465	147,664
	₩ 170,305	₩ 88,124	₩ (1,850)	₩ (53,116)	₩ 465	₩ 203,928

(*) Transferred from construction in progress

13. OTHER ASSETS:

Details of other assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Prepaid expenses	₩	132,809	₩	125,786
Supplies		3,341		2,956
Guarantee deposits paid		10,970		4,606
Suspense payment		988		505
Guarantees		330		420
Telephone and telex rights		1,517		1,553
Others		1,398		1,395
	₩	151,353	₩	137,221

14. FINANCIAL LIABILITIES:

(1) Details of financial liabilities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Book value		Fair value	
Financial liabilities at FVTPL:				
Financial liabilities designated at FVTPL	₩	54,344	₩	54,344
Trading derivative liabilities		717,208		717,208
		771,552		771,552
Derivative liabilities:				
Hedging derivative liabilities		13,973		13,973
Financial liabilities measured at amortized cost:				
Deposits (*2)		144,919,171		146,430,890
Borrowings (*2)		15,302,400		15,230,446
Debentures (*2)		10,993,925		11,195,923
Others (*1 and *3)		8,599,202		7,068,399
		179,814,698		179,925,658
	₩	180,600,223	₩	180,711,183

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables are included in the fair value of financial liabilities.
(*3) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

DECEMBER 31, 2012

Classification	Book value	Fair value
Financial liabilities at FVTPL:		
Trading financial liabilities	₩ 21,153	₩ 21,153
Financial liabilities designated at FVTPL	55,978	55,978
Trading derivative liabilities	1,033,720	1,033,720
	1,110,851	1,110,851
Derivative liabilities:		
Hedging derivative liabilities	12,194	12,194
Financial liabilities measured at amortized cost:		
Deposits (*2)	142,711,764	144,885,958
Borrowings (*2)	13,341,589	13,584,828
Debentures (*2)	10,194,160	10,518,102
Others (*1 and *3)	16,276,881	14,080,862
	182,524,394	183,069,750
	₩ 183,647,439	₩ 184,192,795

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables are included in the fair value of financial liabilities.
(*3) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

(2) Details of financial liabilities by category as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Financial instrument at FVTPL	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Trading derivative liabilities	Total
Financial liabilities at FVTPL	₩ 54,344	₩ -	₩ -	₩ -	₩ 54,344
Trading derivative liabilities	-	-	-	717,208	717,208
Hedging derivative liabilities	-	-	13,973	-	13,973
Deposits		144,919,171	-	-	144,919,171
Borrowings	-	15,302,400	-	-	15,302,400
Debentures	-	10,993,925	-	-	10,993,925
Other financial liabilities	-	8,599,202	-	-	8,599,202
	₩ 54,344	₩ 179,814,698	₩ 13,973	₩ 717,208	₩ 180,600,223

DECEMBER 31, 2012

Classification	Financial instrument at FVTPL	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Trading derivative liabilities	Total
Trading financial liabilities	₩ 21,153	₩ -	₩ -	₩ -	₩ 21,153
Financial liabilities at FVTPL	55,978	-	-	-	55,978
Trading derivative liabilities	-	-	-	1,033,720	1,033,720
Hedging derivative liabilities	-	-	12,194	-	12,194
Deposits		142,711,764	-	-	142,711,764
Borrowings	-	13,341,589	-	-	13,341,589
Debentures	-	10,194,160	-	-	10,194,160
Other financial liabilities	-	16,276,881	-	-	16,276,881
	₩ 77,131	₩ 182,524,394	₩ 12,194	₩ 1,033,720	₩ 183,647,439

(3) Financial liabilities at FVTPL as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013	2012
Debentures in Korean won	₩ 54,344	₩ 55,978

Debentures that do not meet the definition of financial liabilities are designated as financial liabilities at FVTPL using fair value option . Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would be otherwise.

(4) Credit risk of financial liabilities at FVTPL as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Amount
Financial liabilities at FVTPL	₩ 54,344
Change in fair value for the period due to changes in credit risk	(273)
Accumulated changes in fair value for the period due to changes in credit risk	85

DECEMBER 31, 2012

Classification	Amount
Financial liabilities at FVTPL	₩ 55,978
Change in fair value for the period due to changes in credit risk	(139)
Accumulated changes in fair value for the period due to changes in credit risk	358

(5) Differences between the book value and the amount at maturity of financial liabilities at FVTPL as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	December 31, 2013	December 31, 2012
Book value	₩ 54,344	₩ 55,978
Amount at maturity	50,000	50,000
Differences	₩ 4,344	₩ 5,978

15. DEPOSITS:

Details of deposits as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification		2013	2012
Demand deposits:			
In Korean won	Checking accounts	₩ 81,985	₩ 88,183
	Household checking accounts	114,764	106,907
	Ordinary deposits	11,601,696	11,355,009
	Special deposits	1,592,599	1,563,600
	Official deposits	3,479,657	3,954,575
	Treasury deposits	30,674	33,948
	Others	31,544	-
		16,932,919	17,102,222
In foreign currency	Checking accounts	1,774	276
	Ordinary deposits	659,906	619,077
	Special deposits	916	658
		662,596	620,011
		17,595,515	17,722,233
Time deposits:			
Saving deposits in Korean won	Fixed deposits	53,353,603	46,661,164
	Installment savings	2,053,896	2,018,625
	Raising lump sum of savings	1	1
	Saving deposits	21,629,949	19,029,370
	Corporate-free saving deposits	8,526,318	9,466,382
	Long-term deposits for workers	47	49
	Long-term deposits for housing	872,142	1,260,308
	Household long-term deposits	113	119
	Workers' preferred savings	126	161
	House application deposits	219,976	250,191
	Other saving deposits	36,016,277	43,250,097
		122,672,448	121,936,467
Saving deposits in foreign currency	Fixed deposits	679,659	1,084,975
	Deposits at call	1,935	2,343
	Other saving deposits	53,948	20,542
		735,542	1,107,860
Installment deposits	Mutual installment savings	2,475,308	1,101,973
	New house-free installment	27,590	24,514
	Free installment deposits	81	85
	House application installments	40,190	50,000
		2,543,169	1,176,572
		125,951,159	124,220,899
Certificates of deposit:		1,372,497	768,632
		₩ 144,919,171	₩ 142,711,764

16. BORROWINGS:

Details of borrowings as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	Provider	Interest rate (%)	2013	2012
Borrowings in Korean won	The Bank of Korea	0.50–1.00	₩ 389,950	₩ 236,700
	Other financial institution	-	-	1,132,960
	Public sector	1.69–5.00	6,842,655	6,101,086
	Others	0.00–3.00	1,327,938	1,364,281
			8,560,543	8,835,027
Borrowings in foreign currency	Borrowings from banks	0.46–3.79	3,380,972	3,601,187
Call money		2.57–2.72	2,936,300	4,000
Bonds sold under repurchase agreements		1.47–2.09	399,384	826,835
Bills sold		1.90–4.00	25,201	74,540
			₩ 15,302,400	₩ 13,341,589

17. DEBENTURES:

Details of debentures as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	Interest rate (%)	2013	2012
Debentures in Korean won:			
General agricultural financial bonds	2.86–5.25	₩ 3,350,000	₩ 3,000,000
Subordinated agricultural financial bonds	3.33–7.70	4,460,000	4,160,000
General debentures	6.24	9,186	23,186
Present value discounts	-	(1,204)	(9,278)
		7,817,982	7,173,908
Debentures in foreign currency:			
General agricultural financial bonds	0.80–5.00	3,150,315	2,945,882
Accumulated loss on fair value hedges	-	36,303	85,362
Present value discounts	-	(10,675)	(10,992)
		3,175,943	3,020,252
		₩ 10,993,925	₩ 10,194,160

18. PROVISIONS:

(1) Details of provisions as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013	2012
Provision for acceptances and guarantees	₩ 105,271	₩ 54,602
Provision for unused credit limit	158,457	136,328
Other provisions	50,082	51,132
	₩ 313,810	₩ 242,062

(2) Acceptances and guarantees (including endorsed bills) as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013	2012
Confirmed acceptances and guarantees		
Acceptances and guarantees in won	₩ 512,075	₩ 577,195
Acceptances and guarantees in foreign currencies:		
Acceptances and guarantees purchased	150,292	227,366
Acceptances and guarantees for imported goods (letter of guarantee)	42,626	33,746
Others	5,755,755	5,695,878
	5,948,673	5,956,990
	6,460,748	6,534,185
Unconfirmed acceptances and guarantees:		
Issuance of local letters of credit	333,784	358,757
Issuance of import letters of credit	1,720,484	1,809,376
Others	2,203,213	2,634,898
	4,257,481	4,803,031
Bills endorsed	15,823	4,897
	₩ 10,734,052	₩ 11,342,113

(3) Acceptances and guarantees (including endorsed bills), by country, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Korea	₩ 940,480	₩ 480,217	₩ -	₩ 1,420,697	13.24
China	87,839	339,861	9,459	437,159	4.07
Japan	107,966	162,631	-	270,597	2.52
USA	484,463	303,640	9	788,112	7.34
Indonesia	15,206	34,264	-	49,470	0.46
Hong Kong	57,290	2,108	-	59,398	0.55
Panama	136,695	111,280	-	247,975	2.31
Singapore	233,565	53,918	-	287,483	2.68
Others	4,397,244	2,769,562	6,355	7,173,161	66.83
	₩ 6,460,748	₩ 4,257,481	₩ 15,823	₩ 10,734,052	100.00

DECEMBER 31, 2012

Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Korea	₩ 1,026,327	₩ 656,785	₩ -	₩ 1,683,112	14.84
China	59,169	295,455	-	354,624	3.13
Japan	159,100	330,145	-	489,245	4.31
USA	393,305	399,458	-	792,763	6.99
Indonesia	22,390	8,747	-	31,137	0.28
Hong Kong	186,133	832	-	186,965	1.65
Panama	92,172	130,598	-	222,770	1.96
Singapore	224,889	89,697	-	314,586	2.77
Others	4,370,700	2,891,314	4,897	7,266,911	64.07
	₩ 6,534,185	₩ 4,803,031	₩ 4,897	₩ 11,342,113	100.00

(4) Acceptances and guarantees (including endorsed bills), by industry, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Manufacturing	₩ 5,636,398	₩ 3,430,195	₩ 1,319	₩ 9,067,912	84.48
Construction	136,188	64,457	-	200,645	1.87
Retail and wholesale	235,536	387,936	14,504	637,976	5.94
Finance and insurance	60,975	3,390	-	64,365	0.60
Others	391,651	371,503	-	763,154	7.11
	₩ 6,460,748	₩ 4,257,481	₩ 15,823	₩ 10,734,052	100.00

DECEMBER 31, 2012

Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Manufacturing	₩ 5,838,760	₩ 3,978,558	₩ -	₩ 9,817,318	86.56
Construction	231,138	73,812	-	304,950	2.69
Retail and wholesale	129,463	293,390	4,897	427,750	3.77
Finance and insurance	17,464	4,683	-	22,147	0.19
Others	317,360	452,588	-	769,948	6.79
	₩ 6,534,185	₩ 4,803,031	₩ 4,897	₩ 11,342,113	100.00

(5) Acceptances and guarantees (including endorsed bills), by customer, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Corporate	₩ 6,326,795	₩ 3,875,483	₩ 15,823	₩ 10,218,101	95.19
Household	2,999	66	-	3,065	0.03
Sole entrepreneur	9,681	11,820	-	21,501	0.20
Member cooperatives	3,660	8,302	-	11,962	0.11
Financial institutions	57,315	951	-	58,266	0.54
Government and others	60,298	360,859	-	421,157	3.93
	₩ 6,460,748	₩ 4,257,481	₩ 15,823	₩ 10,734,052	100.00

DECEMBER 31, 2012

Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Corporate	₩ 6,451,380	₩ 4,541,747	₩ 4,897	₩ 10,998,024	96.97
Household	100	54	-	154	0.01
Sole entrepreneur	9,903	11,001	-	20,904	0.18
Member cooperatives	3,701	6,574	-	10,275	0.09
Financial institutions	13,766	947	-	14,713	0.13
Government and others	55,335	242,708	-	298,043	2.62
	₩ 6,534,185	₩ 4,803,031	₩ 4,897	₩ 11,342,113	100.00

(6) The percentage of provision for acceptances and guarantees to the outstanding balance of acceptances and guarantees as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions, %):

	Outstanding balance	Provision for acceptances and guarantees	Ratio (%)
December 31, 2013	₩ 10,734,052	₩ 105,271	0.98
December 31, 2012	11,342,113	54,602	0.48

(7) The percentage of provision for unused credit limit to the outstanding balance of unused credit limit as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions, %):

	Outstanding balance	Provision for unused credit limit	Ratio (%)
December 31, 2013	₩ 57,982,349	₩ 158,457	0.27
December 31, 2012	55,726,623	136,328	0.24

(8) Details of other provisions as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013		2012	
Provision for mileage	₩	12,169	₩	9,741
Provision for litigation		3,636		4,212
Provision for donation of public interest		4,128		3,434
Provision for restoration		26,839		23,494
Provisions for refund of dormant accounts		551		6,771
Others		2,759		3,480
	₩	50,082	₩	51,132

(9) Changes in provisions for acceptances and guarantees and unused credit limits for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Provision for acceptances and guarantees		Provision for unused credit limits	
January 1, 2013	₩	54,602	₩	136,328
Changes for the period:				
Provision		51,466		22,324
Foreign currency translation		(797)		(195)
December 31, 2013	₩	105,271	₩	158,457

DECEMBER 31, 2012

Classification	Provision for acceptances and guarantees		Provision for unused credit limits	
March 2, 2012	₩	58,119	₩	159,916
Changes for the period:				
Reversal		(1,259)		(22,580)
Foreign currency translation		(2,258)		(1,008)
December 31, 2012	₩	54,602	₩	136,328

19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013		2012	
Trust accounts payable	₩	1,107,662	₩	790,704
Domestic exchange settlements		1,987,621		9,085,626
Foreign exchange settlements		28,757		17,892
Accounts payable		932,809		1,751,568
Accrued expenses		1,945,510		2,438,236
Guarantee deposit received		104,106		104,496
Agency		1,048,932		819,610
Financial guarantee contract		12,472		15,561
Unearned revenue		26,267		24,541
Deferred mileage revenue		50,486		45,616
Suspense receipt		94,301		159,443
Other sundry liabilities		1,539,634		1,343,059
	₩	8,878,557	₩	16,596,352

20. DERIVATIVES AND HEDGE ACCOUNTING:

(1) Details of derivatives as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Derivative assets		Derivative liabilities	
	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 233,842	₩ -	₩ 235,488	₩ -
Currency swap	180,489	-	168,897	-
	414,331	-	404,385	-
Interest rate:				
Interest rate swaps	257,346	54,855	297,938	13,973
Interest rate option purchased	-	-	-	-
	257,346	54,855	297,938	13,973
Stock:				
Stock options purchased	9,465	-	-	-
Stock options sold	-	-	14,885	-
	9,465	-	14,885	-
	₩ 681,142	₩ 54,855	₩ 717,208	₩ 13,973

DECEMBER 31, 2012

Classification	Derivative assets		Derivative liabilities	
	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 288,529	₩ -	₩ 252,063	₩ -
Currency swap	356,083	-	271,305	-
	644,612	-	523,368	-
Interest rate:				
Interest rate swaps	444,666	99,082	510,205	12,194
Interest rate option purchased	120	-	-	-
	444,786	99,082	510,205	12,194
Stock:				
Stock options purchased	11,748	-	-	-
Stock options sold	-	-	147	-
	11,748	-	147	-
	₩ 1,101,146	₩ 99,082	₩ 1,033,720	₩ 12,194

(2) The notional amounts outstanding for derivative contracts as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Trading	Hedging	Total
Currency:			
Currency forwards	₩ 24,802,892	₩ -	₩ 24,802,892
Currency futures (*)	198,544	-	198,544
Currency swap	3,843,970	-	3,843,970
	28,845,406	-	28,845,406
Interest rate:			
Interest rate swaps	25,902,749	2,930,463	28,833,212
Stock:			
Stock options purchased	47,548	-	47,548
Stock options sold	134,294	-	134,294
	181,842	-	181,842
	₩ 54,929,997	₩ 2,930,463	₩ 57,860,460

(*) Futures transactions are daily settled and reflected in deposits.

DECEMBER 31, 2012

Classification	Trading	Hedging	Total
Currency:			
Currency forwards	₩ 24,604,201	₩ -	₩ 24,604,201
Currency futures (*)	544,269	-	544,269
Currency swap	5,548,526	-	5,548,526
	30,696,996	-	30,696,996
Interest rate:			
Interest rate futures (*)	10,595	-	10,595
Interest rate swaps	41,816,790	2,611,342	44,428,132
Interest rate option purchased	10,000	-	10,000
	41,837,385	2,611,342	44,448,727
Stock:			
Stock futures	6,120	-	6,120
Stock options purchased	22,314	-	22,314
Stock options sold	4,404	-	4,404
	32,838	-	32,838
	₩ 72,567,219	₩ 2,611,342	₩ 75,178,561

(*) Futures transactions are daily settled and reflected in deposits.

(3) Details of derivatives as of December 31, 2013, and gain or loss on valuation of derivatives for the year ended December 31, 2013, are as follows (Unit: Korean won in millions):

	Gain or loss on valuation (consolidated statement of comprehensive income)						Accumulated gain or loss on valuation (consolidated statement of financial position)	
	Trading		Hedging		Total			
Classification	Gain	Loss	Gain	Loss	Gain	Loss	Assets	Liabilities
Currency:								
Forwards	₩ 229,725	₩ 227,642	₩ -	₩ -	₩ 229,725	₩ 227,642	₩ 233,842	₩ 235,488
Swap	59,414	72,303	-	-	59,414	72,303	180,489	168,897
	289,139	299,945	-	-	289,139	299,945	414,331	404,385
Interest rate:								
Swap	₩ 190,697	₩ 172,421	₩ 7,488	₩ 57,823	₩ 198,185	₩ 230,244	₩ 312,201	₩ 311,911
Options purchased	-	-	-	-	-	-	-	-
	190,697	172,421	7,488	57,823	198,185	230,244	312,201	311,911
Stock:								
Options purchased	3,776	6,718	-	-	3,776	6,718	9,465	-
Options sold	12	2,846	-	-	12	2,846	-	14,885
	3,788	9,564	-	-	3,788	9,564	9,465	14,885
	₩ 483,624	₩ 481,930	₩ 7,488	₩ 57,823	₩ 491,112	₩ 539,753	₩ 735,997	₩ 731,181

(4) At the end of the reporting period, hedged items applied with fair value hedge include AFS financial assets (debt securities) and debentures. Changes in the fair value of derivatives are recognized in net income immediately. Interest rate swap is used as a hedging instrument in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

1) Details of the Group's hedged items and types of hedge accounting as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Hedged item	Hedged risk	Hedging instrument	Type of hedge accounting	Fair value of hedging instrument 2013	Fair value of hedging instrument 2012
AFS financial assets	Interest rate risk	Interest rate swaps	Fair value hedge	₩ (2,815)	₩ (12,194)
Debentures	Interest rate risk	Interest rate swaps	Fair value hedge	43,697	99,082

2) Details of (loss) gain on valuation of hedged items and hedging instruments for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2013		For the period from March 2, 2012 to December 31, 2012	
Classification	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument
AFS financial assets	₩ (5,973)	₩ 7,277	₩ (3,034)	₩ 3,089
Debentures	49,058	(57,612)	3,293	(2,111)
	₩ 43,085	₩ (50,335)	₩ 259	₩ 978

21. RETIREMENT BENEFITS:

The Group operates a defined benefit plan (the "DB plan") in accordance with Employee Retirement Benefits Laws, which is also classified as DB plan under K-IFRS. Under DB plan, severance pay is made on a lump-sum basis or entitled to pension when an employee retires, based on the employee's service period and salary at retirement. The Group has purchased retirement benefits insurance annuity, etc., and made deposits with Woori Bank and others. The deposit for retirement insurance and assets for DB plan operation are presented as a deduction from defined benefit obligations under an account of plan assets.

If a retiree is up for quasi-retirement age limit of special retirement, the Group pays quasi-retirement age limit payments separately from general severance payments.

The Group is exposed to investment risk and interest risk.

Actuarial valuation for plan assets and defined benefit obligations related to the general severance payments and quasi-age severance payments is performed by an independent actuary as of December 31, 2013 and 2012, respectively. Current and past service costs related to present value of defined benefit obligations are measured using the projected unit credit method.

(1) Key actuarial assumptions

Key assumptions for actuarial valuation as of December 31, 2013 and 2012, are as follows:

	2013	2012
Discount rate	4.00%	3.51%
Salary increase rate:		
Inflation	1.79%	1.23%
Empirical promotion rate	Empirical promotion rate by age	

(2) Details of net defined benefit obligation as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013	2012
Present value of defined benefit obligations	₩ 700,860	₩ 547,122
Fair value of plan assets	(522,291)	(409,448)
Net defined benefit obligation	₩ 178,569	₩ 137,674

(3) Changes in net defined benefit obligation for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Present value of defined benefit obligations	Plan assets	Total
January 1, 2013	₩ 547,122	₩ (409,448)	₩ 137,674
Current service cost	119,602	-	119,602
Interest expense (income)	19,204	(14,372)	4,832
Remeasurement elements:			
Return on planned assets (excluded from the above interest income)	-	1,861	1,861
Actuarial gains or losses incurred due to changes in demographic assumptions	2,250	-	2,250
Actuarial gains or losses incurred due to changes in financial assumptions	43,807	-	43,807
Actuarial gains or losses incurred due to experience adjustments	49,986	-	49,986
Contribution by employer	-	(174,000)	(174,000)
Payment	(77,311)	73,080	(4,231)
Other	(3,800)	588	(3,212)
December 31, 2013	₩ 700,860	₩ (522,291)	₩ 178,569

DECEMBER 31, 2012

Classification	Present value of defined benefit obligations	Plan assets	Total
March 2, 2012	₩ 447,303	₩ (227,751)	₩ 219,552
Current service cost	104,436	-	104,436
Interest expense (income)	15,290	(6,306)	8,984
Remeasurement elements:			
Return on planned assets (excluded from the above interest income)	-	(1,348)	(1,348)
Actuarial gains or losses incurred due to changes in demographic assumptions	60,985	-	60,985
Actuarial gains or losses incurred due to changes in financial assumptions	45,099	-	45,099
Actuarial gains or losses incurred due to experience adjustments	(120,655)	-	(120,655)
Contribution by employer	-	(175,000)	(175,000)
Payment	(5,645)	957	(4,688)
Other	309	-	309
December 31, 2012	₩ 547,122	₩ (409,448)	₩ 137,674

(4) Portfolio of plan assets as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Classification	2013		2012	
Fixed deposits	₩	522,291	₩	409,448

Investment strategies and policies of plan assets aim to balance risk reduction and pursuit of profit. The objective to minimize the variability of assets in relation to debt is basically achieved through diversified investment of assets, and partial asset-liability matching strategies. In order to reduce (adjust risk) variability of assets in relation to debt and achieve the intended levels of profit, investment is distributed over a vast range of many different types of assets. The distribution of assets is such that a regular income is secured similar to bonds, and partially matches the characteristics of a long maturity period in pension obligations.

The actual return on plan assets is ₩12,511 million and ₩7,655 million for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, respectively.

(5) The effects of reasonable possible changes to significant actuarial assumptions on defined benefit obligation whilst all other assumptions occurring as of December 31, 2013, are held constant, are as follows (Unit: Korean won in millions):

	Increase		Decrease	
100 basis point (bp) change in discount rate	₩	(74,742)	₩	89,004
1% change in salary increase rate		90,132		(76,871)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another, since some of the actuarial assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liabilities recognized in the consolidated statement of financial position.

(6) The Group expects to make a contribution of ₩110,330 million to the defined benefit plans during the next fiscal year.

22. EQUITY:

(1) Capital stock as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions, shares):

Classification	2013		2012	
Shares authorized		1,000,000,000		1,000,000,000
Par value (Unit: In Korean won)	₩	5,000	₩	5,000
Shares issued		414,791,122		383,124,456
Common stock	₩	2,073,956	₩	1,915,622

(2) Details of other paid-in capital as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013		2012	
Capital surplus (*1)	₩	8,990,456	₩	9,201,074
Hybrid bonds (*2)		699,645		349,997
	₩	9,690,101	₩	9,551,071

(*1) The amount of capital surplus as of December 31, 2013 and 2012, is paid-in capital in excess of par value.
(*2) Agricultural financial bonds issued by the Bank are qualified as equity since the maturity bonds can be extended under the same terms after expiration.

(3) For the comparative period from March 2, 2012, to December 31, 2012, there were no changes in capital stock and premium on stock. Changes in capital stock and capital surplus for the year ended December 31, 2013, are as follows (Unit: Korean won in millions):

Classification	Capital stock		Premium on stock		Total	
January 1, 2013	₩	1,915,622	₩	9,201,074	₩	11,116,696
Capital increase (*1)		75,000		373,918		448,918
Capital increase (*2)		83,334		415,464		498,798
Account transfer of retained earnings (*3)		-		(1,000,000)		(1,000,000)
	₩	2,073,956	₩	8,990,456	₩	11,064,412

(*1) The Group has undergone a capital increase in accordance with the Board of Director's resolution dated March 14, 2013, by offering 15,000,000 shares at ₩30,000 per share. The total subscription amount has been paid as of December 31, 2013.
(*2) The Group has undergone a capital increase in accordance with the Board of Director's resolution dated August 22, 2013, by offering 16,666,666 shares at ₩30,000 per share. The total subscription amount has been paid as of December 31, 2013.
(*3) The capital surplus (premium on stock) was transferred to the retained earnings (voluntary reserve for recapitalization) account in accordance with the Board of Director’s resolution dated December 26, 2013.

(4) Details of other component of equity, as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013		2012	
Gain on valuation of AFS financial assets	₩	121,305	₩	253,634
Gain (loss) on foreign currency translation of AFS financial assets		(446)		5,278
Remeasurements of the net defined benefit liability		(62,144)		12,067
Loss on overseas business translation		(561)		-
Loss on valuation of investments in associates		(72)		(290)
	₩	58,082	₩	270,689

(5) Changes in other component of equity for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	January 1, 2013	Changes for the period	Deferred income tax	December 31, 2013
Gain (loss) on valuation of AFS financial assets	₩ 253,634	₩ (156,748)	₩ 24,419	₩ 121,305
Gain (loss) on foreign currency translation of AFS financial assets	5,278	(7,584)	1,860	(446)
Remeasurements of the net defined benefit liability	12,067	(97,904)	23,693	(62,144)
Loss on overseas business translation	-	(561)	-	(561)
Gain (loss) on valuation of investments in associates	(290)	288	(70)	(72)
	₩ 270,689	₩ (262,509)	₩ 49,902	₩ 58,082

DECEMBER 31, 2012

Classification	March 2, 2012	Changes for the period	Deferred income tax	December 31, 2012
Gain (loss) on valuation of AFS financial assets	₩ 269,742	₩ (9,674)	₩ (6,434)	₩ 253,634
Gain (loss) on foreign currency translation of AFS financial assets	13,194	(9,767)	1,851	5,278
Remeasurements of the net defined benefit liability	-	15,919	(3,852)	12,067
Gain (loss) on valuation of investments in associates	-	(384)	94	(290)
	₩ 282,936	₩ (3,906)	₩ (8,341)	₩ 270,689

(6) Retained earnings as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Classification	2013	2012
Reserve for credit losses	₩ 999,372	₩ 888,374
Legal reserve	42,729	-
Voluntary reserve for recapitalization	1,000,000	-
Unappropriated retained earnings	110,700	420,457
	₩ 2,152,801	₩ 1,308,831

(7) Changes in retained earnings for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification		Amount
Balance as of January 1, 2013	₩	1,308,831
Net income		173,559
Changes in consolidated taxation payment		5,966
Hybrid bond dividend		(27,930)
Account transfer of premium on stock		1,000,000
Cash dividends		(307,625)
Balance as of December 31, 2013	₩	2,152,801

DECEMBER 31, 2012

Classification		Amount
Balance as of March 2, 2012	₩	-
Net income		386,034
Changes in consolidated taxation payment		58,083
Reserve for credit losses		888,374
Hybrid bond dividend		(23,660)
Balance as of December 31, 2012	₩	1,308,831

(8) Details of dividend payments made by the Group for the year ended December 31, 2013, are as follows:

Classification	Number of dividends shares		Dividends per share (Unit: Korean won)		Total (Unit: Korean won in millions)
Common stock	383,124,456	₩	803	₩	307,625

(9) Reserve for credit losses as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Classification		2013		2012
Beginning balance	₩	999,372	₩	888,374
Provision for reserve for credit losses		92,295		110,998
Expected balance	₩	1,091,667	₩	999,372

(10) Reversal (provision) of reserve for credit losses and adjusted net income after reflecting reserve for credit losses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification		For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012
Net income	₩	173,559	₩	386,034
Provision for reserve for credit losses		(92,295)		(110,998)
Adjusted net income after reserve for credit losses		81,264		275,036
Adjusted basic earnings per share after reserve for credit losses (Unit: In Korean won)	₩	204	₩	718
Adjusted diluted earnings per share after reserve for credit losses (Unit: In Korean won)	₩	204	₩	718

23. CAPITAL MANAGEMENT:

(1) Current state of regulatory capital

The Group reports to the Financial Supervisory Service on a monthly or quarterly basis about Group for International Settlement ("BIS") capital adequacy ratio, common equity ratio based on market risk, basic common equity ratio and their computation evidences. In addition, the Group reviews the soundness of its capital using the capital adequacy ratio representing capital over the risk-weighted asset (BIS capital adequacy ratio).

The Group's regulatory capitals consist of the following two categories:

- Tier 1 capital (basic capital): Basic capital is composed of capital stock, additional paid-in capital (excluding revaluation reserve), retained earnings (excluding reserve for credit losses and gain on the revaluation of tangible assets), non-controlling interests of consolidated subsidiaries and hybrid bonds.

- Tier 2 capital (supplementary capital): Supplementary capital is composed of revaluation reserve, gains on valuation of AFS financial assets classified as accumulated other comprehensive income, 45 over 100 of capital changes by equity method, allowance for losses on credit for assets classified as normal or precautionary according to the forward-looking criteria and fixed-term subordinated debt with a maturity of five years or more.

The basic and supplementary capital listed above has many restrictions to be recognized as capital and regulatory capital is computed reflecting items deducted from capital.

Following the implementation of BASEL III, the Group has calculated the risk-weighted assets on market risk, operating risk via the standard method, and risk-weighted assets on credit risk via the internal ratings-based approach, and are managing the ratios accordingly, as of December 1, 2013.
Details of the Group's BIS capital adequacy ratio as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions and ratio in percentage):

Classification	2013	2012
Basic capital (A)	₩ 12,453,062	₩ 11,139,128
Supplementary capital (B)	2,694,656	3,108,405
Equity capital (C)	15,147,718	14,247,533
Risk-weighted assets (D)	102,595,357	98,727,823
Equity capital ratio (C/D*100)	14.76	14.43
Basic capital ratio (A/D*100)	12.14	11.28

(2) Allocation of shareholder's equity

Allocation of shareholder's equity is determined by approval of the risk management committee within the available capital after the establishment of risk capital management plan reflecting business plan, strategies and analysis of risk situations. Allocated capitals by risk upon the risk capital management plan are divided by tolerance limits of department and business sector, and managed from risk management council.

The risk management committee and council of the Group review the internal capital policies on a regular basis and have a duty to maintain the stable capital adequacy and the soundness of finance by preliminary authorization process on excess of the limitation of internal capital forecasted due to new or extension of business or exceptionally by an ex post facto approval.

24. INCOME TAX EXPENSE:

(1) The components of income tax expense for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Units: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Income tax currently payable	₩ 36,178	₩ 274,405
Adjustments recognized for the year ended December 31, 2013, in relation to the current tax of prior periods	(43,472)	-
Change in deferred income tax due to temporary differences (*)	10,263	(175,231)
Total income tax effect	2,969	99,174
Income taxes directly applied to shareholder's equity	49,902	(8,341)
Income tax expense	₩ 52,871	₩ 90,833

(*) Details of changes in deferred income tax due to temporary differences are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Net deferred income tax assets due to temporary differences as of ending balance	₩ 54,066	₩ 64,329
Net deferred income tax assets (liabilities) due to temporary differences as of beginning balance	64,329	(110,902)
Change in deferred income tax due to temporary differences	₩ (10,263)	₩ 175,231

(2) A reconciliation of income before income tax and income tax expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Units: Korean won in millions and tax rate in %):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Net income before income tax	₩ 226,430	₩ 476,867
Income tax expense before adjustments	54,796	115,402
Non-taxable income	(33,580)	(25,832)
Non-deductible expenses	7,698	4,834
Refund of income tax or Supplementary pay of income tax	19,722	(15,132)
Others	4,235	11,561
	(1,925)	(24,569)
Income tax expense	₩ 52,871	₩ 90,833
Effective tax rate	23.35%	19.05%

(3) The deferred income tax recognized as other comprehensive income for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Units: Korean won in millions):

Classification	2013		2012	
Gain (loss) on valuation of AFS financial assets	₩	24,419	₩	(6,434)
Gain on translation of AFS financial assets		1,860		1,851
Remeasurements of the net defined benefit liability		23,693		(3,852)
Gain (loss) on valuation of investments in associates		(70)		94
	₩	49,902	₩	(8,341)

(4) The deferred income tax assets (liabilities) of the Group as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Deductible (taxable) temporary differences							
	Beginning		Increase		Decrease		Ending	
DEDUCTIBLE TEMPORARY DIFFERENCES:								
Retirement benefit obligation	₩	226,792	₩	460,734	₩	73,081	₩	614,445
Provision for credit card mileage		2,881		4,898		-		7,779
Deferred mileage revenue		45,617		4,870		-		50,487
Accrued expenses (mileage)		655		13		-		668
Mileage deposit		879		2,796		-		3,675
Provision for acceptances and guarantees		7,146		50,825		-		57,971
Provision for unused credit limit		2,062		18,222		-		20,284
Financial guarantee contract		15,792		12,621		15,792		12,621
Provision for restoration		23,494		26,839		23,494		26,839
Interest income from payment in subrogation		-		24,689		-		24,689
HTM financial assets (hybrid bonds)		-		24,151		-		24,151
Deferred LOF/LOC		6,783		3,714		-		10,497
Provision for credit risk of derivatives		4,141		3,973		-		8,114
Other present value discounts		1,313		10,200		-		11,513
Impairment loss on AFS financial assets		657		-		-		657
HTM financial assets		268,704		-		115,907		152,797
Employee benefits for unused vacation	₩	74,595	₩	78,153	₩	74,595	₩	78,153
Variable incentive		1,034		1,667		1,034		1,667
Other accounts payable		-		5,675		2,469		3,206
Hanaro Branch establishment costs		-		2,910		-		2,910
Litigation expenses		-		267		62		205
Derivative liabilities		357,391		182,303		357,404		182,290
Loss on daily settlement of futures transactions		1,276		894		1,276		894
Index-linked deposits		58		12		58		12
Loss on valuation of unsettled spot exchange		136		-		136		-
Provision for fund		79		45		-		124
Card public fund		710		963		-		1,673
Provision for compensation due to illicit use of card		169		32		-		201
Provision for dormant account		6,495		-		5,943		552
Provision for customer loyalty program		766		1,183		-		1,949
Debt for equity swap receivables		124,278		-		67,935		56,343
Bank levy		2,531		1,746		2,531		1,746
Restructuring fund distributions of non-performing loans		4,605		1,116		-		5,721
Stock dividends		2		-		2		-

Classification	Deductible (taxable) temporary differences			
	Beginning	Increase	Decrease	Ending
Depreciation	6,872	4,931	341	11,462
Convertible stock				
(Sungdong Shipbuilding and Marine Engineering)	-	10,999	-	10,999
Subsidy	4	3	1	6
AFS equity securities in Korean won	127,940	198,383	127,859	198,464
AFS debt securities in foreign currency	-	10,308	-	10,308
AFS equity securities in foreign currency	-	1,653	-	1,653
Deposit with statute of limitations expired	5,138	35,265	-	40,403
Trust with statute of limitations expired	-	39	-	39
Trading debt securities in Korean won	503	4,934	503	4,934
Other provisions	1,326	2,496	-	3,822
	1,322,824	1,194,522	870,423	1,646,923
Tax rate (*1)	24.20%			24.20%
Deferred income tax assets	320,123			398,555
TAXABLE TEMPORARY DIFFERENCES:				
Retirement fund	-	(562,760)	(73,080)	(489,680)
Receivable from financial guarantee contract	(14,015)	(11,434)	(14,015)	(11,434)
Leasehold improvements	(4,515)	(4,602)	(4,515)	(4,602)
Deferred LOC	(101,354)	(53,213)	-	(154,567)
Derivative assets	(370,609)	(126,609)	(370,620)	(126,598)
Financial liabilities designated at FVTPL in Korean won	(3,071)	(1,634)	-	(4,705)
Agricultural financial bond	(209,940)	-	(10,691)	(199,249)
Derivative instruments to settle on a net basis	-	(263)	(263)	-
Hedging financial debentures	(2,996)	(49,058)	-	(52,054)
Deposit with statute of limitations expired	(6,959)	(295)	(2,129)	(5,125)
HTM financial assets (hybrid bonds)	-	(5,257)	-	(5,257)
AFS financial assets in foreign currency (hybrid bonds)	-	(6,751)	-	(6,751)
Convertible stock (Kumho Tire)	-	(7,704)	-	(7,704)
Investments in associates	(501)	(551)	-	(1,052)
Investments in subsidiaries and others	(14,488)	(4,455)	(14,488)	(4,455)
Other accounts receivable	-	(26,230)	-	(26,230)
Trading equity securities in Korean won	(3,180)	(2,219)	(3,180)	(2,219)
AFS equity securities in foreign currency	(10,437)	-	(10,437)	-
AFS debt securities in Korean won	₩ (11,165)	₩ -	₩ (11,165)	₩ -
AFS debt securities in foreign currency	(9,489)	-	(9,489)	-
Financial liabilities designated at FVTPL in Korean won	-	(20)	-	(20)
Accrued interest	(186,827)	(216,772)	(186,827)	(216,772)
Special contribution for credit guarantee	(39,135)	(26,673)	(33,177)	(32,631)
Special reserve	(68,293)	(4,109)	-	(72,402)
Financial assets designated at FVTPL in foreign currency	(21)	-	(21)	-
	(1,056,995)	(1,110,609)	(744,097)	(1,423,507)
Tax rate (*1)	24.20%			24.20%
Deferred income tax liabilities	(255,794)			(344,489)
Deferred income tax assets, net	₩ 64,329			₩ 54,066

(*1) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).

(*2) The tax effects due to gain (loss) on valuation of investments in associates using the equity method is reasonably estimated in consideration of applicable amounts and the probability of realizing deferred tax assets with respect to each associate.

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Classification	Deductible (taxable) temporary differences			
	Beginning	Increase	Decrease	Ending
DEDUCTIBLE TEMPORARY DIFFERENCES:				
Retirement benefit obligation	₩ 162,647	₩ 198,033	₩ 133,888	₩ 226,792
Provision for credit card mileage	(55,151)	2,881	(55,151)	2,881
Deferred mileage revenue	43,131	2,486	-	45,617
Accrued expenses (mileage)	847	-	192	655
Mileage deposit	702	177	-	879
Provision for acceptances and guarantees	7,146	-	-	7,146
Provision for unused credit limit	(88,423)	2,062	(88,423)	2,062
Financial guarantee contract	10,796	15,792	10,796	15,792
Provision for restoration	21,766	23,494	21,766	23,494
Deferred LOF/LOC	3,910	2,873	-	6,783
Provision for credit risk of derivatives	4,141	-	-	4,141
Other present value discounts	1,769	-	456	1,313
Impairment loss on AFS financial assets	657	-	-	657
HTM financial assets	331,762	(18,269)	44,789	268,704
Employee benefits for unused vacation	11,129	74,595	11,129	74,595
Variable incentive	-	1,034	-	1,034
Derivative liabilities	-	357,391	-	357,391
Loss on daily settlement of futures transactions	-	1,276	-	1,276
Index-linked deposits	-	58	-	58
Loss on valuation of unsettled spot exchange	-	136	-	136
Provision for fund	-	79	-	79
Card public fund	-	710	-	710
Provision for compensation due to illicit use of card	-	169	-	169
Provision for dormant account	-	6,495	-	6,495
Provision for customer loyalty program	-	766	-	766
Debt for equity swap receivables	-	124,278	-	124,278
Bank levy	-	2,531	-	2,531
Restructuring fund distributions of non-performing loans	-	4,605	-	4,605
Stock dividends	-	2	-	2
Depreciation	₩ -	₩ 6,872	₩ -	₩ 6,872
Subsidy	-	4	-	4
AFS equity securities in Korean won	-	127,940	-	127,940
Deposit with statute of limitations expired	-	5,138	-	5,138
Trading debt securities in Korean won	-	503	-	503
Other provisions	-	1,326	-	1,326
	456,829	945,437	79,442	1,322,824
Tax rate (*1)	24.20%			24.20%
Deferred income tax assets	110,553			320,123
TAXABLE TEMPORARY DIFFERENCES:				
Reserve for e-banking mileage	(805)	-	(805)	-
Favorable exchange rate service	(284)	-	(284)	-
Allowance for losses on credit (K-IFRS)	(527,418)	-	(527,418)	-
Restructured loans	(36,666)	-	(36,666)	-
Receivable from financial guarantee contract	(10,483)	(14,015)	(10,483)	(14,015)
Accrued income of overdue loan	(25,204)	-	(25,204)	-
Leasehold improvements	(4,123)	(4,515)	(4,123)	(4,515)
Deferred LOC	(10,094)	(91,260)	-	(101,354)

Classification	Deductible (taxable) temporary differences			
	Beginning	Increase	Decrease	Ending
Derivative assets	(13,486)	(370,609)	(13,486)	(370,609)
Financial liabilities designated at FVTPL in Korean won	(6,238)	3,167	-	(3,071)
Agricultural financial bond	(216,687)	-	(6,747)	(209,940)
Hedging financial debentures	-	(2,996)	-	(2,996)
Deposit with statute of limitations expired	-	(6,959)	-	(6,959)
Investments in associates	-	(501)	-	(501)
Investments in subsidiaries and others	-	(14,488)	-	(14,488)
Trading equity securities in Korean won	-	(3,180)	-	(3,180)
AFS equity securities in foreign currency	-	(10,437)	-	(10,437)
AFS debt securities in Korean won	-	(11,165)	-	(11,165)
AFS debt securities in foreign currency	-	(9,489)	-	(9,489)
Accrued interest	-	(186,827)	-	(186,827)
Special contribution for credit guarantee	-	(42,500)	(3,365)	(39,135)
Financial assets designated at FVTPL in foreign currency	-	(21)	-	(21)
Special reserve	(63,614)	(4,679)	-	(68,293)
	(915,102)	(770,474)	(628,581)	(1,056,995)
Tax rate (*1)	24.20%			24.20%
Deferred income tax liabilities	(221,455)			(255,794)
Deferred income tax assets (liabilities), net	₩ (110,902)			₩ 64,329

(*1) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).

(*2) The tax effects due to gain (loss) on valuation of investments in associates using the equity method is reasonably estimated in consideration of applicable amounts and the probability of realizing deferred tax assets with respect to each associate.

25. INTEREST INCOME AND EXPENSES:

(1) The interest income and expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Interest income:		
Due from banks	₩ 72,943	₩ 60,166
Loans and receivables	6,938,452	6,347,466
Financial assets at FVTPL	145,051	138,847
AFS financial assets	402,909	381,996
HTM financial assets	534,550	560,919
Others	11,032	16,451
	8,104,937	7,505,845
Interest expenses:		
Deposits	3,174,864	3,191,740
Debentures	431,273	379,653
Borrowings	227,411	231,648
Financial liabilities at FVTPL	3,968	3,121
Others	68,254	50,254
	3,905,770	3,856,416
Interest income, net	₩ 4,199,167	₩ 3,649,429

(2) Interest income of impaired financial assets for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Loans	₩ 110,954	₩ 103,049

26. COMMISSION INCOME AND EXPENSES:

Commission income and expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Commission income:				
Deposits	₩	1,335	₩	1,105
Loans and credits		57,323		49,004
Foreign exchange		22,978		19,673
Credit card		75,769		76,767
Asset management		44,182		39,391
Agency business		171,442		123,490
Guarantee service		51,184		43,909
Trust accounts		34,853		22,672
Others		179,706		157,717
		638,772		533,728
Commission expenses:				
Loans and credits		14,476		7,914
Foreign exchange		5,958		5,145
Agency business		19,922		15,537
Credit card		230,530		166,145
Others		48,248		39,801
		319,134		234,542
Commission income, net	₩	319,638	₩	299,186

27. GAIN (LOSS) ON FINANCIAL INVESTMENTS:

(1) Gain (loss) on trading financial assets for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Trading financial assets:		
Gain on valuation of trading financial assets	₩ 8,300	₩ 34,354
Loss on valuation of trading financial assets	(5,029)	(23,242)
	3,271	11,112
Gain on disposal of trading financial assets	77,003	84,021
Loss on disposal of trading financial assets	(91,590)	(94,974)
	(14,587)	(10,953)
Gain on redemption of trading financial assets	1,577	2,175
Loss on redemption of trading financial assets	(5,203)	(27,013)
	(3,626)	(24,838)
Dividend income of trading financial assets	2,341	997
	(12,601)	(23,682)
Trading derivatives:		
Gain on valuation of trading derivatives	483,624	576,926
Loss on valuation of trading derivatives	(481,930)	(574,716)
	1,694	2,210
Gain on disposal of trading derivatives	1,888,121	1,546,514
Loss on disposal of trading derivatives	(1,916,000)	(1,676,160)
	(27,879)	(129,646)
	(26,185)	(127,436)
	₩ (38,786)	₩ (151,118)

(2) Gain (loss) on financial assets designated at FVTPL for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Financial assets designated at FVTPL:		
Gain on valuation of financial assets designated at FVTPL	₩ -	₩ 21
Gain on redemption of financial assets designated at FVTPL	-	2,472
Loss on redemption of financial assets designated at FVTPL	(96)	(3,661)
	(96)	(1,168)
Financial liabilities designated at FVTPL:		
Gain on valuation of financial liabilities designated at FVTPL	1,634	-
Loss on valuation of financial liabilities designated at FVTPL	-	(3,166)
	1,634	(3,166)
	₩ 1,538	₩ (4,334)

(3) Gain (loss) on financial investment assets for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Financial investment assets:		
AFS financial assets:		
Gain on disposal of AFS financial assets	₩ 152,188	₩ 115,256
Loss on disposal of AFS financial assets	(25,914)	(3)
	126,274	115,253
Gain on redemption of AFS financial assets	7,663	3,097
Loss on redemption of AFS financial assets	(11,014)	(18,977)
	(3,351)	(15,880)
Dividend income of AFS financial assets	71,851	59,592
Impairment loss on AFS financial assets	(84,375)	(126,576)
	110,399	32,389
HTM financial assets:		
Gain on redemption of HTM financial assets	22,962	44,124
Reversal of impairment loss on HTM financial assets	10,558	7,067
	33,520	51,191
	₩ 143,919	₩ 83,580

(4) Dividend income from financial investments for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Trading financial assets	₩ 2,341	₩ 997
AFS financial assets	71,851	59,592
	₩ 74,192	₩ 60,589

28. IMPAIRMENT LOSS ON FINANCIAL ASSETS:

Impairment loss related to financial assets for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Loans and receivables	₩	1,073,767	₩	768,947
AFS financial assets		84,375		126,576
	₩	1,158,142	₩	895,523

29. OTHER OPERATING INCOME AND EXPENSES:

Other operating income and expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Other operating income:				
Gain on derivatives	₩	10,430	₩	21,881
Gain on fair value hedge		49,464		28,192
Point income		32,071		22,751
Gain from changes in foreign exchange rate		521,702		709,379
Others		72,779		49,123
		686,446		831,326
Other operating expenses:				
Loss on derivatives		57,823		33,805
Loss on fair value hedge		7,536		14,663
Point expense		35,002		26,221
Loss from changes in foreign exchange rate		471,167		580,217
Fund contribution		452,684		366,997
Transfer to other provisions		10,528		12,467
Others		78,264		104,273
		1,113,004		1,138,643
Other operating expenses, net	₩	(426,558)	₩	(307,317)

30. EMPLOYEE BENEFITS:

Details of employee benefits for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Employee benefits	₩	1,012,766	₩	770,155
Fringe benefits		382,723		301,246
Retirement expenses		124,434		113,420
	₩	1,519,923	₩	1,184,821

31. OTHER SELLING AND ADMINISTRATIVE EXPENSES:

Other selling and administrative expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Tax and dues	₩	88,146	₩	77,140
Travel		6,404		4,520
Telecommunications and transportation		24,943		20,150
Supplies		18,967		23,053
Publication		14,370		16,494
Office rental expense		105		112
Advertising		84,180		84,275
Registration and legal fees		283		292
Development cost		2,909		4,518
Business promotion expenses		15,143		14,046
Repairs and maintenance		12,471		15,357
Utilities		18,403		13,769
Insurance		4,204		1,175
Rental		120,544		94,000
Vehicle maintenance		6,382		5,754
Training		4,917		3,967
Service contract		122,605		97,936
Prizes		10,112		8,361
Compensation for overnight duty		16,826		13,961
Conference		8,748		8,699
Computer service fees		145,855		108,686
Sundry expenses		6,365		6,700
	₩	732,882	₩	622,965

32. OTHER INCOME AND EXPENSES:

Other income and expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification		For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012
Other income:				
Gain on disposal of assets	₩	211	₩	2,346
Rent		23,964		21,030
Income from unused gift card		423		418
Miscellaneous		39,374		37,562
Others		26,612		40,568
		90,584		101,924
Other expenses:				
Loss on disposal of assets		3,319		2,561
Expense related to collecting receivable		5,473		4,673
Depreciation on investment properties		3,446		3,391
Brand fee (*)		423,524		410,261
Miscellaneous		59,017		86,849
Others		20,665		9,090
		515,444		516,825
Other expenses, net	₩	(424,860)	₩	(414,901)

(*) Brand fee, which is paid to NACF annually, is computed using the imposed ratio to the average of operating revenue for the most recent three years.

33. EARNINGS PER SHARE:

The Group's basic earnings per share and diluted earnings per share are the same as dilutive potential ordinary share does not exist for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012.

Details of the basic earnings per share, net income (loss), which is used to calculate the basic earnings per share and weighted-average number of common shares, for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions except per share amounts, shares):

Classification		For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012
Net income	₩	173,559	₩	386,034
Dividend income from hybrid bonds	₩	(27,930)	₩	(23,660)
Income attributable to common share	₩	145,629	₩	362,374
Weighted-average number of common shares		398,019,433		383,124,456
Basic and diluted earnings per share (in Korean won)	₩	366	₩	946

34. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS:

The Group is exposed to various financial risks, such as credit, market and liquidity, associated with financial instruments.

For risk management, the Group has the risk management committee; the top legislative organization; the risk management council; the operational legislative organization; and other executive departments, such as risk management task force department, individual risk management department and independent monitoring department.

The risk management committee consists of five directors, chief executive officer, non-executive director and three outside directors, and deliberates and determines major issues, such as establishment of risk management policies and strategies and determination of risk tolerance limit. Some ordinary and continual issues can be deliberated and determined by the risk management council.

The Group retains various risk management policies and systems, such as establishment of risk tolerance limit, constant monitoring to maintain optimum level of risk and performance evaluation and capital distribution considering the risk. The conditions and results of risk management, including risk management and analysis, are periodically reported to risk management committee and council.

The risk management task force team establishes and manages the risk tolerance limit by business sector and accounting, and those risk measurement and analysis are monthly reported to the risk management council. Also, the Group regularly calculates and monitors the integrated risk so as to merge exposed risks into a single indicator and manage it comprehensively to be within the reasonable level of risk.

(1) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in non-payment of the principal and interest to the payables and potential financial loss to the Group. Credit risk arises from deposits, securities, loans, off-balance accounts, etc. The purpose of credit risk management is to improve asset soundness and to secure the stable revenue by minimizing the probability of credit risk through the establishment and management of credit risk tolerance limit and the proper management of portfolios. For credit risk management of loan process, the Group separated operation and underwriting process in the business process and monitored such various segments of its credit risk portfolio. The Group also established and operated a total exposure to credit risk limit management system to reduce concentration of credit risk by specific type of loans or borrowers to acceptable level and to diversify risk in the loan portfolio and manage risks in the individual exposure limit system. Furthermore, a credit risk is managed through an early alert system in the event of non-performance by counterparties and underwriting risk is managed by loan underwriting specialists to maintain the tight underwriting standards.

The Group separately measures expected and unexpected losses (“UL”). Expected losses (“EL”) are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. UL mean maximum credit losses under certain probability deducting EL.

The Group’s maximum level of exposure to credit risk as of December 31, 2013 and 2012, is summarized as follows (Unit: Korean won in millions):

Classification	2013	2012
Deposits	₩ 7,377,981	₩ 7,515,062
Loans	153,049,308	144,238,498
Receivables	2,973,146	10,741,080
Debt securities	23,422,386	26,024,827
Derivative assets	735,997	1,200,228
Loan and credit commitment	57,982,349	55,726,623
Guarantees and endorsed bills	10,734,052	11,342,113
	₩ 256,275,219	₩ 256,788,431

(2) Market risk

Market risk is the risk of loss in the value of portfolio and financial instruments caused by adverse movements in market variables, such as interest rates, stock price, foreign exchange rates and commodity prices. The Group manages and divides market risk into two risks, generated through trading position or non-trading position. The trading market risk that the Group is mainly exposed to is the interest rate risk arising from the adverse change in the value of debt instruments and interest rate-embedded securities due to changes in market interest rate. The Group is additionally exposed to stock price, foreign exchange rate risk and commodity price risk arising from equity securities, debt securities and derivatives. In non-trading market risk, the Group is exposed to the interest rate risk.

1) Trading position

a) The trading position in accordance with 'Regulation of Trading Policy' is subject to the trading market management. The basic requirements of the trading position are as follows:

- The target position is not restricted to the sale. It is evaluated daily at fair value and should be a hedge against important risks in the market.
- The trading position should be controlled by the instruction of the trading policy and managed by a separate trading department.
- The target position is operated in accordance with a documented trading strategy and the limit of trading should be controlled.
- Without the prior approval, a professional dealer or an operation division for the target position should be authorized to handle transactions within the predetermined limit.
- The target position for the risk management should be periodically reported to the management.

b) Details of risk management by risk type

①Interest rate risk

Interest rate risk from trading positions arises mainly from the trades of Korean won-denominated debt securities. As the financial instruments in the trading accounts are marked to market daily, the Group manages the interest rate risk related to its trading accounts using market value-based tools used to measure risk, such as Value at Risk ("VaR") and sensitivity analysis.

②Equity price risk

Equity price risk arises from the Group's equity trading portfolio in Korean won since the Group has no trading position of equity securities denominated in foreign currencies. The equity trading portfolio in Korean won consists of exchange-traded stocks and nearest month or second nearest month futures contracts under the strict restrictions considering diversification as well as stop-loss limits and position limits.

③ Foreign exchange rate risk

Foreign exchange rate risk arises when the Group has assets and liabilities that are denominated in currencies other than Korean won as well as off-balance-sheet items, such as foreign exchange forwards and currency swaps. Assets and liabilities denominated in U.S. dollars, Japanese yen and Euro are typically accounted for the majority of the Group's foreign currency assets and liabilities.

c) Measurement of market risk occurring at the trading position

① VaR measurement

Daily VaR is a statistically estimated maximum amount of loss that could occur in a holding (or trading) period for a given confidence interval due to changes in market variables, such as interest rate, stock price, exchange rate and commodity price. The Group monitors risk arising from trading activities in business sectors and departments, and measures market risk of all the trading assets and liabilities in both Korean won and foreign currencies using VaR.
The Group calculates VaR using historical simulation model. Under historical simulation model, VaR is calculated as sublevel (1 - confidence level) of a normal distribution of risk resulting from revaluation of loan portfolio applying a scenario of actual profit ratio movements for the past 250 business days to currently holding loan portfolio. The Group discloses 10-day VaR measured at 99% confidence level.

VaR is a commonly used market risk measurement technique with the following limitations. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, 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 changes in assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or 10 days, are assumed 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 Back testing

The Group conducts back testing of results against daily actual gain (loss) and expected gain (loss) on a daily basis. By performing back testing, the Group checks the validity of the model and any losses that might exceed a predetermined 99% confidence level.

③ Stress testing

The Group conducts stress testing to assess its market risk exposure to abnormal market fluctuations, such as changes in interest rate, equity price, exchange rate and implied volatility of derivatives, subject to the changes in the value of the portfolio. The Group uses not only hypothetical scenarios as a main scenario, but also historical scenarios as a supplementary analysis. Stress testing is conducted on a monthly basis.

The Group calculates VaR based on its consolidated financial statements and the following table shows average VaR, maximum VaR and minimum VaR at a 99% confidence level of interest rate risk, stock price risk and foreign exchange rate risk, commodity price risk and other risk for trading positions with a 10-day holding period as of December 31, 2013 and 2012 (total VaR is computed by considering the correlations of the risk factors):

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Classification	Amount							
	Max		Min		Average		December 31, 2013	
Interest rate risk	₩	30,536	₩	8,294	₩	19,344	₩	24,696
Stock price risk		30,850		7,000		18,887		12,131
Foreign currency risk		14,033		169		1,694		1,263
Total risk (*)	₩	49,975	₩	20,131	₩	31,796	₩	34,873

(*) It is not equal to the sum of the individual risks because it is computed by considering the correlations of the risks.

DECEMBER 31, 2012

Classification	Amount							
	Max		Min		Average		December 31, 2012	
Interest rate risk	₩	14,733	₩	9,046	₩	12,481	₩	11,043
Stock price risk		27,032		20,866		24,532		22,192
Foreign currency risk		10,676		663		2,643		1,881
Total risk (*)	₩	35,775	₩	19,152	₩	26,943	₩	20,726

(*) It is not equal to the sum of the individual risks because it is computed by considering the correlations of the risks.

2) Non-trading positions

Non-trading positions refer to all positions, excluding trading positions. The Group's principal market risk from non-trading activities is interest rate risk. Interest rate risk refers to the risk of exposure to losses from reduction of net interest income or net asset value as a result of interest rate changes due to mismatched maturities between interest earning assets and interest-bearing liabilities or mismatched interest rate change periods.

The subject for interest rate risk measurement includes non-trading positions, such as interest-bearing assets, interest-bearing liabilities, transaction of derivatives held for hedging and others among off-balance transactions. The Group has measured and managed the interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets. From the Group's earnings perspective, the Group has measured and managed interest rate risk through interest rate gap, interest rate accumulated gap ratio, net interest income simulations, interest rate EaR and others to manage changes in net interest income as a result of interest rate changes. With respect to the economic value of the Group's net assets, the Group has measured and managed interest rate risk through duration gap, net asset value simulations, interest rate VaR and others to manage changes in the value of net assets of future cash flow as a result of interest rate changes.

The objective of interest risk management is to manage changes in interest income at a sustainable level due to change in interest rates and is to manage stable net asset value through effective management of interest-earning asset and interest-bearing liabilities. The limits for interest rate accumulated gap ratio, interest rate EaR, interest rate VaR and others are approved annually by the risk management committee for interest rate risk management.

At the end of the reporting period, interest rate VaR for non-trading portfolios is as follows (Unit: Korean won in millions):

	December 31, 2013		December 31, 2012	
Interest rate risk	₩	600,598	₩	1,020,340

(3) Liquidity risk

1) General

Liquidity risk is the risk of loss that the Group is unable to meet its payment obligations arising from financial liabilities as they fall due or raise funds with high interest rates and unfavorable disposal of securities to solve the shortage of funds or facing inability to pay due to unexpected cash flows.

The cash flows disclosed in maturity analysis do not correspond to the amounts of discounted principals and interest payments at the contracts in the consolidated statements of financial position.

2) Liquidity risk management

The Group classifies and discloses contractual maturity of all financial liabilities in relation to liquidity risk into six categories, such as less than one month, one month to three months, three to six months, six months to one year, one year to five years and more than five years. The Group manages liquidity risk by analyzing cash flows of the liabilities in the groups of homogeneous accounts under the appropriate criteria (remaining contractual maturity, contract period, etc.).

3) The term structure of liabilities as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

	Less than one month	1–3 months	3–6 months	6 months–one year	1–5 years	More than five years	Total
Deposits	₩ 65,719,499	₩ 20,204,383	₩ 17,079,763	₩ 38,068,398	₩ 4,569,243	₩ 2,152,076	₩ 147,793,362
Financial liabilities at FVTPL	717,640	-	660	1,362	52,082	-	771,744
Hedging derivative liabilities	451	(1,224)	1,162	481	13,524	-	14,394
Borrowings	5,776,424	475,209	1,160,305	1,096,157	4,740,970	2,544,498	15,793,563
Debentures	73,179	794,230	1,819,615	1,246,313	5,535,999	3,003,949	12,473,285
Other financial liabilities	6,992,467	1,748	3,441	67,467	3,276	-	7,068,399
	₩ 79,279,660	₩ 21,474,346	₩ 20,064,946	₩ 40,480,178	₩ 14,915,094	₩ 7,700,523	₩ 183,914,747

(*) Cash flows of principal and interest are included.

DECEMBER 31, 2012

	Less than one month	1–3 months	3–6 months	6 months–one year	1–5 years	More than five years	Total
Deposits	₩ 63,378,442	₩ 22,990,708	₩ 19,294,116	₩ 34,349,255	₩ 3,592,965	₩ 102,342	₩ 143,707,828
Financial liabilities at FVTPL	1,055,779	-	906	1,813	56,344	-	1,114,842
Hedging derivative liabilities	445	527	2,081	2,627	7,460	(823)	12,317
Borrowings	3,744,854	519,577	893,609	1,125,110	4,953,271	2,917,083	14,153,504
Debentures	378,809	198,725	581,350	1,456,346	6,932,479	1,701,390	11,249,099
Other financial liabilities	14,124,483	1,738	3,299	67,966	8,344	-	14,205,830
	₩ 82,682,812	₩ 23,711,275	₩ 20,775,361	₩ 37,003,117	₩ 15,550,863	₩ 4,719,992	₩ 184,443,420

(*) Cash flows of principal and interest are included.

(4) Maturity analysis of off-balance accounts

Guarantees and loan commitments, including guarantees for debenture issuance and guarantees for loans, which are financial guarantees provided by the Group, have expiration dates. However, under the term of the guarantees and loan commitments, timely payment shall be made upon demand by the counterparty. Details of off-balance accounts as of December 31, 2013 and 2012, are as follows (Unit: Korea won in millions):

Classification	2013	2012
Finance guarantee contract	₩ 1,477,012	₩ 1,359,971
Loan commitment	57,982,349	55,726,623
	₩ 59,459,361	₩ 57,086,594

(5) Offsetting of financial assets and liabilities

1) Details of financial assets that are set off and subject to an enforceable master netting arrangement or similar agreement as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the consolidated statement of financial position	Non-offsetting amount: Financial instruments	Non-offsetting amount: Cash collateral received	Net amounts
Derivative assets	₩ 735,997	₩ -	₩ 735,997	₩ 469,689	₩ 14,632	₩ 251,676
Loans - bonds purchased under resale agreements	2,438,000	-	2,438,000	2,438,000	-	-
Receivables - receivable spot exchange	145,980	-	145,980	145,980	-	-
Receivables - receivable spot exchange in foreign currency	661,737	-	661,737	661,737	-	-
Receivables - domestic exchange settlement debits	6,761,246	6,422,526	338,720	338,720	-	-
	₩ 10,742,960	₩ 6,422,526	₩ 4,320,434	₩ 4,054,126	₩ 14,632	₩ 251,676

DECEMBER 31, 2012

Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the consolidated statement of financial position	Non-offsetting amount: Financial instruments	Non-offsetting amount: Cash collateral received	Net amounts
Derivative assets	₩ 1,200,228	₩ -	₩ 1,200,228	₩ 796,945	₩ 23,060	₩ 380,223
Loans - bonds purchased under resale agreements	2,217,800	-	2,217,800	2,217,800	-	-
Receivables - receivable spot exchange	631,374	-	631,374	631,374	-	-
Receivables - receivable spot exchange in foreign currency	988,130	-	988,130	988,130	-	-
Receivables - domestic exchange settlement debits	6,626,962	-	6,626,962	6,626,962	-	-
	₩ 11,664,494	₩ -	₩ 11,664,494	₩ 11,261,211	₩ 23,060	₩ 380,223

2) Details of financial liabilities that are set off and subject to an enforceable master netting arrangement or similar agreement as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Non-offsetting amount: Financial instruments	Non-offsetting amount: Cash collateral provided	Net amounts
Derivative liabilities	₩ 731,181	₩ -	₩ 731,181	₩ 469,689	₩ 16,318	₩ 245,174
Borrowings - bonds sold under repurchase agreements	399,384	-	399,384	399,384	-	-
Other financial liabilities - payable spot exchange	617,271	-	617,271	617,271	-	-
Other financial liabilities - payable spot exchange in foreign currency	190,428	-	190,428	190,428	-	-
Other financial liabilities - domestic exchange settlement debits	8,410,147	6,422,526	1,987,621	338,720	-	1,648,901
	₩ 10,348,411	₩ 6,422,526	₩ 3,925,885	₩ 2,015,492	₩ 16,318	₩ 1,894,075

DECEMBER 31, 2012

Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Non-offsetting amount: Financial instruments	Non-offsetting amount: Cash collateral provided	Net amounts
Derivative liabilities	₩ 1,045,914	₩ -	₩ 1,045,914	₩ 796,945	₩ 18,270	₩ 230,699
Borrowings - bonds sold under repurchase agreements	826,835	-	826,835	826,835	-	-
Other financial liabilities - payable spot exchange	898,277	-	898,277	898,277	-	-
Other financial liabilities - payable spot exchange in foreign currency	721,363	-	721,363	721,363	-	-
Other financial liabilities - domestic exchange settlement debits	9,103,518	-	9,103,518	6,626,962	-	2,476,556
	₩ 12,595,907	₩ -	₩ 12,595,907	₩ 9,870,382	₩ 18,270	₩ 2,707,255

35. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS:

(1) Fair value hierarchy of financial instruments as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

All financial instruments at fair value are categorized into one of the following three fair value hierarchy levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3: Inputs for the asset or liability that are not based on the observable market data (unobservable inputs)

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Classification	Level 1	Level 2	Level 3	Total
Assets:				
Trading financial assets	₩ 2,382,148	₩ 2,200,486	₩ -	₩ 4,582,634
Derivative assets	-	702,920	33,077	735,997
AFS financial assets	3,695,952	9,058,185	779,817	13,533,954
	₩ 6,078,100	₩ 11,961,591	₩ 812,894	₩ 18,852,585
Liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 54,344	₩ -	₩ 54,344
Derivative liabilities	-	693,694	37,487	731,181
	₩ -	₩ 748,038	₩ 37,487	₩ 785,525

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Classification	Level 1	Level 2	Level 3	Total
Assets:				
Trading financial assets	₩ 3,637,536	₩ 821,887	₩ -	₩ 4,459,423
Financial assets at FVTPL	-	-	89	89
Derivative assets	-	1,137,119	63,109	1,200,228
AFS financial assets	2,050,386	8,462,619	925,831	11,438,836
	₩ 5,687,922	₩ 10,421,625	₩ 989,029	₩ 17,098,576
Liabilities:				
Trading financial liabilities	₩ 21,153	₩ -	₩ -	₩ 21,153
Financial liabilities at FVTPL	-	55,978	-	55,978
Derivative liabilities	-	1,004,854	41,060	1,045,914
	₩ 21,153	₩ 1,060,832	₩ 41,060	₩ 1,123,045

In principle, AFS financial assets are measured subsequently at fair value, but since there are no market prices quoted in the active market and the fair value cannot be reliably measured, the AFS financial assets measured at cost are ₩ 27,272 million and ₩65,201 million as of December 31, 2013 and 2012, respectively.

The AFS financial assets have been measured at cost since the financial information necessary for the evaluation of investments, in special-purpose entities, which is classified as non-marketable or unlisted securities, could not be sufficiently obtained, and even if the information was obtained, the variance in the estimated cash flows was significant or the probabilities for the various estimates of cash flows could not be reliably measured.

Financial assets and liabilities designated at FVTPL, trading financial assets and liabilities, AFS financial assets and derivative assets and liabilities are recognized at fair value. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(2) The following table gives information about how the fair values of these financial assets and financial liabilities included in the Level 2 and Level 3 are determined (in particular, the valuation technique, significant unobservable inputs and relationship of unobservable inputs to fair value)

Classification	Valuation techniques	Input variables, which are significant but unobservable in measurement of fair value	Range
Financial assets and financial liabilities that are measured at fair value:			
Financial instruments	Discounted cash flow	Risk-free rate of return,	-
at FVTPL	and others	Forward rate and others	-
Derivatives	Discounted cash flow,	Risk-free rate of return,	-
	Intrinsic forward rate,	Forward rate	-
	Option-pricing model	Volatility of the underlying assets	17% - 30%
		Discount curve and	15 - 35%
		Interest correlation coefficient	(-)100 - 100%
AFS financial assets	Discounted cash flow, comparable companies	Expected growth rate	(-)1 - 1%
	valuation method, FCFE model,	Discount rate	(-)1 - 1%
	dividend discount model and		
	net asset value method, etc.		
Financial assets and financial liabilities that not measured at fair value (but fair value disclosures are required):			
HTM financial assets	Discounted cash flow	Market yield	-
Loans	Discounted cash flow	Market yield, credit spread,	-
		liquidity risk premium	-
		and other spread	-
Deposits and borrowings	Discounted cash flow	Market yield, other spread	-
Debentures	Discounted cash flow	Risk-free rate of return,	-
		Credit spread	-

Financial instruments that are classified as Level 3 are measured at fair value based on the valuation performed by independent professionals or the estimated amount using the valuation model of the Group. Unobservable input variables are calculated from an internal system, and suitability of the unobservable input variables is reviewed at all times. The valuation council of fair value reviews the valuation model of the Group, and reviews and approves the suitability of the valuation model.

(3) The following table shows the sensitivity analysis of the fair value of Level 3 financial instruments.

The sensitivity analysis of the financial instruments has been performed by classifying with favorable and unfavorable changes based on how changes in unobservable assumptions have effects on the fluctuations of financial instruments' value. When the fair value of a financial instrument is affected by more than one unobservable assumption, the below table reflects the most favorable or the most unfavorable changes which result from varying the assumptions individually. The sensitivity analysis was performed for two types of Level 3 financial instruments: (a) interest rate derivatives and equity derivatives, that fair value changes are recognized as current income and (b) equity securities that fair value changes are recognized as other comprehensive income.

Sensitivity analysis by type of financial instruments as a result of varying input parameters as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Book value	Net income (loss)		Other comprehensive income (loss)	
		Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Financial assets at FVTPL					
Derivative assets (*1)	₩ 33,077	₩ 28,615	₩ (28,281)	₩ -	₩ -
AFS financial assets					
Equity securities (*2)	779,817	-	-	48,374	(25,077)
	₩ 812,894	₩ 28,615	₩ (28,281)	₩ 48,374	₩ (25,077)
Financial liabilities:					
Financial liabilities at FVTPL					
Derivative liabilities (*1)	₩ 37,487	₩ 34,126	₩ (33,815)	₩ -	₩ -

(*1) Fair value changes of derivatives are calculated by increasing or decreasing historical fluctuation rate of stock price by 20%, interest by 2% and exchange rate by 10%. The historical fluctuation rate of stock price and correlation are major unobservable variables.
(*2) Fair value changes of equity securities are calculated by increasing or decreasing the growth rate (0–1%) and the discount rate or the correlation between liquidation value (-1–1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable variables.

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Classification	Book value	Net income (loss)		Other comprehensive income (loss)	
		Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Financial assets at FVTPL					
Derivative assets (*1)	₩ 63,109	₩ 38,496	₩ (39,658)	₩ -	₩ -
Financial assets designated at FVTPL	89	-	-	-	-
AFS financial assets					
Equity securities (*2)	925,831	-	-	54,427	(23,852)
	₩ 989,029	₩ 38,496	₩ (39,658)	₩ 54,427	₩ (23,852)
Financial liabilities:					
Financial liabilities at FVTPL					
Derivative liabilities (*1)	₩ 41,060	₩ 38,676	₩ (37,928)	₩ -	₩ -

(*1) Fair value changes of derivatives are calculated by increasing or decreasing historical fluctuation rate of stock price by 20%, interest by 2% and exchange rate by 10%. The historical fluctuation rate of stock price and correlation are major unobservable variables.
(*2) Fair value changes of equity securities are calculated by increasing or decreasing the growth rate (0–1%) and the discount rate or the correlation between liquidation value (-1–1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable variables.

(4) Changes in Level 3 financial instruments for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

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	January 1, 2013	Gain (loss)	Other comprehensive loss	Purchase/ issue	Disposal/ Settlement	Transfer from or to Level 3	December 31, 2013
Financial assets							
Financial assets designated at FVTPL	₩ 89	₩ (89)	₩ -	₩ -	₩ -	₩ -	₩ -
AFS financial assets	925,831	(5,916)	(8,015)	191,842	(167,637)	(156,288)	779,817
Derivative assets, net	22,050	571	-	(6,351)	(20,681)	1	(4,410)
	₩ 947,970	₩ (5,434)	₩ (8,015)	₩ 185,491	₩ (188,318)	₩ (156,287)	₩ 775,407

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	March 2, 2012	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ Settlement	Transfer from or to Level 3	December 31, 2012
Financial assets							
Financial assets designated at FVTPL	₩ 46,525	₩ (3,385)	₩ -	₩ -	₩ (43,051)	₩ -	₩ 89
AFS financial assets	711,081	(47,162)	4,952	103,106	(98,292)	252,146	925,831
Derivative assets, net	22,732	66,347	-	83	(67,112)	-	22,050
	₩ 780,338	₩ 15,800	₩ 4,952	₩ 103,189	₩ (208,455)	₩ 252,146	₩ 947,970

For the year ended December 31, 2013, gain (loss) related to financial assets and liabilities is included in gain (loss) on financial instruments at FVTPL and gain (loss) on financial investments in the consolidated statements of comprehensive income.

Total valuation gains and losses, which are recognized as other comprehensive income (loss), are related to unlisted equity securities as of December 31, 2013, and are recognized as changes in valuation gain (loss) of AFS financial assets.

(5) The Group recognizes transfers between the fair value hierarchy levels as of the event or change in circumstances that caused the transfer. There are no changes in valuation techniques, which are used as measurement methods of fair value of financial instruments, which are classified as Level 2 and Level 3. There are no significant changes to the business environment or economic environment, which affect the fair value of financial instruments owned by the Group for the year ended December 31, 2013.

(6) Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

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Classification	Level 1	Level 2	Level 3	Book Value
Assets:				
HTM financial assets	₩ 1,450,769	₩ 5,890,611	₩ 645,774	₩ 7,810,366
Loans and receivables	-	-	157,445,207	156,022,454
	₩ 1,450,769	₩ 5,890,611	₩ 158,090,981	₩ 163,832,820
Liabilities:				
Deposits	₩ -	₩ -	₩ 146,430,890	₩ 144,919,171
Borrowings	-	-	15,230,446	15,302,400
Debentures	-	11,195,923	-	10,993,925
Other financial liabilities	-	-	7,068,399	8,599,202
	₩ -	₩ 11,195,923	₩ 168,729,735	₩ 179,814,698

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Classification	Level 1	Level 2	Level 3	Book Value
Assets:				
HTM financial assets	₩ 1,777,683	₩ 10,733,515	₩ 693,325	₩ 12,817,305
Loans and receivables	-	-	158,506,934	154,979,578
	₩ 1,777,683	₩ 10,733,515	₩ 159,200,259	₩ 167,796,883
Liabilities:				
Deposits	₩ -	₩ -	₩ 144,885,958	₩ 142,711,764
Borrowings	-	-	13,584,828	13,341,589
Debentures	-	10,518,102	-	10,194,160
Other financial liabilities	-	-	14,080,862	16,276,881
	₩ -	₩ 10,518,102	₩ 172,551,648	₩ 182,524,394

Fair value of financial instruments traded in an active market is determined by using the published price quotations based on market prices. However, if the market for a financial instrument is not active, fair value is determined by using a valuation technique.

(7) Changes in Day 1 profit and loss for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

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	Gain	Loss
January 1, 2013	₩ 14	₩ 10
Amortization and redemption	(14)	(10)
December 31, 2013	₩ -	₩ -

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	Gain	Loss
March 2, 2012	₩ -	₩ -
Increase	23	17
Amortization and redemption	(9)	(7)
December 31, 2012	₩ 14	₩ 10

36. RELATED-PARTY TRANSACTIONS:

(1) Details of related-party transactions of the Group as of December 31, 2013, are as follows:

Classification	Company
Ultimate parent company	NACF
Parent company	NH Financial Group Inc.
Associates	Nanumlotto Co., Ltd.
	Korea Credit Bureau
	NH Agri-Best 1st PEF
	NH Kolon green 1st PEF
	NH SG 2nd
Others	NH Life Insurance Co., Ltd.; NH Property & Casualty Insurance Co., Ltd.; NH Investment & Securities Co., Ltd.; NH Investment & Futures Co., Ltd.; NH Capital Co., Ltd.; NH-CA Asset Management Co., Ltd.; NH Agribusiness Group Inc.; Korea Agriculture Cooperative Marketing Inc.; Agricultural Cooperative Chungbuk Marketing Co., Ltd.; Daejeon Agricultural Products Marketing Center Co., Ltd.; Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.; Namhae Chemical Corporation; NongHyup Chemical Co., Ltd.; NH Hansamin Co., Ltd.; Nonghyup-Agro, Inc.; Nonghyup Feed Inc.; Nonghyup Moguchon Inc.; Nonghyup Logistics Service Inc.; NH Trading Co., Ltd.; Agricultural Cooperative Asset Management Co., Ltd.; NH Development Ltd.; NongHyup Foundation; NH Hyupdong Planning; NH Information System Co., Ltd.; NH Economic Research Institute, Inc.; NH heuk sarang Co., Ltd.; Nisso-namhae Agro Co., Ltd.; NH IBK 1st PEF; Union arc; The Farmers' Newspaper; NH Art Hall; Maps NH private placed real estate investment trust 1-2nd ; Core value 2nd limited and 9 others; Cheju Fertilizer. Co., Ltd.; NH E-revolution privately placed investment company; NH-HAY, INC.; NongHyup TMR Co., Ltd.; Japan Nonghyup International; Geonhyeong Livestock Co. Ltd.; Home and Shopping; Kokam Co., Ltd.; Clover Investment Advisory Co., Ltd.; Seoul Sungbo Development Co., Ltd.; Blueocean corporate financial stability 11th PEF; NH-LB Growth Champ 2011-4th PEF ; Tongyang global REF private mixed investment trust ; Hanwha(Shinhan) Quantitative Long-Short Private 4th and 57 other funds, Trust (NH Futures) Almo private securities 12th and 19 others

(2) Significant receivables and payables with related parties as of December 31, 2013 and 2012, are summarized as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Company	Receivables	Derivative assets	Due from banks	Allowances	Deposits	Derivative liabilities	Financial liabilities at FVTPL	Other liabilities
Ultimate parent company:								
NACF	₩ 252,904	₩ 27,775	₩ -	₩ 56	₩ 496,872	₩ 21,432	₩ 102,789	₩ 2,205
Parent company:								
NH Financial Group Inc.	99	-	-	4	14,492	-	-	78
Associates:								
Nanumlotto Co., Ltd.	10,116	-	-	11	10,866	-	-	-
Korea Credit Bureau	-	-	-	-	1,634	-	-	-
NH Agri-Best 1st PEF	-	-	-	-	2,974	-	-	15
NH Kolon Green 1st	83	-	-	-	868	-	-	-
NH SG 2nd	-	-	-	-	8	-	-	-
Other related parties:								
NH NongHyup Securities Co., Ltd.	466	561	-	2	6,049	20,369	-	589
NH NongHyup Futures Co., Ltd.	43	-	-	-	4,592	-	-	7
NH NongHyup Capital Co., Ltd.	209,597	-	-	217	54,164	-	-	-
NH-CA Asset Management Co., Ltd.	118	-	-	4	49,814	-	-	-
NH Life Insurance Co., Ltd.	2,229	-	-	-	22,187	6,088	-	2,008
NH Property and Casualty Insurance Co., Ltd.	1,233	-	-	3	2,554	-	-	269
NH Agribusiness Group Inc.	17	-	-	-	14,566	-	-	98
Namhae Chemical Corporation	97,664	-	-	267	21,167	1	-	26
Cheju Fertilizer Co., Ltd.	-	-	-	-	15	-	-	-
Nonghyup Feed Inc.	17,084	-	-	1,628	1,740	-	-	-
Korea Agriculture Cooperative Marketing Inc.	203	-	-	-	89,186	-	-	2,847
Nonghyup Moguchon Inc.	27,457	-	-	34	21,044	-	-	130
Nonghyup Hansamin Co., Ltd.	24,063	-	-	446	1,119	-	-	260
The Farmers' Newspaper	771	-	-	26	18,379	-	-	-
Nonghyup Logistics Service Inc.	3,734	-	-	2	5,944	-	-	-
NH Trading Co., Ltd.	3,051	2	-	13	6,772	59	-	7
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	42	-	-	-	15,035	-	-	180
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	71	-	-	-	527	-	-	470
Daejeon Agricultural Products Marketing Co., Ltd.	1,315	-	-	4	10,728	-	-	49
Nonghyup-Agro	11	-	-	-	2,005	-	-	1
NH Hyupdong Planning	89	-	-	3	3,383	-	-	108
Nisso-namhae Agro Co., Ltd.	11	-	-	1	241	-	-	-
Agricultural Cooperative Asset Management Co., Ltd.	205,192	-	-	59	256	-	-	768
NH Development, Ltd.	865	-	-	1	5,262	-	-	9,226
NH Information System Co., Ltd.	174	-	-	-	43,605	-	-	499
NH Economic Research	28	-	-	1	40,930	-	-	37

Company	Receivables	Derivative assets	Due from banks	Allowances	Deposits	Derivative liabilities	Financial liabilities at FVTPL	Other liabilities
Institute, Inc.								
NH Art Hall	865	-	-	1	2	-	-	-
KB (NH Futures) Neulpureun private 80th and 70 others	30	-	-	-	-	-	-	54,899
Grand 5th Corp.	-	-	-	-	157	-	-	-
Grand 8th Corp.	-	-	-	-	63	-	-	-
Champs 1st Corp.	-	-	-	-	25	-	-	-
NH heuk sarang Co., Ltd.	₩ 860	₩ -	₩ -	₩ 1	₩ -	₩ -	₩ -	₩ -
NongHyup Chemical Co., Ltd.	18,348	-	-	58	309	-	-	8
Maps NH private placed real estate investment trust 1–2nd	1,330	-	-	-	789	-	-	-

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Company	Receivables	Derivative assets	Due from banks	Allowances	Deposits	Derivative liabilities	Financial liabilities at FVTPL	Other liabilities
Ultimate parent company:								
NACF	₩ 40,206	₩ -	₩ -	₩ 33	₩ 1,675,436	₩ -	₩ -	₩ 4
Parent company:								
NH Financial Group Inc.	91	-	-	3	159,800	-	-	395
Associates:								
Nanumlotto Co., Ltd.	-	-	-	-	31,400	-	-	12,481
Korea Credit Bureau	-	-	-	-	2,718	-	-	-
NH Agri-Best 1st PEF	1	-	-	-	3,023	-	-	50
NH Kolon Green 1st	-	-	-	-	715	-	-	-
NH SG 1st	-	-	-	-	37	-	-	-
NH SG 2nd	-	-	-	-	481	-	-	-
Other related parties:								
NH NongHyup Securities Co., Ltd.	405	511	-	1	75,497	17,849	-	1,988
NH NongHyup Futures Co., Ltd.	50	-	2,612	-	6,820	-	-	-
NH NongHyup Capital Co., Ltd.	309,280	-	-	322	19,265	-	-	-
NH-CA Asset Management Co., Ltd.	71	-	-	2	47,567	-	-	1,611
NH Life Insurance Co., Ltd.	2,944	1,054	-	-	23,869	4,854	-	9,115
NH Property and Casualty Insurance Co., Ltd.	613	-	-	2	2,789	-	-	1,058
KB portable alpa 2nd and 70 others	35	-	-	-	-	-	-	25,463
NH Agribusiness Group Inc.	13,009	-	-	11	14,481	-	-	-
Namhae Chemical Corporation	148,736	-	-	265	1,519	-	-	-
Cheju Fertilizer Co., Ltd.	2,836	-	-	55	141	-	-	-
Nonghyup Feed Inc.	374,449	-	-	1,944	3,756	-	-	-
Korea Agriculture Cooperative Marketing Inc.	191	-	-	7	92,674	-	-	2
Nonghyup Moguchon Inc.	28,699	-	-	12	1,459	-	-	-
Nonghyup Hansamin Co., Ltd.	32,908	-	-	611	50	-	-	-
Youngil Chemical Co., Ltd.	20,701	-	-	75	97			
The Farmers' Newspaper	674	-	-	23	23,020	-	-	45
Nonghyup Logistics Service Inc.	4,026	-	-	22	1,732	-	-	-
NH Trading Co., Ltd.	468	-	-	18	13,170	-	-	-
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	51	-	-	2	15,398	-	-	-
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	1,918	-	-	1	3,573	-	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	1,242	-	-	1	302	-	-	-
Nonghyup-Agro	9	-	-	-	2,009	-	-	-
NH heuk sarang Co., Ltd.	871			1	1,057			
NH Hyupdong Planning	85	-	-	3	3,029	-	-	-
Nisso-namhae Agro Co., Ltd.	18	-	-	2	7,911	-	-	-
Agricultural Cooperative Asset Management Co., Ltd.	₩ 127,060	₩ -	₩ -	₩ 37	₩ 335	₩ -	₩ -	₩ -
NH Development, Ltd.	521	-	-	24	18,443	-	-	-
NH Information System Co., Ltd.	119	-	-	-	27,132	-	-	4
NH Economic Research Institute, Inc.	24	-	-	1	50,789	-	-	-
NH Art Hall	-	-	-	-	-	-	-	2,192
Korea Investment Management (NH NongHyup Securities) basic private								

Company	Receivables	Derivative assets	Due from banks	Allowances	Deposits	Derivative liabilities	Financial liabilities at FVTPL	Other liabilities
placed investment trust 14th	3	-	-	-	36	-	-	-
KTB Confidence real estate fund 13th	15,122	-	-	-	-	-	-	-
Maps NH private placed real estate investment trust 1–2nd	1,330	-	-	-	-	-	-	-

(3) Significant transactions with related parties for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

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Company	Interest income	Commission income	Other operating income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other operating expenses	Other expenses
Ultimate parent company:									
NACF	₩ 5,976	₩ 6	₩ 15,752	₩ 11,450	₩ 23	₩ 13,657	₩ -	₩ 32,760	₩ 593,770
Parent company:									
NH Financial Group Inc.	-	-	-	-	1	1,169	-	-	-
Associates:									
Nanumlotto Co., Ltd.	-	-	-	-	11	1,465	-	-	-
Korea Credit Bureau	-	-	-	-	-	57	-	-	-
NH Agri-Best 1st PEF	-	1	-	-	-	69	-	-	-
NH Kolon Green 1st	-	341	-	-	-	14	-	-	-
NH SG 1st		245	-	-	-	-	-	-	-
NH SG 2nd	-	108	-	-	-	-	-	-	-
Other related parties:									
NH NongHyup Securities Co., Ltd.	31	9	4,923	265	1	603	700	6,632	-
NH NongHyup Futures Co., Ltd.	5	8	-	-	-	31	-	-	-
NH NongHyup Capital Co., Ltd.	12,490	45	-	-	(105)	4	-	-	2,878
NH-CA Asset Management Co., Ltd.	-	-	-	-	2	2,172	-	-	-
NH Life Insurance Co., Ltd.	91	27,913	3,074	2,271	-	2	56	7,254	-
NH Property and Casualty Insurance Co., Ltd.	20	8,466	-	-	1	-	1,502	-	4,204
NH Agribusiness Group Inc.	139	-	-	-	(11)	447	-	-	-
Namhae Chemical Corporation	1,935	1,276	-	172	2	64	-	1	52
Cheju Fertilizer Co., Ltd.	-	-	-	-	(55)	5	-	-	-
Nonghyup Feed Inc.	813	1,892	-	-	(316)	146	-	-	-
Korea Agriculture Cooperative Marketing Inc.	-	135	-	1,344	(7)	2,609	1	-	275
Nonghyup Moguchon Inc.	719	6	-	112	22	131	-	-	212
Nonghyup Hansamin Co., Ltd.	2,008	165	-	2	(165)	-	-	-	373
The Farmers' Newspaper	-	-	-	-	3	630	-	-	-
Nonghyup Logistics Service Inc.	235	2	-	-	(20)	3	-	-	-
NH Trading Co., Ltd.	178	81	2	96	(5)	308	-	59	-
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	₩ -	₩ 801	₩ -	₩ 11	₩ (2)	₩ 463	₩ 10	₩ -	₩ 251
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	46	-	-	-	(1)	4	-	-	300
Daejeon Agricultural Products Marketing Co., Ltd.	68	-	-	-	3	48	359	-	-
Nonghyup-Agro	1	-	-	-	-	29	-	-	-
NH Hyupdong Planning	-	2	-	5	-	85	-	-	21,411
Nisso-namhae Agro Co., Ltd.	-	-	-	-	(1)	60	-	-	-
Agricultural Cooperative Asset Management Co., Ltd.	5,708	41	-	158	22	1	5,924	-	1,841
NH Development, Ltd.	2	77	-	325	(23)	147	3,689	-	74,621
NH Information System Co., Ltd.	-	-	-	-	-	210	-	-	35,561
NH Economic Research Institute, Inc.	-	-	-	-	-	1,918	-	-	372
NH Art Hall	-	-	-	-	1	-	-	-	-

Company	Interest income	Commission income	Other operating income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other operating expenses	Other expenses
KB (NH Futures) Neulpureun private 80th and 70 others	-	-	345	-	-	1,605	-	-	-
Korea(NH) value plus private 4th and 12 others	-	-	13	-	-	47	-	-	-
Yuri(NH) premium alph private 1st and 26 others	-	-	33	-	-	111	-	-	-
KB (Baro) Neulpureun private 39th and 12 others	-	-	13	-	-	62	-	-	-
Myasset (Tongyang) private securities 10th and 63 others	-	-	75	-	-	549	-	-	-
Shinyoung (Daeshin) N-17th and 14others	-	-	8	-	-	26	-	-	-
NH-CA (Hi) dynamic securities 7th and 6 others	-	-	5	-	-	30	-	-	-
Korea Investment Management (NH NongHyup Securities) basic private placed investment trust 14th and 11 others	-	-	13	-	-	45	-	-	-
NH heuk sarang Co., Ltd.	-	-	-	-	1	-	-	-	-
NongHyup Chemical Co., Ltd.	2,917	80	-	-	(17)	8	-	-	-

DECEMBER 31, 2012

Company	Interest income	Commission income	Other operating income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other operating expenses	Other expenses
Ultimate parent company:									
NACF	₩ 1,364	₩ 5	₩ -	₩ 22	₩ 33	₩ 32,793	₩ 12	₩ -	₩ 518,948
Parent company:									
NH Financial Group Inc.	-	-	-	-	3	513	-	-	-
Associates:									
Nanumlotto Co., Ltd.	-	-	-	-	-	140	-	-	-
Korea Credit Bureau	-	-	-	-	-	107	-	-	-
NH Agri-Best 1st PEF	-	5	-	-	-	87	-	-	-
NH Kolon Green 1st	-	257	-	-	-	7	-	-	-
NH SG 1st	-	122	-	-	-	1	-	-	-
NH SG 2nd	-	1	-	-	-	-	-	-	-
Other related parties:									
NH NongHyup Securities Co., Ltd.	35	481	1,583	-	1	1,217	883	6,725	-
NH NongHyup Futures Co., Ltd.	2	1	-	-	-	-	-	-	-
NH NongHyup Capital Co., Ltd.	13,458	137	-	-	(5)	2	-	-	186
NH-CA Asset Management Co., Ltd.	-	8	-	-	2	1,429	-	-	-
NH Life Insurance Co., Ltd.	2,977	33,239	4,591	1,991	-	1	-	11,086	66
NH Property and Casualty Insurance Co., Ltd.	1,214	7,171	-	1	2	-	-	-	3,406
KB portable alpa 2nd and 70 others	-	-	221	-	-	596	-	-	-
NH Agribusiness Group Inc.	14	-	-	-	11	345	-	-	-
Namhae Chemical Corporation	1,945	2,418	-	-	95	22	-	-	-
Cheju Fertilizer Co., Ltd.	-	-	-	-	55	1	-	-	-
Nonghyup Feed Inc.	898	791	-	-	265	2,221	-	430	-
Korea Agriculture Cooperative Marketing Inc.	-	153	-	-	7	4,151	-	-	-
Nonghyup Moguchon Inc.	923	10	-	-	6	438	-	-	-
Nonghyup Hansamin Co., Ltd.	1,409	271	-	-	211	1,189	-	-	-
Youngil Chemical Co., Ltd.	1,988	424	-	-	(34)	25			
The Farmers' Newspaper	-	-	-	-	23	560	-	-	-
Nonghyup Logistics Service Inc.	224	9	1	-	21	15	-	-	15,167
NH Trading Co., Ltd.	130	43	-	-	(61)	475	-	-	-
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	-	-	-	-	2	470	-	-	-
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	1,538	-	-	-	(1)	384	-	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	69	-	-	-	(1)	134	-	-	-
Nonghyup-Agro	-	-	-	-	-	143	-	-	-
Samhyup Nongsan Co., Ltd.	-	-	-	-	1	-			
NH Hyupdong Planning	-	-	-	-	3	237	-	-	-
Nisso-namhae Agro Co., Ltd.	-	-	-	-	2	337	-	-	-
Agricultural Cooperative Asset Management Co., Ltd.	6,141	1	-	-	37	2	-	-	-
NH Development, Ltd.	-	3	-	-	24	789	-	-	-
NH Information System Co., Ltd.	-	-	-	-	-	253	-	-	-
NH Economic Research Institute, Inc.	-	-	-	-	1	7,904	-	-	-
Korea Investment Management									

Company	Interest income	Commission income	Other operating income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other operating expenses	Other expenses
(NH NongHyup Securities) basic private placed investment trust 14th	₩ -	₩ -	₩ 9	₩ -	₩ -	₩ 50	₩ -	₩ -	₩ -
KTB Confidence private placed real estate investment trust 24th	1,159	-	-	-	-	-	-	-	-
KTB Confidence real estate fund 13th	896	-	-	-	-	-	-	-	-
Tong yang Global REF private mixed investment trust	-	-	-	-	-	1	-	-	-
Maps NH private placed real estate investment trust 1–2nd	-	-	-	-	-	1	-	-	34
Samsung (Taurus) new growth 30 private placed investment 2nd	-	-	13	-	-	35	-	-	-
Consus (Good morning) private placed securities investment trust 16th	-	-	3	-	-	-	-	-	-
Consus (Samsung) private placed investment trust 23rd	-	-	1	-	-	3	-	-	-
Maps Frontier real estate fund 17th	-	-	-	-	-	1	-	-	-

(4) The Group's acceptances and guarantees and unused credit limits with related parties as of December 31, 2013 and 2012, are summarized as follows (Unit: Korean won in millions):

DECEMBER 31, 2013

Classification	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 3,705,326	NACF
Unused credit limit in Korean won	120	NH Financial Group Inc.
Unused credit limit in Korean won	131,389	NH Life Insurance
Unused credit limit in Korean won	40,383	NH Property and Casualty Insurance
Unused credit limit in Korean won	142,333	NH NongHyup Securities Co., Ltd.
Unused credit limit in Korean won	30,139	NH NongHyup Futures Co., Ltd.
Unused credit limit in Korean won	112,918	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won	182	NH-CA Asset Management Co., Ltd.
Unused credit limit in Korean won	1	Korea Credit Bureau
Unused credit limit in Korean won	10,390	Nanumlotto Co., Ltd.
Unused credit limit in Korean won	63	NH Agribusiness Group Inc.
Unused credit limit in Korean won	726	Daejeon Agricultural Products Marketing Co., Ltd.
Acceptances and guarantees in Korean won	10,564	Nonghyup Hansamin Co., Ltd.
Unused credit limit in Korean won	3,386	Nonghyup Hansamin Co., Ltd.
Acceptances and guarantees in foreign currencies	6,720	NH Trading Co., Ltd.
Unused credit limit in Korean won	28,084	NH Trading Co., Ltd.
Unused credit limit in Korean won	3,569	Nonghyup-Agro
Unused credit limit in Korean won	759	Korea Agriculture Cooperative Marketing Inc.
Acceptances and guarantees in Korean won	1,808	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	67,484	Namhae Chemical Corporation
Unused credit limit in Korean won	341,254	Namhae Chemical Corporation
Unused credit limit in Korean won	751	Cheju Fertilizer Co., Ltd.
Unused credit limit in Korean won	29	Nisso-namhae Agro Co., Ltd.
Unused credit limit in Korean won	247	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won	5,431	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	₩ 5,090	Nonghyup Logistics Service Inc.
Acceptances and guarantees in foreign currencies	92,818	Nonghyup Feed Inc.
Unused credit limit in Korean won	344,246	Nonghyup Feed Inc.
Unused credit limit in Korean won	7,324	Nonghyup Moguchon
Acceptances and guarantees in foreign currencies	111	Nonghyup Moguchon
Unused credit limit in Korean won	3,141	NH Development, Ltd.
Unused credit limit in Korean won	125	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	95,958	NH Information System Co., Ltd.
Unused credit limit in Korean won	42	NH Economic Research Institute, Inc.
Unused credit limit in Korean won	211	NH Hyupdong Planning
Unused credit limit in Korean won	2,922	The Farmers' Newspaper
Unused credit limit in Korean won	3,141	NH Art Hall
Unused credit limit in Korean won	40	NH Heuk Sarang Co., Ltd.
Acceptances and guarantees in foreign currencies	4,027	NongHyup Chemical
Unused credit limit in Korean won	158,404	NongHyup Chemical

DECEMBER 31, 2012

Classification	Credit limit		Counterparty
Unused credit limit in Korean won	₩	4,767,313	NACF
Unused credit limit in Korean won		120	NH Financial Group Inc.
Unused credit limit in Korean won		131,889	NH Life Insurance
Unused credit limit in Korean won		40,677	NH Property and Casualty Insurance
Unused credit limit in Korean won		142,342	NH NongHyup Securities Co., Ltd.
Unused credit limit in Korean won		30,132	NH NongHyup Futures Co., Ltd.
Unused credit limit in Korean won		110,295	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won		229	NH-CA Asset Management Co., Ltd.
Unused credit limit in Korean won		600	Arivision 2nd Ltd.
Unused credit limit in Korean won		1	Korea Credit Bureau
Unused credit limit in Korean won		444	Nanumlotto Co., Ltd.
Unused credit limit in Korean won		121	NH Agribusiness Group Inc.
Unused credit limit in Korean won		3,020	Daejeon Agricultural Products Marketing Co., Ltd.
Acceptances and guarantees in Korean won		7,500	Nonghyup Hansamin Co., Ltd.
Unused credit limit in Korean won		222	Nonghyup Hansamin Co., Ltd.
Acceptances and guarantees in foreign currencies		4,598	NH Trading Co., Ltd.
Unused credit limit in Korean won		30,335	NH Trading Co., Ltd.
Acceptances and guarantees in Korean won		1,000	NH Trading Co., Ltd.
Unused credit limit in Korean won		3,571	Nonghyup-Agro
Unused credit limit in Korean won		785	Korea Agriculture Cooperative Marketing Inc.
Acceptances and guarantees in Korean won		2,002	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies		68,423	Namhae Chemical Corporation
Unused credit limit in Korean won		184,583	Namhae Chemical Corporation
Unused credit limit in Korean won		206	Cheju Fertilizer Co., Ltd.
Unused credit limit in Korean won		22	Nisso-namhae Agro Co., Ltd.
Acceptances and guarantees in foreign currencies		7,125	Youngil Chemical
Unused credit limit in Korean won		58,957	Youngil Chemical
Unused credit limit in Korean won	₩	238	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won		5,087	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won		5,104	Nonghyup Logistics Service Inc.
Acceptances and guarantees in foreign currencies		165,893	Nonghyup Feed Inc.
Unused credit limit in Korean won		118,482	Nonghyup Feed Inc.
Unused credit limit in Korean won		7,366	Nonghyup Moguchon
Acceptances and guarantees in foreign currencies		112	Nonghyup Moguchon
Unused credit limit in Korean won		285	NH Development, Ltd.
Acceptances and guarantees in Korean won		1,000	NH Development, Ltd.
Unused credit limit in Korean won		23,545	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won		131	NH Information System Co., Ltd.
Unused credit limit in Korean won		46	NH Economic Research Institute, Inc.
Unused credit limit in Korean won		1,429	NH Heuk Sarang Co., Ltd.
Unused credit limit in Korean won		215	NH Hyupdong Planning
Unused credit limit in Korean won		3,019	The Farmers' Newspaper

(5) The key management compensation for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, is as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Short-term employee benefits	₩	2,640	₩	2,806
Retirement expenses		493		241
	₩	3,133	₩	3,047

37. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2013, the Group provided the credit line with the limit of ₩307,170 million and made the commercial paper purchase agreement with the limit of ₩335,680 million as collaterals to repay the principals and interests of debentures and commercial papers issued by the Grace SPE 3rd and 19 other SPEs.

(2) Pending litigations

The Group is involved in various pending legal proceedings arising in the normal course of business. As of December 31, 2013, the Group is named as a plaintiff in 267 cases with related aggregate claims amounting to ₩150,709 million, and as a defendant in 202 cases with related aggregate claims amounting to ₩181,721 million. Accordingly, the Group accrued for a litigation-related liability of ₩3,636 million in other liabilities.

Except for accrued litigations-related liabilities, the Group believes that the outcome of litigations will not have a material impact on the consolidated financial statements.

(3) The Group holds written-off loans, on which the statute of limitation was not completed or the Group has not lost its claim rights to borrowers and guarantors, amounting to ₩3,438,085 million and ₩2,950,722 million as of December 31, 2013 and 2012, respectively.

38. CONSOLIDATED STATEMENTS OF CASH FLOWS:

(1) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist of cash and due from banks (excluding restricted due from banks) from the consolidated statements of financial position. Cash and cash equivalents as of December 31, 2013 and 2012, are adjusted as follows (Unit: Korean won in millions):

Classification	2013	2012
Cash and due from banks	₩ 9,216,363	₩ 9,402,633
Less: Restricted due from bank (Refer to Note 5)	(6,724,861)	(6,914,970)
Less: Due from banks with a maturity of three months or more at acquisition	(88,815)	(486,000)
	₩ 2,402,687	₩ 2,001,663

(2) Non-cash transactions

Significant non-cash transactions not included in the consolidated statements of cash flows for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	Year ended December 31, 2013	For the period from March 2, 2012, to December 31, 2012
Decrease in loans due to write-off	₩ 936,256	₩ 916,138
Increase in gain on valuation of AFS financial assets	121,305	16,108
Transfer to fixed assets from construction in progress	14,198	44,613
Transfer to investment properties from tangible assets	51,894	67,479

39. OPERATING LEASE:

(1) Operating lease contract

The Group uses Automatic Teller's Machines through operating lease. The lease term ranges from 12 to 33 months.

(2) Lease expenses for the year ended December 31, 2013, and for the period from March 2, 2012, to December 31, 2012, are as follows (Unit: Korean won in millions):

Classification	For the year ended December 31, 2013		For the period from March 2, 2012, to December 31, 2012	
Minimum lease payment	₩	18,987	₩	11,488

(3) Expected schedule of lease payment as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Classification	December 31, 2013		December 31, 2012	
Less than one year	₩	22,137	₩	14,184
1–5 years		19,664		14,240
More than five years		-		-
	₩	41,801	₩	28,424

40. SANCTION STATUS:

The current status of sanctions imposed on the Group by the financial regulators is as follows.

Sanction Date	Cause	Sanction Details
12.04.2013	Incident caused due to negligent control in management of outsourced IT operations	Cautionary warning (former CEO) Caution (registered officers)

41. SUBSEQUENT EVENTS:

(1) Litigations (1st hearing) are currently in progress in relation to the incident involving disclosure of personal information by NH Nonghyup Card, and it cannot be reasonably predicted whether such a litigation will generate significant loss in the consolidated financial statements. Furthermore, sanctions have been imposed by the financial regulator through partial suspension (3 months) of the credit card business and related businesses in relation to the subject incident.

(2) The broad Nonghyup information business and its required assets and debt, and general working relationship have been transferred from NACF to the Group as of January 1, 2014, in accordance with the business transfer contract between the Group and NACF.

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