IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A, OR (2) NON-U.S. PERSONS WITH ADDRESSES OUTSIDE OF THE U.S.

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

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

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

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, IN WHOLE OR IN PART, ELECTRONICALLY OR OTHERWISE AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the following Offering Circular or make an investment decision with respect to the securities described herein, investors must be either (I) Qualified Institutional Buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act), or (II) non-U.S. persons (within the meaning of Regulation S under the Securities Act). The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs, or (b) non-U.S. persons (within the meaning of 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 the 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 authorized to, deliver or disclose the contents of the Offering Circular to any other person. If this is not the case, you must return the Offering Circular to us immediately.

The materials relating to the issue of the securities described herein do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the issue of the securities described herein be made by a licensed broker or dealer and any Dealers or any affiliate of such Dealers is a licensed broker or dealer in that jurisdiction, the issue of the securities described herein shall be deemed to be made by such Dealers or such affiliate on behalf of the issuer in such jurisdiction.

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

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

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.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports contained, herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the SGX-ST are 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, as amended (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 (as defined in "*Summary of the Programme*"), 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 S.A. ("**Clearstream, 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

Société Générale Corporate & Investment Banking

Dealers

BNP PARIBAS	**BofA Merrill Lynch**	**Citigroup**
Commerzbank	**Crédit Agricole CIB**	**HSBC**
ING	**J.P. Morgan**	**Mizuho Securities**
NH Investment & Securities	**Nomura**	**Société Générale Corporate & Investment Banking**
Standard Chartered Bank		**UBS**

The date of this Offering Circular is 13 July 2018.

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 the 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 disclaim 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 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 "**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.

Amounts payable under the Notes may be calculated by reference to the Euro Interbank Offered Rate ("**EURIBOR**") or the London Interbank Offered Rate ("**LIBOR**"), which are provided by the European Money Markets Institute ("**EMMI**") and ICE Benchmark Administration Limited ("**IBA**") respectively. As at the date of this Prospectus, IBA appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**Benchmarks Regulation**"). EMMI does not appear on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmarks Regulation. So far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that EMMI is not currently required to obtain authorisation or registration.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS—If the final terms (or pricing supplement, as the case may be) in relation to the Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors," the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

In respect of each issue of Notes, the applicable Pricing Supplement may include a legend titled "MiFID II Product Governance" which will outline the target market assessment in respect of the relevant Notes and which channels for distribution of the relevant Notes are appropriate. Any person subsequently offering, selling or recommending such Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of such Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

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 (as defined in "*Summary of the Programme*") 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 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 authorised. 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 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*".

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 in the case of Subordinated Notes, 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

Certain statements in this Offering Circular constitute "forward-looking statements", including statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "will", "aim", "will likely result", "will continue", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "should", "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the risk of adverse impacts from an economic downturn in Korea and globally;
- the Issuer's ability to successfully implement its business strategy;
- the condition of and changes in the Korean, Asian or global economies, including changes in consumer confidence and spending;
- future levels of non-performing loans;
- the Issuer's growth and expansion, including whether the Issuer succeeds with its business strategy;
- changes in interest rates and changes in government regulation and licensing of the Issuer's businesses in Korea and in other jurisdictions where the Issuer may operate; and
- competition in the financial services industry.

Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

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 and "**China**" or "**PRC**" refer to People's Republic of China. 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 1,066.5 as of 31 March 2018. 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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated herein, the financial data of the Bank as of 31 December 2015, 2016, 2017 and for the years ended 31 December 2015, 2016 and 2017 have been derived from the audited consolidated financial statements of the Bank as of 31 December 2015, 2016 and 2017 and for the years ended 31 December 2015, 2016 and 2017, which are based on International Financial Reporting Standards, as adopted by Korea ("**K-IFRS**") on a consolidated basis, and the financial data of the Bank as of 31 March 2018 and for the three months ended 31 March 2017 and 2018 have been derived from the unaudited consolidated financial statements of the Bank as of 31 March 2018 and for the three months ended 31 March 2017 and 2018, which are based on K-IFRS on a consolidated basis.

Certain financial data of the Bank have been derived from the audited non-consolidated financial statements of the Bank as of 31 December 2015, 2016, 2017 and 31 March 2018 and for the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018, which are based on K-IFRS on a non-consolidated basis. Such information is referred herein as having been prepared "on a non-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, and related accounting records. 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.

Unless stated otherwise, all financial information contained in this offering circular is presented on a consolidated basis in accordance with K-IFRS together with, where applicable, accounting and reporting guidelines under Korean accounting standards applicable to the banking industry. Financial and other information contained in this Offering Circular regarding individual borrowers, groups or categories of borrowers or classifications by industry, geography, size or other factors, including information as to loans, credits, total exposures, allowances, collateral values, non-performing loans and other items, is derived solely from the Bank's internal management information systems.

Under the Korean Banking Act of 1950, as amended (the "**Banking Act**"), assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of that bank. Accordingly, banks, including the Bank, engaged in the banking and trust businesses must maintain two separate accounts, the bank account and the trust account, and two separate sets of records, which provide details of their respective banking and trust businesses. All financial information contained in this offering circular relating to the Bank is presented with respect to the Bank's bank account only, unless stated otherwise.

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**").

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 the offering of Notes 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:	Société Générale
Dealers:	BNP Paribas Citigroup Global Markets Inc. Commerzbank Aktiengesellschaft Crédit Agricole Corporate and Investment Bank The Hongkong and Shanghai Banking Corporation Limited ING Bank N.V., Singapore Branch J.P. Morgan Securities plc Merrill Lynch International Mizuho Securities Asia Limited NH Investment & Securities Co., Ltd. Nomura International plc Société Générale Standard Chartered Bank UBS AG Hong Kong Branch 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)
U.S. Registrar, U.S. Paying Agent and U.S. Transfer Agent:	Deutsche Bank Trust Company Americas
Exchange Agent:	Deutsche Bank AG, Hong Kong Branch (in respect of Restricted Notes)
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A. (in respect of Unrestricted Notes other than CMU Notes) Deutsche Bank AG, Hong Kong Branch (in respect of CMU Notes (as defined in the Agency Agreement))

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.
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, Subordinated Notes shall have a minimum maturity of five years.
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 (as defined in "*Form of the 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 ("**FSS**") 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 FSS 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.
Benchmark Discontinuation:	If Benchmark Discontinuation is specified to be applicable in the applicable Pricing Supplement in relation to Floating Rate Notes, in the

	event that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread, if any, and any Benchmark Amendments as described in Condition 7(f).
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 5 (*Negative Pledge*), 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).
Write-off of the Subordinated Notes upon a Trigger Event:	The Subordinated Notes will be subject to Write-off upon the occurrence of a Trigger Event, as provided in Condition 4(c) (*Loss Absorption Upon a Trigger Event in respect of Subordinated Notes*). See "*Risk Factors—Risks Relating to the Notes—The Notes that are Subordinated Notes may be fully written off upon the occurrence of certain trigger events, in which case holders of the Notes will lose all of their investment*".
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. For so long as such Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).

	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 in the case of Subordinated Notes, 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 the 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, the Bank's business, financial condition or results of operations could be materially and adversely affected.

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. In light of the ongoing general uncertainty about economic and political conditions in Europe, signs of a cooling economy for China and the continuing geopolitical and social instability in the Middle East and the former republics of the Soviet Union, including Russia and Ukraine among others, significant uncertainty remains as to the global economic prospects in general and has adversely affected, and may continue to adversely affect, the Korean economy. In addition, as the Korean economy matures, it is increasingly exposed to the risk of being pursued by competitors in less advanced economies while not having fully caught up with competitors in advanced economies, which risk is amplified by the fact that the Korean economy is heavily dependent on exports. The Korean economy also continues to face other difficulties, including sluggishness in domestic consumption and investment, volatility in the real estate market, rising household debt, potential declines in productivity due to aging demographics and low birth rates, and a rise in youth unemployment. Any future deterioration of the global and Korean economies could adversely affect the Bank's business, financial condition and results of operations.

In particular, difficult 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 write-offs as more 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 core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening 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 loans, credit card receivables and confirmed acceptances and guarantees, among others) including those credits that have been in arrear for three months or more and as classified according to the FSS guidelines, amounted to Won 2,287 billion as of 31 March 2018 and the ratio of the Bank's substandard or below credits to total credits was 0.7% as of 31 March 2018. The Bank's delinquent credits (including loans, credit card receivables and confirmed acceptances and guarantees) as reported to the FSS, which represent the principal amount of credits past due for one day or more, amounted to Won 1,883 billion as of 31 March 2018, and its delinquency ratio was 0.6% as of 31 March 2018. There is no assurance that the asset quality of the Bank's loans, particularly the loans to the shipbuilding and shipping companies and the real estate and construction companies (including real estate related projects), will not deteriorate in the future, especially if the current economic and financial conditions in global and Korean markets 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 Korean financial institutions to particular types of borrowers. 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, the Government has taken and is taking various initiatives to support small and medium sized enterprises (the "**SMEs**"), who were disproportionately affected during the downturn in the Korean and global economy in the late 2000s and have yet fully recover. The Government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries or relief to certain segments of the population. The financial regulators have also adopted several measures designed to improve certain lending practices of the commercial banks which practices were perceived as having an unduly prohibitive effect on extending loans to SMEs. See "*—Risks relating to the Bank—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 "**UAMCO Agreement**") to establish the United Asset Management Company Ltd. ("**UAMCO**") that would, among others, purchase and manage non-performing loans from the Participating Banks and other financial institutions. The Bank contributed Won 87.0 billion and acquired a 14% equity stake in UAMCO. There can be no assurance that UAMCO will not require any additional financings from the Participating Banks other than as provided in the UAMCO 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. There can be no assurance that UAMCO will not require any additional financings from the Participating Banks other than as provided in the UAMCO 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.

In furtherance of the policy to expand the proportion of fixed rate housing loans, the FSC implemented "Relief Debt Conversion" program from 24 March to 27 March 2015 and from 30 March to 3 April 2015, respectively, under which borrowers of eligible housing loans (namely, loans that have been in existence for one year or more since the original loan date, with no delinquency in the past six months, with principal amounts of Won 500 million or less and for houses valued at Won 900 million or less that are on a floating rate basis and/or an interest payment only basis) might convert such loans to new fixed rate loans for which the borrowers would be required to repay the principal and interest in instalments for a term of 10, 15, 20 or 30 years without a grace period, provided that the new loans pass the maximum loan-to-value ratio of 70% (irrespective of the location of the property) and the maximum debt-to-income ratio of 60% (only in respect of apartment units located in the greater Seoul metropolitan area, subject to certain exceptions). The borrowers were allowed to convert the original loans only at the banks that extended such loans. The banks holding the newly converted fixed rate loans are required to sell such loans to Korea Housing Finance Corporation, a government-controlled entity, which will then securitise such loans and issue mortgage-backed securities (backed by such loans) to be purchased by the banks who sold the loans in proportion to the amounts of the loans sold, and the banks will be required to hold such securities for a period of one year, after which the bank can sell or dispose of such securities in the market or otherwise. According to the FSC, under this program, approximately 345,000 borrowers converted loans in the aggregate amount of Won 31.2 trillion to fixed rate loans, of which the Bank accounted for approximately 13.9%. Due in large part to such initiatives, fixed interest rate loans and instalment principal repayment-based loans accounted for 49.8% and 44.5%, respectively, of the total housing loans extended by commercial banks in Korea as of 31 December 2017, according to data published by the Government in January 2018. Fixed interest rate and instalment principal repayment-based housing loans accounted for 45.3% and 44.5%, respectively, of the housing loans extended by the Bank as of 31 December 2017, exceeding the Government's target proportions for 2017 on a separate basis.

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.

The Bank's total loans to SMEs amounted to Won 74,084 billion, representing 34.6% of the Bank's total loans as of 31 March 2018 on a separate basis. The Bank loans to SMEs that were classified as substandard or below amounted to Won 870 billion as of 31 March 2018, representing 1.2% of the Bank's total loans to those enterprises as of 31 March 2018 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 write-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 large corporations, primarily as suppliers. Any difficulties encountered by large corporations 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 Korean conglomerates and the ability for a Korean conglomerate to repay the loans that it may have with the Bank. See "*—Risks Relating to the Bank—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 31 March 2018, the total amount of the Bank's exposures to the 30 largest Korean conglomerates, or chaebols, was Won 19,518 billion which represented 6.3% of the Bank's total exposure on a non-consolidated basis. The Bank's largest single credit (based on outstanding balances) to a chaebol at that date was Won 3,279 billion, which represented 1.1% of total credits. 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, including STX Offshore & Shipbuilding Co., Ltd. which has been approved for court receivership in June 2016, 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 31 March 2018, the total amount of the Bank's exposure on a non-consolidated basis, to companies in Korea in the construction and real estate development industries amounted to Won 9,205 billion, or 3.3% of the Bank's loans. As of 31 March 2018, the total amount of the Bank's loans (including confirmed acceptances and guarantees), on a non-consolidated basis, to companies in Korea in the shipbuilding and shipping industries amounted to Won 4,020 billion, or 1.5% of the Bank's loans on a non-consolidated basis.

The Bank also has other exposures to companies in these four industries, including in the form of other 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 July 2014, 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. In addition, in March 2015, as a way to further boost the real estate transactions by facilitating home purchases, the Government decided to support profit-sharing mortgage loans whereby the commercial banks provide mortgage loans at lower interest rates to home buyers subject to the condition that the home buyer shares the profit from home price increase with the lending bank. Furthermore, since 28 December 2015, the Government, through Korea Housing & Urban Fund, has provided limited recourse home mortgage loans, under which a borrower's liability is limited only to the real property that is mortgaged to secure the relevant loan. The Government may in the future introduce other measures to revitalise the real estate market. However, in an effort to stabilise high levels of speculation, the FSC has recently implemented a number of changes to the regulation of retail household lending by banks, limiting bank loans and inducing owners of multiple homes to sell their properties in the overheated speculative 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 loans 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 of a significant decrease in shipbuilding and shipping orders, primarily due to the slowing global demand stemming from decreases in oil prices and global trade as well as increasing competition from Chinese shipbuilding and shipping companies. 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 August 2016, the FSC announced the results of credit risk evaluations conducted by creditor financial institutions (including the Bank) of companies in Korea, in which 32 companies with outstanding debt of Won 50 billion or more (six of which was a construction company and nine of which were shipbuilding and shipping companies) were selected by such financial institutions for restructuring. Furthermore, in June 2016, the Government announced a plan to create a fund of up to Won 12 trillion together with the Bank of Korea ("BOK") to recapitalise Korea Development Bank and The Export-Import Bank of Korea in order to rehabilitate the domestic shipbuilding and shipping companies, among others. Subsequently, according to the FSC, creditor banks approved a Won 10.35 trillion self-reform plan by Korea's three biggest shipbuilders—Hyundai Heavy Industries Co., Ltd., Samsung Heavy Industries Co., Ltd., and Daewoo Shipbuilding & Marine Engineering Co., Ltd. Under the approved plan, the shipbuilders will reduce workforce and sell non-core assets in the next few years. 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 in the troubled industries will be sufficient to cover all future losses arising from these and other exposures. As of 31 March 2018, the Bank's total exposure to STX Group was Won 409 billion and its loan loss provision in relation to such exposure was Won 131 billion on a non-consolidated basis. As of 31 March 2018, the Bank's total exposure provided to certain shipping companies—Hyundai Merchant Marine Co., Ltd. and Changmyung Shipping—were Won 21 billion and Won 68 billion, respectively, and its loan loss provisions in relation to such exposure was Won 8 billion and Won 22 billion, respectively, on a non-consolidated basis. Each of the two shipbuilding firms is currently undergoing a self-reform restructuring plan.

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 changing the competitive landscape or other reasons, and the Bank's business may experience declining margins as a result.

Competition in the Korean financial services industry is, and is likely to remain, intense, including as a result of the sustained low interest rate environment (which narrows opportunities to make profit based on the spread between lending rates and funding rates), the continuing sluggishness in the general economy, the growing maturation and saturation of the industry as a whole, the entry of new market participants and deregulation, among others. 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, such competition may result in lower net interest margin and reduced overall profitability, especially if the low interest rate environment were to continue for a significant period of time.

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. Since July 2015, the FSC has provided, through the Korea Financial Telecommunications and Clearings Institute, the integrated automatic payment transfer management service, which allows account holders to search for, terminate or modify automatic payments they have set up with financial institutions participating in such service (currently including banks, securities companies and other financial institutions such as The Post Office, Korean Federation of Community Credit Cooperatives, National Credit Union Federation of Korea, Mutual Savings Bank and National Forestry Cooperative Federation). In addition, the FSC began providing the integrated account management service from December 2016, which allows account holders to search for detailed information of their bank accounts opened in banks participating in such service, close small-sum inactive accounts (i.e., accounts with no transaction activity during the previous one year period and with a balance of less than ₩500,000) and transfer the balance in such accounts to other accounts. Moreover, in December 2017, the FSC introduced the "my account at a glance" system," which enables consumers to view their key financial account information online, including information on bank, insurance, mutual finance, loan and card issuance on one page. The "my account at a glance" system is expected to become available on mobile channels and expand its scope of services to include savings bank and securities within 2018. Since their introduction, the integrated automatic payment transfer management and integrated account management services have gained widespread acceptance. Foreign financial institutions, many of which have greater experience and sources than the Bank will continue to seek to compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. As the reform and modernization of the financial sector continues, competition may become more intense among existing banks, insurance companies, securities companies and other financial organizations, and may lead to significant changes in the Korean financial market. As a result, the Bank may face difficulties in increasing or retaining its deposits, which in turn may result in an increase in its cost of funding and a decrease in its settlement and remittance service fee revenue.

Consolidation among the Bank's rival institutions may also add competition in the markets in which the Bank conducts business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives, including privatization, although the Government announced in March 2013 that it would no longer pursue privatization of Korea Development Bank and Industrial Bank of Korea. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for the Bank. For example, partly to facilitate the sale of Woori Bank, one of the four leading commercial banks in Korea in terms of assets, Woori Financial Group was dissolved in November 2014 and was merged into Woori Bank, with all previously subsidiaries of Woori Financial Group currently being subsidiaries of Woori Bank. 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. In 2015, the Government decided to sell a 30% to 40% interest in Woori Bank to multiple investors in separate blocks ranging from 4% to 10% each. Since December 2016, Korea Deposit Insurance Corporation has consummated sales transactions with seven institutional investors including Kiwoom Securities, Korea Investment and Securities, Hanwha Life Insurance, Tongyang Life Insurance, Eugene Asset Management, Mirae Asset Global Investments and IMM Private Equity for the sale of an aggregate 29.7% interest in Woori Bank in separate blocks. In addition, in October 2014, the Government's ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. In April 2013, Korea Exchange Bank became part of Hana Financial Group after acquisition of the former by the latter in February 2012, and in September 2015, Korea Exchange Bank was merged with Hana Bank, one of the major commercial banks in Korea. Any of these developments may place the Bank at a competitive disadvantage and outweigh any potential benefit to the Bank in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganised entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Furthermore, recently as online service providers with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics, make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech", competition for online customers is growing not just among commercial banks, but also from online and mobile payment service providers. In 2015, the Government announced its plans to allow Internet-only banks to operate in Korea. KT consortium's K-Bank and Kakao consortium's Kakao Bank commenced operations in April 2017 and July 2017, respectively. Internet-only banks may have advantages over traditional banks as the former can pass savings in labour and overhead costs to their customers by offering higher interest rates on deposit accounts, lower loan costs and reduced service fees. Accordingly, the commercial banks are facing increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches. In addition, large non-financial institutions, such as mobile telecommunications companies, which on a combined basis service most of the Korean population, have begun initiatives to expand entry into the Korean credit card and consumer finance businesses by way of convergence with the existing and future mobile telephone networks. Accordingly, widespread consumer acceptance of mobile and online banking and payment services in lieu of traditional banking and credit card services could add to the competitive threat faced by existing credit card service providers, including the Bank.

If, despite its efforts to adapt to the changing competitive landscape, macroeconomic environment, regulatory environment or other changes, the Bank is unable to compete effectively in the changing environments, its profit margin and market share may erode and its future growth opportunities may become limited, which could adversely affect its business, financial condition and results of operations.

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, 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 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 was set at 60% as of 1 January 2015 and thereafter rises in annual increments of 10% so that the minimum LCR will be 100% as of 1 January 2019. In December 2014, the FSC promulgated regulations to implement the liquidity requirements of Basel III, including raising the minimum LCR to 80% as of 1 January 2015 and thereafter by annual increments of 5% so that the minimum LCR for commercial banks in Korea will be 100% as of 1 January 2019.

In addition, the FSC requires certain specialised banks (including the Bank) to maintain an LCR of not less than 60% as of 1 January 2015, which shall be raised each year thereafter by an annual increment of 10% until the minimum LCR reaches 100% as of 1 January 2019, and to make monthly reports to the FSC. The FSC requires certain specialised banks (including the Bank) to maintain a foreign currency LCR of not less than 40% as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 20% until the minimum liquidity coverage ratio reaches 80% by 1 January 2019. 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 of one year or more in the repayment period) of 100% or more. Details regarding the computation of these ratios as well as HQLA and net cash outflows 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 31 March 2018, deposits (including certificates of deposit) amounted to Won 212,652 billion, of which 95.2% had maturities of one year or less or were payable on demand. As of 31 March 2018, deposits placed by local governments amounted to Won 58,536 billion, on a separate basis, 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., Europe or China as a result of the Korea-EU Free Trade Agreement, the Korea-United States Free Trade Agreement, and the Korea-China Free Trade Agreement, which became effective in July 2011, March 2012 and December 2015, respectively. 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 is required to maintain its capital ratios above a minimum required level, and the failure to so maintain could result in the suspension of some or all of its operations.

The Bank, like other commercial banks in Korea, is required to maintain specified capital adequacy ratios. For example, since 1 January 2015, the Bank is required to maintain a minimum common equity Tier I capital adequacy ratio of 4.5%, a Tier I capital adequacy ratio of 6.0% and a total capital (BIS) ratio of 8.0%. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the FSC. As of 31 March 2018, the common equity Tier I capital adequacy ratio, the Tier I capital adequacy ratio and the total capital (BIS) ratio of the Bank were 12.22%, 12.49% and 15.21%, respectively.

While the Bank currently maintains capital adequacy ratios in excess of the required regulatory minimum levels, the Bank may not be able to continue to satisfy its capital adequacy requirements for a number of reasons, including an increase in risky assets and provisioning expenses, substitution costs related to the disposal of problem loans, declines in the value of its securities portfolio, adverse changes in foreign currency exchange rates, changes in the capital ratio requirements, the guidelines regarding the computation of capital ratios, or the framework set by the Basel Committee upon which the guidelines of the FSC are based, or other adverse developments affecting the Bank's asset quality or equity capital.

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as "Basel III". Under Basel III, Tier I capital is defined to include common equity Tier I and additional Tier I capital. Common equity Tier I capital is a new category of capital primarily consisting of common stock, capital surplus, retained earnings and other comprehensive income (progressively phased into the capital ratio calculation over several years). The new minimum capital requirements, including the minimum common equity Tier I requirement of 4.5% and additional mandatory capital conservation buffer requirement of 2.5%, are currently being implemented in phases until 1 January 2019. Additional discretionary countercyclical capital buffer requirements are also expected to be phased in, which will range at the discretion of national regulators between 0% and 2.5% of risk-weighted assets. Basel III also introduces a minimum leverage ratio requirement. On 7 December 2017, the Basel Committee finalized several key methodologies for measuring risk-weighted assets. The revisions include a standardized approach for credit risk, standardized approach for operational risk, revisions to the credit valuation adjustment (CVA) risk framework and constraints on the use of internal models. The Basel Committee had also previously finalized a revised standardized model for counterparty credit risk, revisions to the securitization framework and its fundamental review of the trading book, which updates both modeled and standardized approaches for market risk measurement. The revisions also include a capital floor set at 72.5% of total risk-weighted assets based on the revised standardized approaches to limit the extent to which banks can reduce risk-weighted asset levels through the use of internal models.

In order to implement the capital requirements under Basel III in Korea, the Regulation on the Supervision of the Banking Business was amended, effective 1 December 2013. Under the amended Regulation on the Supervision of the Banking Business, effective from 1 January 2015, commercial banks in Korea are required to maintain a minimum common equity Tier I ratio of 4.5%, a minimum Tier I capital ratio of 6.0% and a minimum total capital (BIS) ratio of 8.0%. The Regulation on the Supervision of the Banking Business was further amended on 26 December 2014, to implement the LCR requirements under Basel III in increments of 5% annually, from 80% as of 1 January 2015 to 100% as of 1 January 2019. Capital conservation buffer requirements are also being phased in from 1 January 2016 in increments of 0.625% annually, to the effect that commercial banks in Korea will be required to maintain a capital conservation buffer of 2.5% as of 1 January 2019. If a commercial bank fails to maintain such capital conservation buffer requirements, such bank will be subject to certain restrictions relating to its use of income, such as distributing dividends and purchasing treasury stock. As of 1 January 2016, the FSC implemented Basel III requirements relating to accumulation of additional capital for systemically important banks and countercyclical capital buffer requirements. Each year, the FSC may designate banks with significant influence (based on size and connectivity with other financial institutions) on the domestic financial system as a domestic systemically important bank and require the accumulation of additional capital in accordance with the highest of: (i) ratio of common equity capital to risk-weighted assets, ranging from 0.0% to 2.0%, depending on the systematic importance evaluation score, (ii) if the bank's holding company is a domestic systemically important bank holding company, the capital ratio corresponding to the additional capital required for the bank holding company under the Financial Holding Company Supervision Regulations, or (iii) if the bank is also a global systemically important bank, as defined by the Basel Committee, the capital ratio as required by the Basel Committee. NH Financial Group and NongHyup Bank were selected as a domestic systemically important bank holding company and domestic systemically important bank, respectively, for 2018. According to the instructions of the FSC, domestic systematically important banks including the Bank are required to maintain an additional capital buffer of 0.25% starting on 1 January 2016, with such buffer to increase by 0.25% annually to 1.00% by 1 January 2019. The FSC may also, upon quarterly review, determine and require banks to accumulate a required level of countercyclical capital buffer within the range of 0% to 2.5% of risk-weighted assets, taking into account factors such as the degree of increase in credit relative to the gross domestic product. Since March 2016, the FSC has maintained countercyclical capital buffer requirements at 0%, and as of the date of this Offering Circular, the FSC has not publicly announced any intention to change the countercyclical capital buffer requirement to any other rate.

The Bank is currently, and has been, in full compliance with Basel III requirements as implemented in Korea since its introduction in December 2013. However, there is no assurance that the Bank will continue to be able to be in compliance with Basel III requirements. New requirements under Basel III may require an increase in the Bank's credit risk capital requirements in the future, which may require the Bank to either improve its asset quality or raise additional capital. In addition, if the Bank's capital adequacy ratios were to fall below the required levels, the FSC might impose penalties ranging from a warning to suspension or revocation of its business licenses. In order to maintain the capital adequacy ratios above the required levels, the Bank may be required to raise additional capital through equity financing, but there is no assurance that it will be able to do so on commercially favourable terms or at all and, even if successful, any such capital raising may have a dilutive effect on the Bank's shareholders with respect to their interest in the Bank.

The asset quality of the Bank's retail loan portfolio may deteriorate.

In recent years, consumer debt, including lending to households and small unincorporated businesses, has continued to increase in Korea. The Bank's portfolio of retail loans is comprised of two principal product types, namely secured retail loans (which are primarily comprised of mortgage and home equity loans secured by real estate) and general purpose loans (which are unsecured loans and tend to carry a higher credit risk). As of 31 March 2018, the Bank's retail loan portfolio (before allowance for loan losses and deferred loan origination costs and fees) was Won 101,409 billion, or 47.4% of its total loans outstanding on a separate basis. As of 31 December 2015, 2016 and 2017 and 31 March 2018, the Bank's non-performing retail loans were Won 321 billion, Won 307 billion, Won 256 billion and Won 266 billion, respectively, representing non-performing loan ratios (net of charge-offs and loan sales) of 0.4%, 0.3% , 0.3% and 0.3%, respectively, on a separate basis.

The Bank's large exposure to consumer debt means that it is exposed to changes in economic conditions affecting Korean consumers. For example, a rise in unemployment, an increase in interest rates or a decline in housing prices in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. Economic difficulties in Korea that hurt consumers could result in increasing delinquencies and a decline in the asset quality of the Bank's household loan portfolio, which may in turn require the Bank to record higher provisions for credit loss and charge-offs and may materially and adversely affect the Bank's financial condition and results of operations.

A decline in the value of the collateral securing the Bank's loans or the Bank's inability to fully realize the collateral value may adversely affect the Bank's credit portfolio.

Most of the Bank's mortgage and home equity loans are secured by borrowers' homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of the Bank's corporate loans are also secured, including by real estate. As of 31 March 2018, the secured portion of the Bank's loans (before allowance for loan losses and deferred loan origination costs and fees) amounted to Won 138,489 billion, or 64.7% of its total loans on a non-consolidated basis. There is no assurance that the collateral value will not materially decline in the future. The Bank's general policy for mortgage and home equity loans is to lend 40% to 70% of the appraised value of the collateral and to periodically re-appraise such collateral. However, if the real estate market in Korea experiences a downturn, the value of the collateral may fall below the outstanding principal balance of the underlying mortgage loans. Borrowers of such under-collateralized mortgages or loans may be forced to pay back all or a portion of such mortgage loans or, if unable to meet the collateral requirement through such repayment, sell the underlying collateral, which sales may lead to a further decline in the price of real estate in general and set off a chain reaction for other borrowers due to the further decline in the value of collateral. Declines in real estate prices reduce the value of the collateral securing the Bank's mortgage and home equity loans, and such reduction in the value of collateral may result in the Bank's inability to cover the uncollectible portion of its secured loans. A decline 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 decline, may result in the deterioration of its asset quality and require the Bank to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take 10 to 14 months from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that the Bank will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. The Bank's failure to recover the expected value of collateral could expose it to significant 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 wholly owned by NACF. The Bank paid no dividends in respect of fiscal years 2015, 2016 and 2017 to NH Financial Group. Under the National Agricultural Cooperatives Federation Act (the "**NACF Act**"), NACF is entitled to receive from the Bank agricultural support project expenses (formerly known as brand fee), which for 2018 is set at 2.5% of the average total gross revenue (consisting of interest income, commission income, gain on financial assets and other revenues, on a gross basis) of the last three fiscal years of the Bank. For 2016 and 2017, the amount of agricultural support project expenses paid by the Bank was Won 315 billion and Won 290 billion respectively.

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 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 0.1% to 3.0% during 2017 and in the first three months of 2018. 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 2016, 31 December 2017 and 31 March 2018, policy loans provided by the Bank amounted in the aggregate to Won 17,873 billion, Won 18,767 billion and Won 18,759 billion, respectively, representing 9.8%, 9.8% and 9.8% of the Bank's total Won-denominated loans as of such dates respectively. Of such amounts, as of 31 December 2016, 31 December 2017 and 31 March 2018, policy loans funded by the Government amounted to Won 3,750 billion, Won 3,357 billion and Won 3,192 billion respectively, while policy loans funded by the Bank amounted to Won 14,123 billion, Won 15,410 billion and Won 15,567 billion respectively.

In addition, the Bank from time to time receives capital contributions from its sole shareholder, 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, Won 500 billion, Won 400 billion and Won 200 billion in March 2013, September 2013, March 2015 and June 2018, 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.

Changes in interest rates would hurt the Bank's net interest margin due to a mismatch in the Bank's assets and liabilities structures and other factors, which could have a material adverse effect on the Bank's asset quality and profitability.

Since 2009, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the BOK remained within the band between 2.00% and 3.25%. In an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the BOK reduced the base interest rate to 1.75% in March 2015, 1.50% in June 2015 and further reduced such rate to the historic low of 1.25% in early June 2016. In November 2017, the BOK raised the base interest rate to 1.50%, marking the first time it has increased the base interest rate since 2011.

Interest rate movements, in terms of magnitude and timing as well as their relative impacts on the Bank's assets and liabilities, have a significant impact on its net interest margin and profitability, particularly with respect to its financial products that are sensitive to such movements. For example, if the interest rates applicable to the Bank's loans (which are recorded as assets) increase at a slower pace or by a thinner margin than the interest rates applicable to its deposits (which are recorded as liabilities), its net interest margin will shrink and its profitability will be negatively affected. In addition, the relative size and composition of its variable rate loans and deposits (as compared to its fixed rate loans and deposits) may also impact its net interest margin. Furthermore, the difference in the average term of the Bank's interest-earning assets (primarily loans) compared to its interest-bearing liabilities (primarily deposits) may also impact the Bank's net interest margin. For example, since the Bank's deposits tend to have longer terms, on average, than those of its loans, the Bank's deposits are on average less sensitive to movements in the base interest rates on which the Bank's deposits and loans tend to be pegged, and therefore, a decrease in the base interest rates tend to decrease the net interest margin of the Bank while an increase in the base interest rates tend to have the opposite effect. While the Bank continually manages its assets and liabilities to minimise its exposure to interest rate volatility, such efforts by the Bank may not mitigate the impact of interest rate volatility in a timely or effective manner, and the Bank's net interest margin, and in turn its financial condition and results of operations, could suffer significantly.

The Bank cannot assure you when and to what extent the Government will in the future adjust the base interest rate, to which the market interest rate correlates. A decision to adjust the base interest rate is subject to many policy considerations as well as market factors, including the general economic cycle, inflationary levels, interest rates in other economies and foreign currency exchange rates, among others. In general, a decrease in interest rates adversely affects the Bank's interest income due to the different maturity structure for the Bank's assets and liabilities as discussed above. In contrast, if there were to be a significant or sustained increase in interest rates, all else being equal, such movement would lead to a decline in the value of traded debt securities and could also raise the Bank's funding costs, while reducing loan demand, especially among retail customers. Rising interest rates may therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches in its asset liability management 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 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.

The implementation of K-IFRS 1109 with effect from 1 January 2018 renders certain of the Bank's historical financial information as at and for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 not directly comparable with that of the Bank's financial information after 1 January 2018.

With effect from 1 January 2018, K-IFRS 1109 'Financial Instruments' has replaced in entirety existing guidance in K-IFRS 1039. Following the adoption of K-IFRS 1109, the Bank is required to re-classify and re-measure (including impairment measurement) certain of its financial instruments from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period. In particular and among other changes made in line with K-IFRS 1109, the Bank is permitted to adjust its shareholder equity from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period where the difference between the new carrying amount and original carrying amount would be recognised in retained earnings and other reserves from 1 January 2018. As there is no requirement of any restatement by the Bank of affected financial figures, with the implementation of K-IFRS 1109, certain of the Bank's historical financial information as at and for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 is not directly comparable against that of the Bank's financial information after 1 January 2018. Investors must therefore exercise caution when making comparisons of any financial figures after 1 January 2018 against the Bank's historical financial figures prior to 1 January 2018 and when evaluating the Bank's financial condition, results of operations and results. For further information regarding K-IFRS 1109, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies, Estimates and Judgments—Recent Accounting Changes*" and Note 2.1 of the notes to the Bank's Unaudited Consolidated Financial Statements included elsewhere in this Offering Circular.

The implementation of K-IFRS 1109 may cause the Bank to increase its allowance for impairment losses to cover expected credit loss on its loan portfolio and other financial instruments and may increase volatility in the Bank's profit or loss.

Following the adoption of K-IFRS 1109, the "incurred loss" model under the existing guidance for loans, debt instruments, lease receivables, contractual assets and financial guarantee contracts has been replaced with a forward-looking "expected credit loss" model, and therefore impairment losses are likely to be recognized earlier, on a more forward-looking basis and on a broader scope of financial instruments than using the incurred loss model under the previous guidance. Accordingly, as of 1 January 2018, the Bank increased its credit loss on financial assets at amortized cost from Won 15,603 billion to Won 16,576 billion as a result of adopting K-IFRS 1109. K-IFRS 1109 also introduces additional requirements for a financial asset to be classified as measured at amortized costs or fair value through other comprehensive income compared to the previous guidance and therefore would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, thereby increasing volatility in the Bank's profit or loss. For further information regarding K-IFRS 1109, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies, Estimates and Judgments—Recent Accounting Changes*" and Note 2.1 of the notes to the Bank's Unaudited Consolidated Financial Statements included elsewhere in this Offering Circular.

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.

Changes in foreign currency exchange rates, particularly in the Won to U.S. dollar exchange rates, affect the value of the Bank's assets and liabilities denominated in foreign currencies, the reported earnings of the Bank's non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in exchange rates may cause difficulty in obtaining foreign currency-denominated financing in the international financial markets on commercial terms acceptable to the Bank or at all. 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 3.0% of the Bank's total debt (comprising deposits, borrowings and debentures), as of 31 March 2018. Appreciation of the Won, on the other hand, may also materially affect the Bank's results of operations because, among other things, it causes the value of foreign currency-denominated assets to decrease in the amount of Won and may cause loss in foreign exchange transactions.

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 31 March 2018, the Bank and its subsidiaries held debt securities with a total book value of Won 36,100 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 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. To prevent future IT disruptions, the Bank created the position of Chief Information 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. For example, 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. In addition, in January 2014, it was reported that there was a leakage of personal information of approximately 100 million customers of NH Card, Lotte Card and KB Card in Korea due to illegal access to such information by an employee of a third party credit information company in the course of developing IT programs for these three credit card companies.

The Bank also provides Internet and mobile 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.

In order to prevent the leakage of information or electronic securities issues related to the influx of malware, the FSS requires that banks in Korea physically separate their internal and external networks by the end of 2015. The Bank completed such separation of its networks in 2015.

The public is developing heightened awareness about the importance of keeping their personal data private, and the financial regulators are placing greater emphasis on data protection by financial service providers. For example, under the Personal Information Protection Act, as last amended in July 2017, financial institutions, as personal information manager, may not collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically request or permit the management of resident registration numbers. Further, under the Credit Information Use and Protection Act, as last amended in November 2017, a financial institution has a higher duty to protect all information that it collects from its customers and to treat such information as credit information. Such regulations have considerably restricted a financial institution's ability to transfer or provide the information to its affiliate or holding company, and treble damages can be imposed on a financial institution for a leakage of such information. In addition, under the Electronic Financial Transaction Act, as last amended in April 2017, a financial institution is primarily responsible for compensating its customers harmed by the financial institution's cyber security breach, even if the breach is not directly attributable to the financial institution. The Bank maintains an integrated system that closely monitors its customer information to ensure compliance with data protection laws and regulations.

If a cyber or other security breach were to happen with respect to the Bank, it may result in litigation by affected customers or other third parties (including class action), compensation for any losses suffered by victims of cyber security attacks, reputational damage, loss of customers, heightened regulatory scrutiny and related sanctions, more stringent compliance with the present and future regulatory restrictions, and other costs related to damage control, reparation and reinforcement of information security systems, any of which may have a material adverse effect on its business, financial conditions and results of operations.

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 "*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, in June 2016, the FSC proposed the enactment of the Act on Financial Consumer Protection, which was submitted to the Korean National Assembly in 2017. If the Act is adopted as proposed, 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 proposed bill is currently still pending before the National Assembly. 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, in January 2017, the FSS issued an institutional caution against the Bank and assessed a fine of Won 10.7 million after a comprehensive audit finding cases of wrongful termination of insurance contracts, wrongful issuance of deposit balance certificates, improper collection of commissions, violation of notification requirements regarding the terms and conditions for credit card services and improper access of private credit information. 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.

The Bank is involved in various pending legal proceedings arising in the normal course of business. As of 31 March 2018, the Bank is named as a plaintiff in 142 cases with related aggregate claims amounting to Won

157 billion, and as a defendant in 211 cases with related aggregate claims amounting to Won 114 billion. Accordingly, the Bank accrued a litigation-related liability of Won 9 billion in other liabilities. See "*Business—Legal Proceedings*". 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 the Bank, 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 31 March 2018, 11,397 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. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond its control, including developments in the global economy.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. Substantial uncertainties remain for the global and Korean economy in the form of anticipated tightening of the U.S. monetary policy, continued fiscal and financial challenges for the European, U.S. and global economies, fluctuations in oil and commodity prices, signs of cooling of the Chinese economy and a rise of military and political tension in the Middle East, the Eastern Europe and former members of the Soviet Union. Accordingly, the overall prospects for the Korean and global economy in 2017 and beyond remain uncertain. Any future deterioration of the global economy may have an adverse impact on the Korean economy, which in turn could adversely affect the Bank's business, financial condition and results of operations. 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 of the Korean or global economy are for the most part beyond the Bank's control and inherently uncertain. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on the Bank's business and profitability.

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:

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union ("Brexit");

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;

- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small and medium sized enterprise borrowers;

- the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China's economy, which is Korea's most important export market;

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

- social and labour unrest;

- decreases in the market prices of Korean real estate;

- a decrease in tax revenue and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;

- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean business groups;

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

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

- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;

- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy and the recent diplomatic tension between Korea and China with respect to the deployment of the Terminal High Altitude Area Defense (THAAD) system in Korea;

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

- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;

- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and

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

Any future deterioration of the Korean economy could have an adverse effect on the Bank's business, financial condition and results of operations.

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 February 2017, Kim Jong-eun's half-brother, Kim Jong Nam, was reported to have been assassinated in an international airport in Malaysia.

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 February 2017, Kim Jong-nam, the eldest son of the late former leader, Kim Jong-il, and stepbrother of Kim Jong-eun, was allegedly poisoned to death at Kuala Lumpur airport in Malaysia. The incident is currently being investigated to determine the possible involvement of the North Korean government in Kim Jong-nam's death.

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program and it conducted additional ballistic missile tests in June 2016, a submarine-launched ballistic missile test in August 2016 and a series of missile tests in the first half of 2017. In response, the United Nations Security Council, in February 2017, issued a unanimous statement condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures and in March 2017, unanimously passed a resolution extending existing sanctions that were imposed on North Korea. On 4 April 2017, one day before the first meeting between U.S. President Donald Trump and Chinese President Xi Jinping, North Korea launched a ballistic missile which landed off the east coast of the Korean peninsula. In addition to the United Nations Security Council's condemnation, representatives of the Government and China expressed their plan to impose stronger sanctions on North Korea. On 15 April 2017, North Korea launched another missile which failed when it exploded immediately after liftoff. In response, the Government condemned the launch as a violation of the resolution of the United Nations Security Council and warned that North Korea would have to face punitive consequences if this leads to a future nuclear experiment or launch of an intercontinental ballistic missile. In July 2017, North Korea conducted two intercontinental ballistic missile tests which displayed further development of its long-range ballistic missile capabilities that potentially enable it to target certain areas of the United States as well as other neighboring countries in the Asia-Pacific region. In response, the United Nations Security Council unanimously adopted stronger sanctions against North Korea. In August 2017, North Korea announced its plan to launch four ballistic missiles targeting Guam, resulting in heightened diplomatic tensions between North Korea and the United States. In November 2017, North Korea conducted a test launch of another intercontinental ballistic missile, which, due to its improved size, power and range of distance, may potentially enable North Korea to target the United States mainland.

- North Korea renounced its obligations under the Nuclear Non Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on ballistic rockets, which claim has not been independently verified. In September 2017, North Korea detonated a sixth nuclear bomb, the most powerful weapon that North Korea has ever tested. Such detonation further heightened diplomatic tensions between North Korea and other nations. Each of the United Nations, the United States and the European Union adopted additional sanctions against North Korea. Spain, Mexico, Peru and Kuwait expelled from their respective territories the ambassadors of North Korea.

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarised zone. Claiming the landmines were set by North Koreans, the Korean army re initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarised zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High ranking officials from North Korea and Korea subsequently met for discussions and entered into an agreement on 25 August 2015 intending to defuse military tensions.

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

Meanwhile, in April 2018 and May 2018, inter-Korean summits took place between the two heads of state, Moon Jae-in from Korea, and Kim Jong-eun from North Korea, to discuss, among others, issues relating to establishment of peace in the Korean peninsula, improvement of inter-Korean relations and denuclearization of the Korean Peninsula, and in late May 2018, North Korea destroyed at least three nuclear tunnels at its Punggye-ri nuclear test site in a process observed by invited international journalists. In June 2018, Kim Jong-eun attended multiple summit meetings with each of the heads of state of South Korea, the United States and China. Although there has been large media coverage on such recent events with some hopeful views and opinions being expressed on a more peaceful and cooperative relationship between the two Koreas, the situation relating to North Korea depends on numerous and various complicated factors, including the development of a political, diplomatic and military relationship with countries such as the United States and the People's Republic of China, and it is yet uncertain how the North Korean situation will develop.

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.

Korean banks, 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

The Notes are not guaranteed by the Republic of Korea.

The Notes are not the obligations of, or guaranteed by, the Republic of Korea. Although under the NACF Act, the government is allowed to guarantee bonds offered by the Bank, it is not providing a guarantee in respect of the Notes. In addition, the government is under no obligation to maintain the solvency of the Bank. Therefore, investors should not rely on the government to fulfill the Bank's obligations under the Notes in the event the Bank is unable to do so.

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 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 Condition 4(b) of Terms and Conditions of the Notes) 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 31 March 2018, 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 3,800 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. 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 Notes that are Subordinated Notes may be fully written off upon the occurrence of certain trigger events, in which case holders of the Notes will lose all of their investment.

The Subordinated Notes will be subject to loss absorption provisions pursuant to which the Bank will irrevocably effect a full write-off of the outstanding principal amount and accrued but unpaid interest on the Subordinated Notes (without the need for the consent of the holders) upon the occurrence of certain trigger event tied to the performance and viability of the Bank. A trigger event would be the designation of the Bank as an "insolvent financial institution" pursuant to the Act on Structural Improvement of the Financial Industry of Korea. Such write-off will be in effect on the third business day in Korea from the occurrence of such trigger event.

Under Article 2 of the Act on Structural Improvement of the Financial Industry, an "insolvent financial institution" is defined as a financial institution that is:

- determined by the FSC or the Deposit Insurance Committee (the "**DIC**") established within the Korea Deposit Insurance Corporation (the "**KDIC**"), based on an actual survey of such financial institution's business operations as (i) having liabilities that exceed its assets (each as valued and calculated in accordance with standards established by the FSC), or (ii) facing apparent difficulty in its normal operations because its liabilities exceed its assets (each as valued and calculated in accordance with standards established by the FSC) as a result of the occurrence of a major financial scandal or the accrual of non-performing loans;

- subject to a suspension of payment of claims (including deposits) or repayment of money borrowed from other financial institutions; or

- determined by the FSC or the DIC to be unable to make payments of claims (including deposits) or repayments of money borrowed, without external support or additional borrowings (other than borrowings accruing from ordinary course financial transactions).

In the event that the Subordinated Notes are written off, such written-off amount will be irrevocably lost and holders of the Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest on the Subordinated Notes. See Condition 4(c) of Terms and Conditions of the Notes.

Potential investors should consider the risk that, due to the existence of such loss absorption features, a holder of Subordinated Notes may lose all of its investment in such Subordinated Notes in the event that a trigger event occurs.

The applicable Korean laws and regulations relating to the trigger events and loss absorption features of Tier II capital instruments like the Subordinated Notes are relatively new and have yet to be tested. There is considerable uncertainty as to the circumstances under which the relevant Korean regulatory authorities will decide to effect a trigger event with respect to a particular financial institution. The occurrence of a trigger event with respect to the Bank is therefore inherently unpredictable and is subject to factors that are outside the control of the Bank, which will make it difficult for investors to anticipate when, if at all, a write-off of the Subordinated Notes will take place. Accordingly, the trading behavior with respect to the Subordinated Notes may not follow trading behavior associated with other types of securities of the Bank or other issuers. Any indication that the Bank is trending towards a possible trigger event could have a material adverse effect on the market price of the Subordinated Notes. A potential investor should not invest in the Subordinated Notes unless it has knowledge and expertise to evaluate how the Subordinated Notes will perform under changing market conditions and the resulting effect on the likelihood of a write-down and on the market value of the Notes.

Under Article 37 of the Depositor Protection Act, any entity which intends to acquire, merge with, acquire the business of or succeed the rights and obligations under the financial transactions of "insolvent or similar financial institution" (including an "insolvency-threatened financial institution") or a financial holding company which has such financial institution as its subsidiary or its second- or third-tier subsidiary under the Financial Holding Companies Act may apply to the KDIC for the financial assistance, and under Article 38 of the Depositor Protection Act, the KDIC (upon a resolution by the DIC) may provide financial assistance to an insured financial institution (such as the Bank) that becomes an insolvent or similar financial institution or a financial holding company which has such financial institution as its subsidiary or its second- or third-tier subsidiary under the Financial Holding Companies Act, where there exists an application for financial assistance under Article 37 of the Depositor Protection Act, or where it is deemed necessary for making acquisition of, merger with, acquisition the business of or succession of the rights and obligations under the financial transactions of such institution smoothly or where the improvement of the financial structure of such institution is deemed necessary for the protection of depositors and the preservation of order in credit transactions. An "insolvency-threatened financial institution" is defined under Article 2 of the Depositor Protection Act as a financial institution determined by the DIC as having a high possibility of becoming an insolvent financial institution due to its weak financial standing. The financial assistance to be provided can take the form of a loan or deposit of funds, a purchase of assets, a guarantee or assumption of obligations and an equity injection or contribution.

In addition, under Article 8 of the Act on Structural Improvement of the Financial Industry, if the financial institution which is in financial trouble but not yet designated as the insolvent financial institution voluntarily merges with another financial institution for the improvement of its financial structure, the Government may provide financial assistance to the merged financial institution through: (i) the KDIC, (ii) the purchase by the Government's Public Capital Management Fund of certain securities held or issued by the merged financial institution (such as bonds issued by the Government or local governments or bonds guaranteed by the Government or subordinated notes issued by the merged financial institution), and (iii) a capital injection by the Government of state-owned assets into the merged financial institution.

In light of the size and scale of the Bank and its relative importance to the Korean banking system, it is possible that, prior to the occurrence of a trigger event that leads to a write-off of the Subordinated Notes, the Bank will be classified as an insolvency-threatened financial institution and receive some form of financial assistance from the KDIC, or that the Government will decide to provide other forms of financial assistance or capital support to the Bank. However, since the provision of any such financial assistance or capital support would be at the discretion of the KDIC or the Government, as applicable, there is no guarantee that the Bank will receive any financial assistance or capital support prior to the occurrence of a trigger event or that any such financial assistance or capital support received by the Bank will be sufficient to prevent the occurrence of a trigger event leading to a write-off of the Subordinated Notes.

Pursuant to Condition 4(c) of the Terms and Conditions of the Notes, the Bank will issue a Trigger Event Notice not more than two Korean Business Days after the occurrence of a Trigger Event, confirming that a Trigger Event has occurred. Although the Bank will notify the Principal Paying Agent and the holders of the Subordinated Notes not more than two Korean Business Days after the occurrence of a Trigger Event, there may be a delay between a Trigger Event and the time that the clearing systems and the holders of the Subordinated Notes are notified of the occurrence of the relevant Trigger Event. Such delay may exceed several days during which trading and settlement in the Subordinated Notes may continue. Any such delay will not change or delay the effect of a Trigger Event or the Bank's obligations under the Subordinated Notes or the rights of the Subordinated Noteholders.

The clearing systems are expected to suspend all clearance and settlement of transfers of the Subordinated Notes by the Subordinated Noteholders following receipt of a Trigger Event Notice, and any transfer of Subordinated Notes which are scheduled to settle after commencement of such suspension is expected to be rejected by clearing systems and will not be settled within the clearing systems.

It is possible that transfers that are initiated prior to any suspension following receipt by the clearing systems of a Trigger Event Notice and scheduled to settle on a date before the clearing systems commence such suspension will be settled through the clearing system even though such transfers were initiated after the Trigger Event. In such circumstances, transferees of the Subordinated Notes may be required to pay consideration through the clearing systems even though, upon the occurrence of a Trigger Event, no amounts under the Subordinated Notes will thereafter become due, and such transferees will have no rights whatsoever under the Conditions or the Subordinated Notes to take any action or enforce any rights whatsoever against the Bank. The settlement of the Subordinated Notes following a Trigger Event will be subject to procedures of the clearing system for the time being in effect.

Each holder of Subordinated Notes are deemed to have authorized, directed and requested the taking of any and all necessary action to give effect to any loss absorption feature and any Write-off following the occurrence of the Trigger Event.

There are risks that certain Reference Rates may be administered differently or discontinued in the future, including the potential phasing-out of LIBOR after 2021, which may adversely affect the trading market for, value of and return on, Floating Rate Notes based on such Reference Rates.

LIBOR, EURIBOR and other Reference Rates which are deemed to be "benchmarks" are the subject of recent international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or disappear entirely, or have other consequences that cannot be predicted. Certain risks relating to such benchmarks are described below.

Benchmarks Regulation

The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Floating Rate Notes which specifies Screen Rate Determination in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined and where the applicable Reference Rate is deemed to be a benchmark, particularly if the methodology or other terms of such benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to such benchmark; (ii) trigger changes in the rules or methodologies used in the benchmarks or (iii) lead to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Floating Rate Notes linked to a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms and investigations in making any investment decision with respect to any Floating Rate Notes linked to a benchmark.

Discontinuation of LIBOR

Furthermore, LIBOR is the subject of ongoing regulatory reforms. Following the implementation of any of these reforms, the manner of administration of LIBOR may change, with the result that it may perform differently than in the past or be eliminated entirely, or there could be other consequences that cannot be predicted. For example, on 27 July 2017, the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. At this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for LIBOR-linked securities. The potential elimination of benchmarks, such as LIBOR, the establishment of alternative reference rates or changes in the manner of administration of a benchmark could also require adjustments to the terms of benchmark-linked securities and may result in other consequences, such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form.

Benchmark Discontinuation

If "Benchmark Discontinuation" is specified to be applicable in the applicable Pricing Supplement for Floating Rate Notes, in the event that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate. If any such Successor Rate or Alternative Rate is determined in such manner and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines that amendments to the Terms and Conditions of the Notes are necessary to ensure the proper operation of such Successor Rate and/or Alternative Rate, then the Issuer shall, subject to giving notice thereof, without any requirement for the consent or approval of Noteholders, vary the Terms and Conditions of the Notes to give effect to such amendments with effect from the date specified in such notice.

If a Successor Rate or Alternative Rate is determined by the Issuer, the Terms and Conditions of the Notes also provide that an Adjustment Spread may be determined by the Issuer to be applied to such Successor Rate or

Alternative Rate, as the case may be. The aim of the Adjustment Spread is to reduce or eliminate, so far as is practicable, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of LIBOR or the relevant Reference Rate (as applicable) with the Successor Rate or the Alternative Rate. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to Noteholders. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest.

If an Independent Adviser is not appointed or a Successor Rate, Alternative Rate or any Benchmark Amendment is not determined pursuant to the Terms and Conditions of the Notes, other fallback provisions under the Terms and Conditions of the Notes may be required to be used, which may in certain circumstances result in the Rate of Interest for an Interest Period continuing to apply at the Rate of Interest applicable to the immediately preceding Interest Period, resulting in the relevant Floating Rate Notes becoming, in effect, fixed rate securities. Even if a Successor Rate or Alternative Rate and associated Benchmark Amendments are determined pursuant to the Terms and Conditions of the Notes, the overall Rate of Interest payable on the relevant Floating Rate Notes may be less than it would have been had no Benchmark Event occurred, for example, if the Successor Rate or Alternative Rate is (unlike LIBOR) a "risk free" rate.

Any of the above changes or any other consequential changes to benchmarks as a result of EU, United Kingdom, or other international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes could have a material adverse effect on the trading market for, liquidity of, value of and return on any such affected Floating Rate Notes.

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 Sections 1471 through 1474 of the Code (such Sections commonly referred to as "**FATCA**"), certain entities in a broadly defined class of foreign financial institutions ("**FFIs**") may be subject to a 30% U.S. withholding tax on certain U.S. source payments made to the FFI (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities), unless the FFI is a "participating FFI," which is generally defined as an FFI that (i) enters into an agreement with the Internal Revenue Service (the "**IRS**") pursuant to which it agrees to comply with a complicated and expansive reporting regime, (ii) complies with the requirements of an intergovernmental agreement entered into by the United States and another jurisdiction regarding the implementation of FATCA (an "**IGA**") or (iii) is otherwise deemed compliant with or exempt from FATCA.

FATCA also contains complex provisions requiring certain participating FFIs to withhold on certain "foreign passthru payments" made to FFIs that are not participating FFIs or otherwise exempt from FATCA withholding and to holders that fail to provide the information required by FATCA. Although the definition of a "foreign passthru payment" is still reserved under current regulations, the term generally refers to payments that are from non-U.S. sources but that are "attributable to" certain U.S. source payments and gross proceeds described above. 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; as of the date of this Offering

Circular, no such final regulations have been published. In addition, if applicable, withholding on foreign passthru payments would not be required with respect to payments made before 1 January 2019. It is unclear whether or to what extent payments on the Notes would be considered foreign passthru payments that are subject to withholding under FATCA. 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 of U.S. tax is required on Notes linked to U.S. securities, the Bank will generally 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 and there are significant restrictions on remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of the Renminbi Notes.

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 HKMA 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, without interest coupons, or a Permanent Global Note in bearer form, 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:

(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 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.

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 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 Definitive Note or Individual Note Certificate will be endorsed on that Definitive Note or 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.

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.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

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.

See "*Clearance and Settlement*" for information covering the rules, regulations and procedures of the Clearing System (as defined therein).

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.*]

[MIFID II PRODUCT GOVERNANCE—Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining the appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][1]

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 [13 July 2018] [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.]

1 Legend to be included on front of the pricing supplement if the Notes potentially constitute "packaged" products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

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

1.	Issuer:	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:	[●] (*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. Subordinated Notes shall have a minimum maturity of five years.*)]

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]
	(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)	Benchmark Discontinuation	[Applicable/Not Applicable]
	(xiv)	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] * (*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 Permanent Global Note shall not be exchangeable on* [●] *day's notice/at any time.*) **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*]

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 Category 1, the Issuer shall provide a representation and warranty stating that there is no substantial market interest (as defined in Regulation S) in its debt securities. If such representation and warranty is not provided, then Category 2 shall apply. In addition, Selling Restrictions set forth in Schedule 1 to the Dealer Agreement should be complied with*); *(In the case of Bearer Notes)*—[TEFRA C/TEFRA D/ TEFRA not applicable] *(In the case of Registered Notes)*—[Not] Rule 144A Eligible
36.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.*)
37.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

38.	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*)
39.	Delivery:	Delivery [against/free of] payment
40.	[In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:]	[Not applicable/[Luxembourg]]
41.	Additional Paying Agent(s) (if any):	[●]

ISIN:	[●]
Common Code:	[●]
[FSIN:	[●]/[Not Applicable]]
[CFI Code:	[●]/[Not Applicable]]
[CUSIP	[●]]
[CINS:	[●]]
(insert here any other relevant codes)	

[*If a private banking rebate is paid, please include the following*: "We have agreed with the [Dealers/Managers] that we will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement."]

[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*".

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 ("**Principal Paying Agent**") and paying agent, Deutsche Bank Trust Company Americas as U.S. registrar ("**U.S. Registrar**"), U.S. paying agent ("**U.S. Paying Agent**") and U.S. transfer agent (the "**U.S. Transfer Agent**"), Deutsche Bank AG, Hong Kong Branch as exchange agent ("**Exchange Agent**"), Deutsche Bank AG, Hong Kong Branch as registrar ("**CMU Registrar**") and transfer agent ("**CMU Transfer Agent**"), Deutsche Bank AG, Hong Kong Branch as CMU lodging and paying agent ("**CMU Lodging and Paying Agent**"), and Deutsche Bank Luxembourg S.A. as registrar ("**Euroclear/Clearstream Registrar**") and transfer agent (the "**Euroclear/Clearstream Transfer Agent**"), in each case, with respect to Notes other than CMU Notes. The Principal Paying Agent, the U.S. Paying Agent, the CMU Lodging and Paying Agent and other paying agents appointed under the Agency Agreement are referred to as "**Paying Agents**", and any of them, as "**Paying Agent**". The Euroclear/Clearstream Transfer Agent, the U.S. Transfer Agent and the CMU Transfer Agent and other transfer agents appointed under the Agency Agreement are referred to as "**Transfer Agents**", and any of them as "**Transfer Agent**". The Euroclear/Clearstream Registrar, the U.S. Registrar and the CMU Registrar are referred to as the "**Registrars**", and any of them, as "**Registrar**". The references herein to Exchange Agent, Registrar, Paying Agent, Transfer Agent and CMU Lodging and Paying Agent (each, an "**Agent**"), shall include any respective successor thereof, and the references herein to Paying Agents and Transfer Agents shall include any respective additional agents or successors thereto. For purposes of these Terms and Conditions, all references to the Registrar or the Transfer Agent shall, with respect to a Series of Notes to be held in and/or cleared through Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), be deemed to be a reference to Deutsche Bank Luxembourg S.A. in its capacity as Euroclear/Clearstream Registrar or Euroclear/Clearstream Transfer Agent, as applicable, and all references to the Paying Agent, the Registrar or the Transfer Agent shall, (i) with respect to a Series of Notes to be held in and/or cleared through DTC, be deemed to be a reference to Deutsche Bank Trust Company Americas in its capacity as U.S. Registrar, U.S. Paying Agent or U.S. Transfer Agent, as applicable, and (ii) with respect to a Series of Notes to be held in and/or cleared through the CMU Service, be deemed to be a reference to Deutsche Bank AG, Hong Kong Branch in its capacity as CMU Lodging and Paying Agent, CMU Registrar or CMU Transfer Agent, as applicable, 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:

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

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as 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 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:

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

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" 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;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" 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

"**D2**" 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;

"**Euro**" means currency of the European Union;

"**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;

"**Receipt**" means receipts for the payment of the instalments of principal (other than the final instalment) attached on issue to Bearer Notes in definitive form that are repayable in instalments. Definitive Notes in registered form do not have Receipts or Coupons attached on issue.

"**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;

"**Renminbi**" means the currency of the People's Republic of China;

"**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 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 for further Coupons ("**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.

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.

(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 Rehabilitation 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 rehabilitation 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 rehabilitation proceedings to the extent of the original amount thereof (without regard to any adjustment of such amount in the approved rehabilitation 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 Liquidation 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 in such liquidation proceedings.

(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) Subject to applicable laws, no holder of any Subordinated Note, relevant Receipts or Coupons may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with such Subordinated Note, Receipt or Coupon and each holder of such Subordinated Note, Receipts or Coupons shall, by virtue of his holding of any Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of set-off, counter-claim or retention. Notwithstanding the preceding sentence, if any of the amounts owing to the holder of any Subordinated Notes, the relevant Receipts or Coupons by the Issuer in respect of, or arising under or in connection with the Subordinated Notes is discharged by set-off, the holder of such Subordinated Note, Receipt or Coupon shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer (as the case may be) and accordingly any such discharge shall be deemed not to have taken place.

(F) 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.

(G) In addition, a holder of a Subordinated Note by its acceptance thereof or its interest therein shall be deemed to have waived, and agreed not to exercise, any right as a creditor to require the Issuer to redeem such Subordinated Note or provide collateral with respect thereto that may arise pursuant to Article 527-5, Paragraph 3 and Article 232 of the Korean Commercial Code in connection with a merger of the Issuer with another entity.

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 Rehabilitation 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;

"**Liquidation Event**" shall mean the Issuer being dissolved and liquidated under the Korean Commercial Code;

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

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

"**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, Rehabilitation Event, Liquidation Event or Foreign Event.

(c) *Loss Absorption upon a Trigger Event in respect of Subordinated Notes*

(i) *Write-off on a Trigger Event:* With respect to any Subordinated Notes, effective as of the third Korean Business Day from the occurrence of a Trigger Event, each Subordinated Note, including the then outstanding principal amount thereof and any accrued but unpaid interest thereon, shall be irrevocably cancelled in whole, without the need for the consent of the holders of such Subordinated Note (such cancellation being referred to herein as a "**Write-off**", and "**Written-off**" shall be construed accordingly). Once the principal amount of, and any accrued but unpaid interest under, the Subordinated Notes have been Written-off, such amounts will not be restored in any circumstances, including where the relevant Trigger Event ceases to continue.

The Issuer shall provide a Trigger Event Notice to the holders of the Subordinated Notes, but the Write-off shall be effective irrespective of whether the Issuer has provided such Trigger Event Notice.

For the avoidance of doubt, any Write-off pursuant to this Condition 4(c) will not constitute an Event of Default under the Notes.

(ii) *Definitions:* In these conditions and unless stated otherwise in the applicable Pricing Supplement:

"**Korean Business Day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in Seoul, Korea;

"**Trigger Event**" means the designation of the Issuer as an "insolvent financial institution" pursuant to the Act on the Structural Improvement of the Financial Industry of Korea; and

"**Trigger Event Notice**" means a notice specifying that a Trigger Event has occurred, which shall be issued by the Issuer not more than two Korean Business Days after the occurrence of a Trigger Event to the holders of the Subordinated Notes and the Principal Paying Agent in accordance with Condition 20 (*Notices*) and which shall state in reasonable detail the nature of the relevant Trigger Event.

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 interbank 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) *Benchmark Discontinuation:* This Condition 7(f) applies only if "Benchmark Discontinuation" is specified to be applicable in the applicable Pricing Supplement and where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined.

(i) If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 7(f)(ii)(B)) and, in either case, an Adjustment Spread, if any (in accordance with Condition 7(f)(iii)) and any Benchmark Amendments (in accordance with Condition 7(f)(iv)).

An Independent Adviser appointed pursuant to this Condition 7(f) shall act in good faith and (in the absence of fraud) shall have no liability whatsoever to the Issuer, the Paying Agents or the Noteholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 7(f).

(ii) If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines that:

(A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 7(f)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(f)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 7(f)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(f).

(iii) If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of a relevant Rate of Interest (or a component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

(iv) If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 7(f) and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 7(f)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 7(f)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 7(f) will be notified promptly by the Issuer to the the Paying Agents and, in accordance with Condition 7(f), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

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

(A) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate and, (iii) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendment, in each case as determined in accordance with the provisions of this Condition 7(f); and

(B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any)) be binding on the Issuer, the Paying Agents and the Noteholders.

(vi) Without prejudice to the obligations of the Issuer under Condition 7(f)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Conditions 7(c) and 7(d) will continue to apply unless and until (i) an Independent Adviser is appointed and (ii) either a Successor Rate or Alternative Rate is determined, and any Adjustment Spread and Benchmark Amendments are determined, in each case pursuant to this Condition 7(f).

(vii) As used in this Condition 7(f):

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate),

(B) the Issuer determines, following consultation with the Independent Adviser and acting in good faith, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged),

(C) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate.

"**Alternative Rate**" means an alternative benchmark or screen rate which the Issuer determines in accordance with Condition 7(f)(ii)(B) has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 7(f)(iv).

"**Benchmark Event**" means:

(1) the Original Reference Rate ceasing to exist or be published; or

(2) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(3) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or

(4) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or

(5) it has become unlawful for the Principal Paying Agent, any Paying Agent, the Issuer or any other party to calculate any payments due to be made to any Holder using the Original Reference Rate.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 7(f)(i).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(D) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(E) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(g) *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.

(h) *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.

(i) *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.

(j) *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.

(k) *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 not be made within five years after the date of issuance of such Notes and 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, however, that**, in the case of the Subordinated Notes, the Issuer and any person or entity over which the Issuer exercises substantial control, including any affiliate or subsidiary of the Issuer ("**Issuer Related Party**"), shall not purchase the Subordinated Notes nor provide, directly or indirectly, funds to acquire the Subordinated Notes by providing any collateral, guaranty or loan in favour of the person or entity which will acquire such Notes. In addition, neither the Issuer nor any Issuer Related Party shall enhance, legally or economically, the payment seniority of the Subordinated Notes, nor provide, directly or indirectly through its affiliate or subsidiary, any collateral or guarantee in favour of the person or entity which acquires such Subordinated Notes. 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;

  (ii) to or on behalf of a Holder or beneficial owner to the extent that such Holder or beneficial owner would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption or deduction to the relevant tax authorities if such Holder or beneficial owner is eligible to make such declaration or other claim and, after having been requested to make such a declaration or claim, such Holder or beneficial owner fails to do so; or

  (iii) 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 14 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 Bankruptcy Event or Liquidation 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 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) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

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

(iv) 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)]	At End of Period
		(Won per U.S.$1.00)		
2013	1,051.5	1,159.1	1,095.0	1,055.3
2014	1,008.9	1,118.3	1,053.2	1,099.2
2015	1,068.1	1,203.1	1,131.5	1,172.0
2016	1,093.2	1,240.9	1,160.5	1,208.5
2017	1,071.4	1,208.5	1,130.8	1,071.4
2018 (through 11 July)	1,057.6	1,121.7	1,078.0	1,113.8
January	1,061.3	1,071.5	1,066.7	1,071.5
February	1,068.0	1,094.3	1,079.6	1,071.0
March	1,064.3	1,081.9	1,071.9	1,066.5
April	1,057.6	1,079.7	1,067.8	1,076.2
May	1,066.6	1,083.8	1,076.4	1,081.3
June	1,067.9	1,121.7	1,092.8	1,121.7
July (through 11 July)	1,112.3	1,121.1	1,116.7	1,113.8

Source: Seoul Money Brokerage Services, Ltd.

Notes:

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

CAPITALISATION

The following table sets forth the capitalisation of the Bank as of 31 March 2018. This information has been extracted without material adjustment from the Bank's unaudited but reviewed consolidated financial statements as of 31 March 2018.

	As of 31 March 2018	
	(Unaudited)	
	(in billions of Won and millions of U.S.$)	
Indebtedness:		
Borrowings	₩10,727	$10,058
Debentures	₩16,921	$15,866
Sub total	₩27,648	$25,924
Equity:		
Capital stock[1]	₩ 2,133	$ 2,000
Other paid-in capital	9,678	9,075
Retained earnings	3,627	3,401
Other components of equity	(667)	(626)
Sub total	₩14,771	$13,850
Total[2]	₩42,419	$39,774

Notes:

(1) Issued and outstanding 426,555,827 fully paid common shares with par value per share of Won 5,000. On 28 June 2018, the Bank received an additional capital contribution of Won 200 billion from its sole shareholder, NH Financial Group, upon issuance of 5,882,352 additional common shares.

(2) Total, meaning total capitalisation, is equal to the sum of borrowings, debentures and total equity. Since 31 March 2018 and as of the date of this Offering Circular, there has been no material change in the capitalisation of the Bank other than the issuance of additional common shares as described above and except for borrowings and repayments in the ordinary course of business.

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 2015, 2016 and 2017 and 31 March 2018, for the year ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018.

Unless otherwise stated, the information presented below as of 31 December 2015, 2016 and 2017 and for the year ended 31 December 2015, 2016 and 2017 have been extracted without material adjustment from the Bank's audited consolidated financial statements (the "**Audited Consolidated Financial Statements**"), which have been presented in accordance with K-IFRS, and the information presented below as of 31 March 2018 and for the three months ended of 31 March 2017 and 2018 have been extracted without material adjustment from the Bank's unaudited consolidated financial statements as of 31 March 2018 and for the three months ended of 31 March 2017 and 2018 (the "**Unaudited Consolidated Financial Statements**"), which have been presented in accordance with the K-IFRS. The Audited Consolidated Financial Statements were audited by and the Unaudited Consolidated Financial Statements have been reviewed by Ernst & Young Han Young, whose report thereon is included elsewhere in this Offering Circular.

Beginning 1 January 2018, the Bank has adopted K-IFRS 1109 'Financial Instruments' which has replaced in entirety existing guidance in K-IFRS 1039. As there is no requirement of any restatement by the Bank of affected financial figures, with the implementation of K-IFRS 1109, certain of the Issuer's historical financial information as at and for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 is not directly comparable against that of the Issuer's financial information after 1 January 2018. For further information regarding K-IFRS 1109, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies, Estimates and Judgments—Recent Accounting Changes*" and Note 2.1 of the notes to the Bank's Unaudited Consolidated Financial Statements included elsewhere in this Offering Circular.

The Bank's results of operations for the three months ended 31 March 2018 may not be indicative of its results for the full year 2018.

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2017
	(Audited)	(Audited)	(Audited)
	(in billions of Won, except per share data)		
Consolidated Statement of Comprehensive Income Information			
Interest income[(1)]	₩7,178	₩6,918	₩7,256
Interest expenses	2,953	2,712	2,668
Commission income[(1)]	788	1,009	1,079
Commission expenses	393	447	505
Gain (loss) on held-for-trading financial assets, net	(149)	66	199
Gain (loss) on financial assets at fair value through profit or loss, net	—	—	—
Gain (loss) on financial investment assets, net	232	272	197
Other operating expenses, net	(350)	(536)	(723)
Operating income before credit losses and general and administrative expenses	4,352	4,568	4,835
Provision of allowances for losses on credit	1,263	1,585	844
Operating income before general and administrative expenses	3,089	2,983	3,990
General administrative expenses	2,593	2,618	2,798
Operating income	496	366	1,192
Gain on valuation of equity method investments, net	16	28	2
Other expenses, net	(284)	(270)	(336)
Income before income tax expense	228	124	858
Income tax expense	51	13	206
Net income	176	111	652
Remeasurements of defined benefit pension plans	(156)	(117)	(54)
Gain (loss) on valuation and translation of available for sale financial assets, net	(30)	(66)	(77)
Exchange differences on translation of foreign operations	1	1	(7)
Equity adjustments in equity method	6	(5)	1
Other comprehensive income (loss)	(178)	(187)	(137)
Total comprehensive income (loss)	₩ (2)	₩ (76)	₩ 515
Basic earnings per share	₩ 376	₩ 220	₩1,489
Diluted earnings per share	₩ 376	₩ 220	₩1,489

Note:

(1) In 2017 franchise fees relating to check cards and processing fees for overseas use of credit cards were reclassified from interest income to commission income. As a result, such fees were included in interest income for the years ended 31 December 2015 and 2016 and commission income for the years ended 31 December 2017.

	For the three months ended 31 March 2017	For the three months ended 31 March 2018	
	(Unaudited)	(Unaudited)	
	(in billions of Won, except per share data)	*(in billions of Won and millions of U.S.$, except per share data)*	
Consolidated Statement of Comprehensive Income Information			
Interest income[(1)]	₩1,732	₩1,949	$1,817
Interest expenses	656	737	688
Commission income[(1)]	259	276	258
Commission expenses	133	138	128
Gain (loss) on held-for-trading financial assets, net	59	—	—
Gain (loss) on financial assets at fair value through profit or loss, net	—	127	118
Gain (loss) on financial investment assets, net	37	4	4
Gain (loss) on disposal of financial assets at amortized costs, net	—	3	3
Other operating expenses, net	(142)	(202)	(188)
Operating income before credit losses and general and administrative expenses	1,155	1,281	1,195
Transfer in allowance for expected credit losses	187	84	79
Operating income before general and administrative expenses	968	1,197	1,116
General administrative expenses	678	724	676
Operating income	290	472	440
Gain on valuation of equity method investments, net	(3)	5	4
Other expenses, net	(77)	(76)	(71)
Income before income tax expense	210	401	374
Income tax expense	59	83	78
Net income	150	318	296
Remeasurements of defined benefit pension plans	(3)	(3)	(3)
Gain (loss) on valuation of financial assets at FVOCI (Equity securities), net	—	5	5
Gain (loss) on disposal of financial assets at FVOCI (Equity securities), net	—	(1)	(1)
Gain (loss) on valuation and translation of available for sale financial assets, net	3	—	—
Gain on valuation of financial assets at FVOCI (Debt securities)	—	9	9
Exchange differences on translation of foreign operations	(4)	(0)	(0)
Equity adjustments in equity method	0	0	0
Gain (loss) on valuation of investments in associates	0	0	0
Other comprehensive income (loss)	(5)	10	9
Total comprehensive income (loss)	₩ 146	₩ 327	$ 305
Basic earnings per share	₩ 343	₩ 734	$ 0.8
Diluted earnings per share	₩ 343	₩ 734	$ 0.8

Note:

(1) In 2017 franchise fees relating to check cards and processing fees for overseas use of credit cards were reclassified from interest income to commission income. As a result, such fees were included in interest income for the three months ended 31 March 2017 and 2018.

	As of 31 December			As of 31 March	
	2015	2016	2017	2018	
	(Audited)	(Audited)	(Audited)	(Unaudited)	
		(in billions of Won)		*(in billions of Won and millions of U.S. dollars)*	
Consolidated Statement of Financial Position Information					
Assets					
Cash and due from banks	₩ 14,705	₩ 8,746	₩ 7,789	₩ 5,453	$ 5,113
Financial assets at FVTPL	—	—	—	9,249	8,673
Held-for-trading financial assets	5,576	6,009	5,965	—	—
Derivative assets	627	615	1,031	607	570
Financial assets at FVOCI	—	—	—	21,349	20,018
Available-for-sale financial assets	13,169	15,373	21,007	—	—
Securities at amortized cost	—	—	—	9,094	8,527
Held-to-maturity financial assets	7,153	8,167	8,231	—	—
Loans and receivables at amortized cost	—	—	—	219,361	205,683
Loans and receivables	186,666	207,732	218,905	—	—
Investments in associates	75	94	69	67	63
Tangible assets	2,650	2,634	2,645	2,617	2,454
Investment properties	525	648	586	584	547
Intangible assets	327	311	372	410	385
Current income tax assets	72	67	—	—	—
Deferred income tax assets	307	366	652	707	663
Other assets	67	75	80	88	82
Non-current assets classified as held-for-sale	0	0	0	0	0
Total assets	₩231,920	₩250,837	₩267,333	₩269,590	$252,780
Liabilities and Equity					
Deposits	₩178,584	₩194,212	₩205,768	₩212,652	$199,393
Financial liabilities at fair value through profit or loss	—	—	—	18	17
Held-for-trading liabilities	—	—	52	—	—
Derivatives liabilities	620	634	994	656	615
Borrowings	14,081	12,186	12,227	10,727	10,058
Debentures	12,201	18,718	18,969	16,921	15,866
Provisions	274	288	432	391	367
Current income tax liabilities	—	—	207	248	232
Net defined benefit liabilities	402	337	312	505	474
Other liabilities	11,593	10,380	13,721	12,701	11,909
Share capital repayable on demand	0	0	0	0	0
Total liabilities	₩217,754	₩236,754	₩252,682	₩254,819	$238,930
Capital stock	2,133	2,133	2,133	2,133	2,000
Other paid in capital	9,678	9,678	9,678	9,678	9,075
Retained earnings	2,475	2,579	3,284	3,627	3,401
Other component of equity	(119)	(306)	(443)	(667)	(626)
Non-controlling interests	—	—	—	—	—
Total equity	14,166	14,083	14,651	14,771	13,850
Total liabilities and equity	₩231,920	₩250,837	₩267,333	₩269,590	$252,780

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 or for the year ended 31 December			As of or for the three months ended 31 March	
	2015	2016	2017	2017	2018
Average return on assets(1)	(0.12)%	0.02%	0.25%	0.23%	0.46%
Average return on equity(2)	(2.09)	0.41	4.55	4.12	8.70
Equity/total assets	5.99	5.71	5.47	5.63	5.25
Non-performing loans/total loans(3)	2.09	1.24	0.99	1.26	1.01
Allowance/non-performing loans(3)	55.27	59.12	74.68	56.22	80.26
Non-performing loans/total assets	1.63	0.98	0.76	0.97	0.74
Net interest margin(4)	1.94	1.81	1.77	1.73	1.82
Won	2.01	1.87	1.81	1.77	1.86
Foreign currency	0.38	0.44	0.53	0.48	0.54
Net interest spread(5)	1.92	1.81	1.78	1.75	1.82
Won	2.16	2.09	2.08	2.02	2.13
Foreign currency	0.98	1.11	1.28	1.32	1.17
Risk-weighted (Tier 1 and Tier 2) capital ratio(6)(8)	14.16	14.62	14.72	15.04	15.21
Core capital (Tier 1) ratio(7)(8)	11.04	11.64	11.92	12.15	12.49

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 and confirmed acceptances and guarantees.

(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.

SELECTED STATISTICAL DATA

The following tables set forth certain statistical information of the Bank as of 31 December 2015, 2016 and 2017 and for the year ended 31 December 2015, 2016 and 2017 and as of 31 March 2018 and for the three months ended 31 March 2017 and 2018.

Average Balances, Interest and Rates

The following table sets forth the average balances of assets and liabilities of the Bank, on a non-consolidated 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 three months ended 31 March 2017			For the three months ended 31 March 2018		
	Average Balance	Interest income/ expense(1)(2)(3)	Average yield/ average cost	Average Balance	Interest income/ expense(1)(2)(3)	Average yield/ average cost
	(in billions of Won, except percentages)					
Interest-earning assets:						
Loans:	₩186,960	₩1,413	3.07%	₩203,366	₩1,764	3.52%
Won-denominated Loans	184,445	1,388	3.05	200,970	1,736	3.50
Foreign Currency	2,515	25	4.03	2,396	28	4.74
Due from banks:	10,485	11	0.43	10,731	14	0.53
Won	9,840	10	0.41	9,377	10	0.43
Foreign Currency	645	1	0.63	1,354	4	1.20
Securities:	32,717	104	1.29	36,977	140	1.54
Won	32,029	101	1.28	36,286	136	1.52
Foreign Currency	688	3	1.77	691	4	2.35
Others:	6,111	177	11.75	322	2	2.52
Won	6,111	177	11.75	322	2	2.52
Foreign Currency	—	—	0.00	—	—	0.00
Total interest-earning-assets	₩236,273	₩1,705	2.93%	₩251,396	₩1,920	3.10%
Interest-bearing liabilities:						
Deposits:	₩193,622	₩ 500	1.05%	₩208,333	₩ 563	1.10%
Deposits in Won	191,121	497	1.05	204,978	555	1.10
Deposits in foreign currencies	2,501	3	0.49	3,355	8	0.97
Borrowings:	13,197	31	0.95	12,511	36	1.17
Borrowings in Won	10,949	28	1.04	10,562	32	1.23
Borrowings in foreign currencies	2,248	3	0.54	1,949	4	0.83
Debentures:	17,171	98	2.31	18,475	108	2.37
Won	14,593	83	2.31	16,349	94	2.33
Foreign currency	2,578	15	2.36	2,126	14	2.67
Others:	3,164	11	1.41	2,933	15	2.07
Won	3,164	11	1.41	2,933	15	2.07
Foreign currency	—	—	0.00	—	—	0.00
Total interest-bearing liabilities	₩227,154	₩ 640	1.14%	₩242,252	₩ 722	1.21%
Average asset liability ratio	104.01%			103.77%		
Net interest income and average interest rate spread		₩1,065	1.78%		₩1,198	1.89%
Net interest income as percentage of total average interest-earning assets			1.83%			1.93%

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) In 2017, interest-earning assets relating to credit cards were reclassified from others to loans. As a result, such average balance and interest income were included in others for the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and loans for the three months ended 31 March 2018.

	For the year ended 31 December 2015			For the year ended 31 December 2016			For the year ended 31 December 2017		
	Average Balance	**Interest income/ expense (1)(2)(3)**	**Average yield/ average cost**	**Average Balance**	**Interest income/ expense (1)(2)**	**Average yield/ average cost**	**Average Balance**	**Interest income/ expense (1)(2)(3)**	**Average yield/ average cost**
	(in billions of Won, except percentages)								
Interest-earning assets:									
Loans:	₩162,991	₩5,697	3.50%	₩180,179	₩5,620	3.12%	₩190,032	₩5,904	3.11%
Won-denominated Loans	159,306	5,595	3.51	177,005	5,515	3.12	187,458	5,796	3.09
Foreign Currency	3,685	102	2.77	3,174	105	3.31	2,574	108	4.20
Due from banks:	8,660	56	0.65	8,417	28	0.33	10,749	45	0.42
Won	8,376	56	0.67	7,743	26	0.34	9,781	40	0.41
Foreign Currency	284	—	0.00	674	2	0.30	968	5	0.52
Securities:	25,278	530	2.10	31,009	472	1.52	34,955	454	1.30
Won	24,564	522	2.13	30,317	460	1.52	34,256	438	1.28
Foreign Currency	714	8	1.12	692	12	1.73	699	16	2.29
Others:	4,802	766	15.95	5,689	688	12.09	6,359	748	11.76
Won	4,802	766	15.95	5,689	688	12.09	6,359	748	11.76
Foreign Currency	—	—	0.00	—	—	0.00	—	—	0.00
Total interest-earning-assets	₩201,731	₩7,049	3.49%	₩225,294	₩6,808	3.02%	₩242,095	₩7,151	2.95%
Interest-bearing liabilities:									
Deposits:	₩165,257	₩2,404	1.45%	₩182,271	₩2,087	1.14%	₩200,036	₩2,039	1.02%
Deposits in Won	163,303	2,396	1.47	179,673	2,074	1.15	197,277	2,022	1.02
Deposits in foreign currencies	1,954	8	0.41	2,598	13	0.50	2,759	17	0.62
Borrowings:	13,173	131	0.99	13,769	131	0.95	14,009	138	0.99
Borrowings in Won	9,820	114	1.16	10,907	113	1.04	11,793	124	1.05
Borrowings in foreign currencies.	3,353	17	0.51	2,862	18	0.63	2,216	14	0.63
Debentures:	9,940	288	2.90	16,475	386	2.34	16,305	385	2.36
Won	7,009	232	3.31	13,856	330	2.38	13,869	325	2.34
Foreign currency	2,931	56	1.91	2,619	56	2.14	2,436	60	2.46
Others:	2,845	58	2.04	2,642	43	1.63	3,546	49	1.38
Won	2,845	58	2.04	2,642	43	1.63	3,546	49	1.38
Foreign currency	—	—	0.00	—	—	0.00	—	—	0.00
Total interest-bearing liabilities	₩191,215	₩2,881	1.51%	₩215,157	₩2,647	1.23%	₩233,896	₩2,611	1.12%
Average asset liability ratio	105.50%			104.71%			103.51%		
Net interest income and average interest rate spread		₩4,168	1.99%		₩4,161	1.79%		₩4,540	1.84%
Net interest income as percentage of total average interest-earning assets			2.07%			1.85%			1.88%

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) In 2017 franchise fees relating to check cards and processing fees for overseas use of credit cards were reclassified from interest income to commission income. As a result, such fees were included in interest income for the years ended 31 December 2015 and 2016 and commission income for the years ended 31 December 2017 and for the three months ended 31 March 2017 and 2018.

(4) In 2017, interest-earning assets relating to credit cards were reclassified from others to loans. As a result, such average balance and interest income were included in others for the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and loans for the three months ended 31 March 2018.

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 non-consolidated 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. In 2017 franchise fees relating to check cards and processing fees for overseas use of credit cards have been reclassified from interest income to commission income. As a result, such fees were included in interest income for the years ended 31 December 2015 and 2016 and commission income for the years ended 31 December 2017 and for the three months ended 31 March 2017 and 2018.

	For the three months ended 31 March 2017 and 2018		
	Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate
	(in billions of Won)		
Interest income from:			
Loans:	₩ 351	₩ 432	₩ (81)
Won	348	440	(92)
Foreign currency	3	(7)	10
Due from banks:	3	(1)	4
Won	0	(2)	2
Foreign currency	3	1	2
Securities:	36	13	23
Won	35	13	22
Foreign currency	1	0	1
Others:	(175)	(168)	(7)
Won	(175)	(168)	(7)
Foreign currency	—	—	—
Total interest income	215	109	106
Interest expense on:			
Deposits:	63	36	27
Won	58	35	23
Foreign currencies	5	1	4
Borrowings:	5	(9)	14
Won	4	(6)	10
Foreign currencies	1	(3)	4
Debentures:	10	1	9
Won	11	10	1
Foreign currency	(1)	(9)	8
Others:	4	(5)	9
Won	4	(5)	9
Foreign currency	—	—	—
Total interest expense	82	43	39
Net interest income	₩ 133	₩ 66	₩ 67

	For the years ended 31 December 2016 and 2017		
	Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate
		(in billions of Won)	
Interest income from:			
Loans:	₩284	₩268	₩ 16
Won-denominated	281	288	(7)
Foreign currency	3	(20)	23
Due from banks:	17	8	9
Won	14	7	7
Foreign currency	3	1	2
Securities:	(18)	60	(78)
Won	(22)	60	(82)
Foreign currency	4	0	4
Others:	60	81	(21)
Won	60	81	(21)
Foreign currency	—	—	—
Total interest income	343	508	(165)
Interest expense on:			
Deposits:	(48)	193	(241)
Won	(52)	192	(244)
Foreign currencies	4	1	3
Borrowings:	7	5	2
Won	11	9	2
Foreign currencies	(4)	(4)	0
Debentures:	(1)	(4)	3
Won	(5)	0	(5)
Foreign currency	4	(4)	8
Others:	6	15	(9)
Won	6	15	(9)
Foreign currency	—	—	—
Total interest expense	(36)	231	(267)
Net interest income	₩379	₩277	₩ 102

	For the years ended 31 December 2015 and 2016		
	Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate
		(in billions of Won)	
Interest income from:			
Loans:	₩ (75)	₩533	₩(608)
Won-denominated	(78)	546	(624)
Foreign currency	3	(14)	17
Due from banks:	(30)	(4)	(26)
Won	(30)	(4)	(26)
Foreign currency	0	0	0
Securities:	(58)	122	(180)
Won	(62)	122	(184)
Foreign currency	4	—	4
Others:	98	141	(43)
Won	98	141	(43)
Foreign currency	—	—	—
Total interest income	(65)	823	(888)
Interest expense on:			
Deposits:	(317)	198	(515)
Won	(322)	195	(517)
Foreign currencies	5	3	2
Borrowings:	0	11	(11)
Won	(1)	13	(14)
Foreign currencies	1	(2)	3
Debentures:	98	221	(123)
Won	98	227	(129)
Foreign currency	0	(6)	6
Others:	(15)	(4)	(11)
Won	(15)	(4)	(11)
Foreign currency	—	—	—
Total interest expense	(234)	361	(595)
Net interest income	₩ 169	₩462	₩(293)

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 and for the year ended 31 December 2015, 2016 and 2017, and the Bank's unaudited consolidated financial statements as of 31 March 2018 and for the three months ended 31 March 2017 and 2018. 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. Certain financial data of the Bank have been derived from the audited non-consolidated financial statements of the Bank as of 31 December 2015, 2016, 2017 and 31 March 2018 and for the year ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018, which are based on K-IFRS on a non-consolidated basis. Such information is referred herein as having been prepared "on a non-consolidated basis." The following discussion contains certain statistical information of the Bank which is 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, and related accounting records. Unless otherwise stated herein, such information is referred herein as having been prepared "on a separate basis". Such information differ in certain aspects from the information that would have been prepared in accordance with K-IFRS.

This discussion contains forward looking statements that involve risks and uncertainties and reflects the Bank's 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.

Overview

The Bank was 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 National Agricultural Cooperatives Federation Act (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.

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.

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., Ltd. ("**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 the 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.

In June 2014, NH Financial Group acquired four subsidiaries of Woori Finance Holdings, namely Woori Investment & Securities, Co., Ltd. Woori Aviva Life Insurance Co., Ltd., Woori Futures Co., Ltd. and Woori FG Savings Bank. In December 2014, Woori Investment & Securities Co., Ltd. and NH NongHyup Securities Co., Ltd. merged to become NH Investment & Securities Co., Ltd. In December 2014, NH Financial Group sold Woori Aviva Life to DGB Financial Group. Woori FG Savings Bank was renamed as NH Savings Bank.

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 continued 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

In 2017, the global economy displayed signs of recovering economic growth primarily driven by corporate investments in infrastructure and inventory. In addition, increased liquidity due to the quantitative easing policies of the major economies and an improving global trade market contributed to a general recovery of the global markets. The International Monetary Fund expects the global economic growth rate to increase to 3.9% as a result of a continued trend of recovery in the global markets as both developed and developing countries experience a simultaneous recovery with market recoveries occurring in resource rich countries due to rallying oil prices.

In 2017, the Korean economy experienced a moderate growth rate of 3.1% due to continued investments in corporate infrastructure and growth in the construction industry as a result of an active real estate market, as well as rising levels of exports partly driven by an increase in exports of semiconductors. Korea's annual growth rate of gross domestic product was 2.9% in the first quarter of 2017, 2.8% in the second quarter of 2017, 3.8% in the third quarter of 2017 and 2.8% in the fourth quarter of 2017. In 2018, the Korean economy is expected to experience sluggish economic growth due to stronger regulations on household debt by the Government and reductions to the social overhead capital budget which may negatively affect the construction industry. Investments in infrastructure, outside of investments in semiconductors and the information technology sector, are also expected to experience weaker levels of growth. However, the Government's income based growth and employment policies, among others, are expected to contribute to a recovery in consumer spending and act as a buffer against dramatic economic declines. Although signs of economic recovery and increased global trade volumes are expected to continue in 2018, the growth in exports are expected to be slight slower than that in 2017 due to the possible renegotiation of the Korea-United States Free Trade Agreement and protectionism policies of the United States, as well as a possible decrease in demand for semiconductors as a result of market cycles.

In 2018, the Bank considers the following as potential risks to the Korean economy: (i) uncertainty and volatility regarding the political and economic policies, including growing protectionism, of the United States and other major economies; (ii) concerns within the financial sectors due to high levels of debt; (iii) the possibility of more rapid than expected increases in interest rates by the major economies; (iv) China's slowing growth and the possibility of a hard landing for China; (v) the increased volatility of foreign exchange markets due to the varying monetary policies of the global economies including increases in base interest rates; (vi) political risks including political instability due to North Korea, (vii) restructuring of domestic corporations, and (viii) an aging population.

As for interest rate movements, since 2009, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the Bank of Korea remained within the band between 2.00% and 3.25%. In an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75% in March 2015, 1.50% in June 2015 and further reduced such rate to the historic low of 1.25% in June 2016. In November 2017, the Bank of Korea raised the base interest rate to 1.50%, marking the first time it has increased the base interest rate since 2011. The Board of Governors of the United States Federal Reserve System increased its benchmark interest rate three times during 2017 and most recently to a range of 1.50% to 1.75% in March 2018, and announced that it expects to keep raising the benchmark interest rate during 2018. The Bank of Korea's policy path of interest rates in 2018 and for the foreseeable future remains uncertain.

Currently, the Bank is not aware of any major regulatory developments that may have a material adverse effect on the commercial banking industry in Korea. However, the prolonged low-interest rate environment has presented limited opportunities for commercial banks to generate profit by taking advantage of differences between deposits and loans, and fuelled intense competition among major commercial banks for quality customers. Furthermore, with the growing popularity of online financial service platforms, online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics have also intensified the competition by making significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech." In addition, Internet-only banks, which have commenced operations in 2017, may introduce new services and offer promotions to attract customers of the existing commercial banks. Accordingly, commercial banks will likely face increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches.

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 three months ended 31 March**
	2015	**2016**	**2017**	**2018**
KOSPI	1,961.3	2,026.5	2,467.5	2,445.9
Won/U.S.$ exchange rates[(1)]	₩1,172.0	₩1,208.5	₩1,071.4	₩1,066.5
Corporate bond rates per annum[(2)]	2.6%	2.8%	3.1%	3.1%
Treasury bond rates per annum[(3)]	1.7%	1.6%	2.1%	2.2%

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 0.1% to 3.0% during 2017 and for the first three months of 2018. 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 1.25% of the loan amount in consideration of the policy loan services provided by the Bank. As of 31 December 2016, 31 December 2017 and 31 March 2018, policy loans provided by the Bank amounted in the aggregate to Won 17,873 billion, Won 18,767 billion and Won 18,759 billion, respectively, representing 9.8%, 9.8% and 9.8% of the Bank's total loans as of such dates respectively. Of such amounts, as of 31 December 2016, 31 December 2017 and 31 March 2018, policy loans funded by the Government amounted to Won 3,750 billion, Won 3,357 billion and Won 3,192 billion respectively, while policy loans funded by the Bank amounted to Won 14,123 billion, Won 15,410 billion and Won 15,567 billion respectively. Repayment of a large portion of the policy loans is guaranteed by the Agricultural Credit Guarantee Fund, which is mostly funded by the Government.

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 form of (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 of up to 5% per annum for five years up to Won 4 trillion of principal amount of debt securities issued by NACF and/or the Bank. In each of January 2013 and December 2016, through National Assembly approval, the Government agreed to additional payment of interest of up to 5.0% per annum for five years up to Won 0.5 trillion of principal amount of debt securities issued by NACF and/or the Bank in lieu of providing in-kind capital contribution in the amount of Won 0.5 trillion. Based on the above plan, the Bank issued bonds in the aggregate principal amount of Won 4 trillion in February 2012, Won 0.5 trillion in June 2013 and Won 0.5 trillion in August 2017, and as of 31 March 2018, the Bank has received effectively a subsidy of Won 867 billion as compensation for interest payments under such bonds.

In addition, the Government amended the Special Tax Treatment Control Law 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, Won 400 billion and Won 200 billion in March 2013, September 2013, March 2015 and June 2018, 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 agricultural support project expenses (formerly known as brand fee) on its for-profit subsidiaries ranging from 1.5% to 2.5% of each such subsidiary's total gross revenue consisting of interest income, commission income, gain on financial assets and other revenues, on a gross basis. The actual rate of agricultural support project expenses to be imposed for a particular fiscal year is 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. The Bank makes agricultural support project expenses payments to NACF. For 2017, the Bank's agricultural support project expenses payment amounts to Won 290 billion, representing 2.45% of the average of the Bank's total gross revenue from the past three fiscal years of 2014, 2015 and 2016. For 2015, 2016, 2017 and the first three months of 2018, agricultural support project expenses paid by the Bank amounted to Won 305 billion, Won 315 billion, Won 290 billion and Won 73 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 did not make dividend payments in respect of 2015 and 2016 and made dividend payments of approximately Won 190 billion in 2017.

Other than the agricultural support project expenses 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. See Note 2 of the notes to the Bank's Audited Consolidated Financial Statements included elsewhere in this Offering Circular. 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.

Recent Accounting Changes

K-IFRS 1109, published on 25 September 2015, is effective for annual periods beginning on or after 1 January 2018. It replaces existing guidance in K-IFRS 1039, Financial Instruments: Recognition and Measurement. The Bank has adopted K-IFRS 1109 for the year beginning after 1 January 2018 and has recognized the accumulated effect resulting from the initial application of K-IFRS 1109 starting 1 January 2018, the date of initial application.

Key features of the new standard, K-IFRS 1109, are (i) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, (ii) impairment methodology that reflects the "expected credit loss" model for financial assets and (iii) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS 1109 introduces additional requirements for a financial asset to be classified as measured at amortized costs or fair value through other comprehensive income compared to the existing guidance in K-IFRS 1039 and therefore would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, thereby increasing volatility in the Bank's profit or loss. K-IFRS 1109 also replaces the "incurred loss" model in the existing standard with a forward-looking "expected credit loss" model for loans, debt instruments, lease receivables, contractual assets and financial guarantee contracts, and therefore impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance. In addition, under K-IFRS 1109, which provides principle-based and less complex guidance in determining the scope of hedged items and hedging instruments that quality for hedge accounting, more hedged items and hedging instruments would qualify for hedge accounting.

K-IFRS 1109 will require the Bank to assess the financial impact from application of K-IFRS 1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS 1109 will be dependent on the financial instruments the Bank holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future. For further details, see Note 2.1 of the notes to the Bank's Unaudited Consolidated Financial Statements and Note 2.2 of the notes to the Bank's Audited Consolidated Financial Statements included elsewhere in this Offering Circular.

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 2,226 billion, Won 1,477 billion and Won 1,560 billion as of 31 December 2015, 2016 and 2017, respectively, and Won 1,708 billion as of 31 March 2018.

Securities

The Bank classifies securities on its balance sheet as financial assets at fair value through profit or loss (FVTPL), financial assets at fair value in other comprehensive income (FVOCI) or financial assets at amortized cost (AC), based on business model and contractual cash flows test.

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

- *Fair value through profit or loss (FVTPL)*: Equity instruments are normally measured at FVTPL. In the case of debt financial assets, fair value through profit or loss is the classification of instruments that are held for trading or for which the entity's business model is to manage the financial asset on a fair value basis (i.e., to realize the asset through sales as opposed to holding the asset to collect contractual cash flows). This category represents the 'default' or 'residual' category if the requirements to be classified as amortized cost or FVOCI are not met. All derivatives are classified as at FVTPL.

- *Fair value in other comprehensive income (FVOCI)*: For equity instruments, on initial recognition, an entity may make an irrevocable election (on an instrument-by-instrument basis) to designate an equity instrument at FVOCI. This option only applies to instruments that are not held for trading and are not derivatives. Although most gains and losses on investments in equity instruments designated at FVOCI will be recognized in other comprehensive income, dividends will normally be recognized in profit or loss (unless they represent a recovery of part of the cost of the investment). Gains or losses recognized in other comprehensive income are never reclassified from equity to profit or loss. Consequently, there is no need to review such investments for possible impairment. FVOCI equity reserves, however, may be transferred within equity (i.e., to another component of equity), if the entity so chooses.

  In the case of debt financial assets, instruments for which an entity has a dual business model (i.e., the business model is achieved by both holding the financial asset to collect the contractual cash flows and through the sale of such financial asset) are classified at FVOCI. The characteristics of the contractual cash flows of instruments in this category must still be solely payments of principal and interest. The changes in fair value of FVOCI debt instruments are recognized in other comprehensive income. Any interest income, foreign exchange gains/losses and impairments are recognized immediately in profit or loss. Fair value changes that have been recognized in other comprehensive income are recycled to profit or loss upon disposal of the debt instrument.

- *Amortized Cost (AC)*: Amortized cost applies to instruments for which an entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest.

- *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 than not 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

Three months ended 31 March 2018 Compared to Three Months ended 31 March 2017

The following table sets out the principal components of the Bank's results of operations for the three months ended 31 March 2017 and 31 March 2018.

	For the three months ended 31 March		
	2017	**2018**	**% Changes**
	(in billions of Won, except percentages)		
Interest income	₩1,732	₩1,949	12.5%
Interest expenses	656	737	12.3
Commission income	259	276	6.6
Commission expenses	133	138	3.8
Gain (loss) on held-for-trading financial assets, net	59	—	N/M
Gain (loss) on financial assets at FVTPL, net	—	127	N/M
Gain (loss) on financial investment assets, net	37	4	(89.2)
Gain (loss) on disposal of financial assets at amortized cost, net	—	3	N/M
Other operating income (expenses), net	(142)	(202)	42.3
Transfer in allowance for expected credit losses	187	84	(55.1)
General administrative expenses	678	724	6.8
Operating income	290	472	62.8
Gain on valuation of equity method investments, net	(3)	5	266.7
Other expenses, net	(77)	(76)	(1.3)
Income tax expense	59	83	40.7
Net income	₩ 150	₩ 318	112.0%

Note:

(1) N/M means not meaningful.

Net Interest Income

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

	For the three months ended 31 March		
	2017	2018	% Changes
	(in billions of Won, except percentages)		
Interest income:			
Due from banks	₩ 11	₩ 10	(9.1)%
Due from other financial institutions	0.5	4	700.0
Loans and receivables	1,414	—	N/M
Financial assets at fair value through profit or loss	29	31	6.9
Available-for-sale financial assets	53	—	N/M
Held-to-maturity financial assets	48	—	N/M
Financial assets measured at FVOCI	—	89	N/M
Financial assets measured at amortized cost	—	47	N/M
Loans and receivables at amortized cost	—	1,766	N/M
Others	177	2	(98.9)
Total interest income	1,732	1,949	12.5
Interest expenses:			
Deposits	514	576	12.1
Debentures	98	108	10.2
Borrowings	32	38	18.8
Financial liabilities at fair value through profit or loss	—	—	N/M
Others	11	14	27.3
Total interest expenses	656	737	12.3
Interest income, net	₩1,076	₩1,211	12.5%

Note:

(1) N/M means not meaningful.

Interest Income

Interest income increased by 12.5% from Won 1,732 billion in the first three months of 2017 to Won 1,949 billion in the first three months of 2018, primarily because the Bank recorded interest income on loans and receivables at amortized cost of Won 1,766 billion in the first three months of 2018 compared to interest income on loans and receivables of Won 1,414 billion in the first three months of 2017. This was primarily driven by an increase in average balance for loans and receivables at amortized cost in the first three months of 2018 compared to the average balance for loans and receivables in the first three months of 2017. The average balances and average interest rate of most of the Bank's interest-earning assets increased in the first three months of 2018 compared to the first three months of 2017. On a non-consolidated basis, the average balance of interest-earning assets increased by 6.4% from Won 236,273 billion in the first three months of 2017 to Won 251,396 billion in the first three months of 2018, while the average yield on interest-earning assets increase by 17 basis points from 2.93% in the first three months of 2017 to 3.10% in the first three months of 2018, reflecting the general increase in market interest rates in Korea.

The increase in interest income on loans and receivables at amortized cost in the first three months of 2018 compared to interest income on loans and receivables in the first three months of 2017 was largely due to a 17.3% increase in interest income on retail loans, on a non-consolidated basis, from Won 635 billion in the first three months of 2017 to Won 745 billion in the first three months of 2018, as well as a 9.3% increase in interest income on corporate loans, on a non-consolidated basis, from Won 558 billion in the first three months of 2017 to Won 610 billion in the first three months of 2018. More specifically:

- The increase in interest income on retail loans was primarily the result of a 9.5% increase in the average balance, on a non-consolidated basis, from Won 86,532 billion in the first three months of 2017 to Won 94,716 billion in the first three months of 2018, as well as a 21 basis point increase in the average yield, on a non-consolidated basis, from 2.98% in the first three months of 2017 to 3.19% in the first three months of 2018. The increase in the average balance of retail loans was primarily attributable to an increase in mortgage, home equity and other residential loans reflecting a rising demand for such loans as a result of low interest rates and an increase in home purchases. The increase in the average yield on retail loans reflected the general increase in market interest rates in Korea.

- The increase in interest income on corporate loans was primarily the result of a 9 basis point increase in the average yield, on a non-consolidated basis, from 2.87% in the first three months of 2017 to 2.96% in the first three months of 2018, as well as a 5.8% increase in the average balance, on a non-consolidated basis, from Won 78,903 billion in the first three months of 2017 to Won 83,489 billion in the first three months of 2018. The increase in the average yield on corporate loans reflected the general increase in market interest rates in Korea. The increase in the average balance of corporate loans was primarily due to an increase in loans made to SMEs secured by real property or letter of guarantees, primarily due to policies of the Government encouraging SME lending, which was partially offset by a decrease in loans made to chaebols, large conglomerates in Korea. Loans made to chaebols decreased, primarily due to the Bank's cautious measures for extending credits to borrowers with financial difficulties, such as companies in the shipping and shipbuilding industry.

Interest Expenses

Interest expenses increased by 12.3% from Won 656 billion in the first three months of 2017 to Won 737 billion in the first three months of 2018, primarily due to a 12.1% increase in interest expenses on deposits from Won 514 billion in the first three months of 2017 to Won 576 billion in the first three months of 2018, as well as a 10.2% increase in interest expense on debentures from Won 98 billion in the first three months of 2017 to Won 108 billion in the first three months of 2018. On a non-consolidated basis, the average cost of interest-bearing liabilities increased by 7 basis points from 1.14% in the first three months of 2017 to 1.21% in the first three months of 2018, and the average balance of interest-bearing liabilities increased by 6.6% from Won 227,154 billion in the first three months of 2017 to Won 242,252 billion in the first three months of 2018.

The increase in interest expenses on deposits resulted mainly from a 21.7% increase in interest expenses on savings deposits, on a non-consolidated basis, from Won 420 billion in the first three months of 2017 to Won 511 billion in the first three months of 2018, which was partially offset by a 50.9% decrease in interest expenses on demand deposits, on a non-consolidated basis, from Won 57 billion in the first three months of 2017 to Won 28 billion in the first three months of 2018. More specifically:

- The increase in interest expense on savings deposits primarily resulted from a 10 basis point increase in the average cost, on a non-consolidated basis, from 1.12% in the first three months of 2017 to 1.22% in the first three months of 2018, as well as a 12.1% increase in the average balance, on a non-consolidated basis, from Won 151,782 billion in the first three months of 2017 to Won 170,081 billion in the first three months of 2018. The increase in the average cost of savings deposits was mainly due to an increase in market interest rates. The increase in the average balance of savings deposits was attributable mainly to increasing customer preference for safe assets.

- The decrease in interest expense on demand deposits primarily resulted from a 30 basis point decrease in the average cost, on a non-consolidated basis, from 0.65% in the first three months of 2017 to 0.35% in the first three months of 2018, which was partially offset by a 9.7% decrease in the average balance, on a non-consolidated basis, from Won 35,460 billion in the first three months of 2017 to Won 32,008 billion in the first three months of 2018. The decrease in the average cost of demand deposits was mainly due to a decrease in market interest rates. The decrease in the average balance of demand deposits was attributable mainly to decreasing preference for liquid assets as a result of low interest rates.

The increase in interest expenses on debentures was primarily due to a 13.3% increase in interest expense on Won-denominated debentures, on a non-consolidated basis, from Won 83 billion in the first three months of 2017 to Won 94 billion in the first three months of 2018. This increase in interest expense on Won-denominated debentures primarily resulted from a 12.0% increase in the average balance of such debentures, on a non-consolidated basis, from Won 14,593 billion in the first three months of 2017 to Won 16,349 billion in the first three months of 2018. The increase in the average balance of such debentures was attributable mainly to the Bank's increased funding needs as a result of an increase in loans and receivables.

Net Interest Margin

On a non-consolidated basis, net interest margin, which is net interest income (interest income less interest expenses) as a percentage of average interest-earning assets, increased by 10 basis points from 1.83% in the first three months of 2017 to 1.93% in the first three months of 2018, reflecting a 12.5% increase in net interest income, on a non-consolidated basis, from Won 1,065 billion in the first three months of 2017 to Won 1,198 billion in the first three months of 2018, while the average balance of interest-earning assets, on non-consolidated basis, increased by 6.4% from Won 236,273 billion in the first three months of 2017 to Won 251,396 billion in the first three months of 2018. On a non-consolidated basis, net interest income increased by Won 133 billion in the first three months of 2018 compared to the first three months of 2017, as a result of an increase of Won 215 billion in total interest income and an increase of Won 82 billion in total interest expense during the compared periods, due to the reasons described above.

On a non-consolidated basis, net interest spread, which represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, also increased by 10 basis points from 1.78% in the first three months of 2017 to 1.89% in the first three months of 2018 largely as a result of the general increase of market interest rates over these two periods. In general, the net interest spread tends to widen when general market interest rates increase.

Net Commission Income

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

	For the three months ended 31 March		
	2017	2018	% Changes
	(in billions of Won, except percentages)		
Commission income	259	276	6.6
Commission expenses	133	138	3.8
Total Commission income, net	₩126	₩138	9.5%

The Bank's net commission income increased by 9.5% from Won 126 billion in the first three months of 2017 to Won 138 billion in the first three months of 2018, as a result of a 6.6% increase in commission income from Won 259 billion in the first three months of 2017 to Won 276 billion in the first three months of 2018, which was partially offset by a 3.8% increase in commission expenses from Won 133 billion in the first three months of 2017 to Won 138 billion in the first three months of 2018. The increase in commission income resulted mainly from a 9.0% increase in commission income from credit cards from Won 78 billion in the first three months of 2017 to Won 85 billion in the first three months of 2018, primarily due to increase of credit card transactions, and a 40.0% increase in commission income from trust accounts from Won 25 billion in the first three months of 2017 to Won 35 billion in the first three months of 2018, primarily due to increase of the average balance of trust funds. The increase in commission expenses resulted mainly from a 6.6% increase in commission expenses from credit cards from Won 106 billion in the first three months of 2017 to Won 113 billion in the first three months of 2018, primarily due to an increase in credit card usage.

Gain (loss) on financial instruments at FVTPL, net

The Bank recorded net gain on financial instruments at fair value through profit or loss (FVTPL) of Won 127 billion in the first three months of 2018 compared to net gain on held-for-trading financial instruments of Won 59 billion in the first three months of 2017, primarily due to an increase in gain on trading derivatives as well as partly due to the implementation of K-IFRS 1109 beginning 1 January 2018. For further details, see Note 32 and Note 35 of the notes to the Bank's Unaudited Consolidated Financial Statements included elsewhere in this Offering Circular.

Other Operating Income (Expenses)

The Bank recorded net other operating expense of Won 202 billion in the first three months of 2018 compared to net other operating expense of Won 142 billion in the first three months of 2017, primarily due to a net loss from changes in foreign exchange rate of Won 75 billion in the first three months of 2018 compared to a net loss of Won 8 billion in the first three months of 2017 as a result of fluctuations of applicable foreign exchange rates.

Provision of Allowances for Loss on Credit

Provision of allowances for losses on credit decreased by 55.0% from Won 187 billion in the first three months of 2017 to Won 85 billion in the first three months of 2018, because provision of allowances for losses on credit in the first three months of 2017 was larger than that in the first three months of 2018 with respect to Sungdong Shipbuilding & Marine Engineering Co., Ltd. and Daewoo Shipbuilding & Marine Engineering Co., Ltd. as a result of the recession of the shipbuilding industry.

The Bank's write-offs for loans decreased by 38.2% from Won 186 billion in the first three months of 2017 to Won 115 billion in the first three months of 2018, primarily due to the unusually large write-offs relating to STX Offshore & Shipbuilding in the first three months of 2017, while there was no such large write-off in the corresponding period in 2018.

The Bank's provision for acceptances and guarantees and unused loan commitments increased by 12.6% from Won 237 billion in the first three months of 2017 to Won 267 billion in the first three months of 2018, because Daewoo Shipbuilding & Marine Engineering downgraded its credit rating from 7A to 7B, and ship deliveries of STX Offshore & Shipbuilding Co., Ltd. have been delayed because of a dispute related to RGs., resulting in increases in provisions for acceptances guarantees.

General Administrative Expenses

General administrative expenses increased by 6.8% from Won 678 billion in the first three months of 2017 to Won 724 billion in the first three months of 2018. Such increase was primarily attributable to a 8.6% increase in employee benefits, which includes compensation, from Won 476 billion in the first three months of 2017 to Won 517 billion in the first three months of 2018, which resulted largely from increased wages and bonus payments as well as increased retirement benefits.

Other Expenses, Net

Net other expenses decreased by 1.3% from Won 77 billion in the first three months of 2017 to Won 76 billion in the first three months of 2018 due to a 6.7% decrease in other expenses from Won 89 billion in the first three months of 2017 to Won 83 billion, partially offset by a 36.4% decrease in other income from Won 11 billion in the first three months of 2017 to Won 7 billion in the first three months of 2018. Other income decreased primarily due to a 50.0% decrease in miscellaneous income from Won 6 billion in the first three months of 2017 to Won 3 billion in the first three months of 2018 due to a decrease in income from dormant accounts. Other expense decreased primarily due to a 36.4% decrease in miscellaneous expenses from Won 11 billion in the first three months of 2017 to Won 7 billion in the first three months of 2018 due to a decrease in expenses related to dormant accounts.

Income Before Income Tax Expense

As a cumulative result of the above factors, income before income tax expense increased from Won 209 billion in the first three months of 2017 to Won 401 billion in the first three months of 2018.

Income Tax Expense

Income tax expense increased from Won 59 billion in the first three months of 2017 to Won 83 billion in the first three months of 2018, primarily as a result of the increase in the Bank's taxable income. The Bank's effective tax rate decreased from 28.2% in the first three months of 2017 to 20.8% in the first three months of 2018.

Net Income

As a result of the above factors, net income for the period increased from Won 150 billion in the first three months of 2017 to Won 318 billion in the first three months of 2018.

2017 Compared to 2016

The following table sets out the principal components of the Bank's results of operations for the year ended 2016 and 2017.

	For the year ended 31 December		
	2016	**2017**	**% Changes**
	(in billions of Won, except percentages)		
Interest income	₩6,918	₩7,256	4.9%
Interest expenses	2,712	2,668	(1.6)
Commission income	1,009	1,079	6.9
Commission expenses	447	505	13.0
Gain (loss) on held-for-trading financial assets, net	66	199	201.5
Gain (loss) on financial investment assets, net	272	197	(27.6)
Other operating income (expenses), net	(536)	(723)	34.9
Provision for allowances for losses on credit	1,585	844	(46.8)
General administrative expenses	2,618	2,798	6.9
Operating income	366	1,192	225.7
Gain on valuation of equity method investments, net	28	2	(92.9)
Other expenses, net	(270)	(336)	24.4
Income tax expense	13	206	1,484.6
Net income	₩ 111	₩ 652	487.4

Note:

(1) N/M means not meaningful.

Net Interest Income

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

	For the year ended 31 December		
	2016	**2017**	**% Changes**
	(in billions of Won, except percentages)		
Interest income:			
Due from banks	₩ 28	₩ 46	64.3%
Loans and receivables	5,624	5,908	5.0
Financial assets at fair value through profit or loss	121	115	(5.0)
Available-for-sale financial assets	256	268	4.7
Held-to-maturity financial assets	201	171	(14.9)
Others	687	748	8.9
Total interest income	6,918	7,256	4.9
Interest expenses:			
Deposits	2,151	2,095	(2.6)
Debentures	387	386	(0.3)
Borrowings	133	141	6.0
Financial liabilities at fair value through profit or loss	—	—	N/M
Others	41	47	14.6
Total interest expenses	2,712	2,668	(1.6)
Interest income, net	₩4,206	₩4,588	9.1%

Note:

(1) N/M means not meaningful.

Interest Income

Interest income increased by 4.9% from Won 6,918 billion in 2016 to Won 7,256 billion in 2017, primarily due to a 5.1% increase in interest on loans and receivables from Won 5,624 billion in 2016 to Won 5,908 billion in 2017. This increase was primarily driven by an increase in average balance for loans and receivables in 2017 compared to 2016. The average interest rates for most of the Bank's interest-earning assets decreased, while the average balance of most of interest-earning assets, including loans and receivables, increased in 2017 compared to 2016. On a non-consolidated basis, the average yield on interest-earning assets decreased by 15 basis points from 3.10% in 2016 to 2.95% in 2017, reflecting decrease in market interest rates in Korea, while the average balance of interest-earning assets increased by 7.5% from Won 225,294 billion in 2016 to Won 242,095 billion in 2017.

The increase in interest income on loans and receivables in 2017 was largely due to a 2.9% increase in interest income on corporate loans, on a non-consolidated basis, from Won 2,247 billion in 2016 to Won 2,312 billion in 2017 and a 9.7% increase in interest income on retail loans, on a non-consolidated basis, from Won 2,472 billion in 2016 to Won 2,711 billion in 2017. More specifically:

- The increase in interest on corporate loans was primarily the result of a 3 basis point decrease in the average yield, on a non-consolidated basis, from 2.91% in 2016 to 2.88% in 2017, which was partially offset by a 3.7% increase in the average balance, on a non-consolidated basis, from Won 77,336 billion in 2016 to Won 80,170 billion in 2017. The decrease in the average yield on corporate loans also reflected the continued general decrease in market interest rates in Korea. The increase in the average balance of corporate loans was primarily due to an increase in loans made to SMEs secured by real property or letter of guarantees, primarily due to policies of the Government encouraging SME lending, which was partially offset by a decrease in loans made to chaebols. Loans made to chaebols decreased, primarily due to the Bank's cautious measures for extending credits to borrowers with financial difficulties, such as companies in the shipping and shipbuilding industry.

- The increase in interest on retail loans was primarily the result of a 4 basis point decrease in the average yield, on a non-consolidated basis, from 3.07% in 2016 to 3.03% in 2017, which was partially offset by a 11.3% increase in the average balance, on a non-consolidated basis, from Won 80,563 billion in 2016 to Won 89,630 billion in 2017. The decrease in the average yield on retail loans reflected the continued general decrease in market interest rates in Korea. The increase in the average balance of retail loans was primarily due to an increase in mortgage, home-equity and other residential loans reflecting a rising demand for such loans as a result of low interest rates and an increase in home purchases.

Interest Expenses

Interest expenses decreased by 1.6% from Won 2,712 billion in 2016 to Won 2,668 billion in 2017, primarily due to a 2.6% decrease in interest expenses on deposits from Won 2,151 billion to Won 2,095 billion, which was partially offset by a 6.0% increase in interest expenses on borrowings from Won 133 billion to Won 141 billion. On a non-consolidated basis, the average cost of interest-bearing liabilities decreased by 11 basis points from 1.23% in 2016 to 1.12% in 2017, while the average balance of interest-bearing liabilities increased by 8.7% from Won 215,157 billion in 2016 to Won 233,896 billion in 2017.

The increase in interest expenses on deposits resulted mainly from a 2.5% increase in interest expenses on savings deposits, on a non-consolidated basis, from Won 1,729 billion in 2016 to Won 1,773 billion in 2017. The increase in interest expense on savings deposits primarily resulted from a 12.4% increase in the average balance, on a non-consolidated basis, from Won 142,239 billion in 2016 to Won 159,880 billion in 2017, which was partially offset by 11 basis point decrease in the average cost, on a non-consolidated basis, from 1.22% in 2016 to 1.11% in 2017. The increase in the average balance of savings deposits was attributable mainly to increasing customer preference for deposits compared to other investment means in a generally low interest rate environment. The decrease in the average cost of savings deposits was mainly due to a decrease in market interest rates.

The increase in interest expenses on borrowings was primarily due to a 9.7% increase in interest expense on Won-dominated borrowings, on a non-consolidated basis, from Won 113 billion in 2016 to Won 124 billion in 2017. This increase primarily resulted from a 8.1% increase in the average balance of such borrowings, on a non-consolidated basis, from Won 10,907 billion in 2016 to Won 11,793 billion in 2017. The increase in the average balance of such borrowings was attributable mainly to the Bank's increased funding needs as a result of an increase in loan and receivables.

Net Interest Margin

On a non-consolidated basis, net interest margin increased by 3 basis points from 1.85% in 2016 to 1.88% in 2017, reflecting a 9.1% increase in net interest income (which is the numerator in the net interest margin formula), on a non-consolidated basis, from Won 4,161 billion in 2016 to Won 4,540 billion in 2017 and a 7.5% increase in the average balance of interest-earning assets (which is the denominator in the formula), on non-consolidated basis, from Won 225,294 billion in 2016 to Won 242,095 billion in 2017. On a non-consolidated basis, the net interest income increased by Won 379 billion in 2017 compared to 2016, as a result of a decrease of Won 36 billion in total interest expense, partially offset by an increase of Won 343 billion in total interest income during the compared periods, due to the reasons described above.

On a non-consolidated basis, net interest spread also increased by 5 basis points from 1.79% in 2016 to 1.84% in 2017 largely as a result of the general decrease of market interest rate over these two periods. In general, the net interest spread tends to narrow when general market interest rates decrease.

Net Commission Income

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

	For the year ended 31 December		
	2016	**2017**	**% Changes**
	(in billions of Won, except percentages)		
Commission income	₩1,009	₩1,079	6.9
Commission expenses	447	505	13.0
Total Commission income, net	₩ 562	₩ 574	2.1%

The Bank's net commission income increased by 2.1% from Won 562 billion in 2016 to Won 574 billion in 2017, as a result of a 6.9% increase in commission income from Won 1,009 billion in 2016 to Won 1,079 billion in 2017, which was partially offset by a 13.0% increase in commission expenses from Won 447 billion in 2016 to Won 505 billion in 2017. The increase in commission income resulted mainly from a 33.8% increase in commission income from trust service from Won 77 billion in 2016 to Won 103 billion in 2017, primarily due to an increase of average balance of trust funds. The increase in commission expenses was resulted mainly from a 14.3% increase in commission expenses from credit cards from Won 349 billion in 2016 to Won 399 billion in 2017, primarily due to expenses related to increased credit card issuances.

Gain (Loss) on Held-For-Trading Financial Assets

The Bank recorded net gain on held-for-trading financial assets of Won 199 billion in 2017 compared to net gain of Won 66 billion in 2016, primarily due to a net gain on disposal of trading derivatives of Won 117 billion in 2017 compared to a net gain of Won 53 billion in 2016, in each case, largely due to a combination of the volatility of the exchange rate of the Korean Won against major foreign currencies, particularly the U.S. dollar, and the mix of the Bank's positions for trading derivatives.

Gain on Financial Investment Assets

Net gain on financial investment assets decreased by 27.6% from Won 272 billion in 2016 to Won 197 billion in 2017, primarily due to a 21.2% decrease in net gain on available-for-sale financial assets from Won 250 billion in 2016 to Won 197 billion in 2017.

Other Operating Expenses

Net other operating expenses increased by 34.9% from Won 536 billion in 2016 to Won 723 billion in 2017, primarily due to a net loss from changes in foreign exchange rate of Won 86 billion in 2017 compared to a net gain from changes in foreign exchange rate of Won 20 billion in 2016 as a result of fluctuations of applicable foreign exchange rates.

Provision of Allowances for Loss on Credit

Provision of allowances for losses on credit decreased by 46.7% from Won 1,585 billion in 2016 to Won 844 billion in 2017, because provision of allowances for losses on credit in 2016 was larger than that in 2017 with respect to STX Offshore & Shipbuilding Co., Ltd., HANJIN SHIPPING Co., Ltd., HYUNDAI Merchant Marine CO., LTD., and Sungdong Shipbuilding & Marine Engineering Co., Ltd. and Daewoo Shipbuilding & Marine Engineering Co., Ltd. as a result of the recession of the shipbuilding industry.

The Bank's write-offs for loans decreased by 63.0% from Won 2,057 billion in 2016 to Won 762 billion in 2017, primarily due to the unusually large write-offs through relating to financial trouble in construction business and shipbuilding business in 2016 including STX Offshore & Shipbuilding Co., Ltd., Changmyung Shipping.

The Bank's provision for acceptances and guarantees and unused loan commitments increased by 35.4% from Won 223 billion in 2016 to Won 302 billion in 2017, because Daewoo Shipbuilding & Marine Engineering downgraded its credit rating from 7A to 7B, and ship deliveries of STX Offshore & Shipbuilding Co., Ltd. have been delayed because of a dispute related to RGs., resulting in increases in provisions for acceptances guarantees.

General Administrative Expenses

General administrative expenses increased by 6.9% from Won 2,618 billion in 2016 to Won 2,798 billion in 2017. Such increase was primarily attributable to a 10.5% increase in employee benefits from Won 1,712 billion in 2016 to Won 1,891 billion in 2017, which resulted largely from an increase in retirement benefits, and a 7.7% increase in depreciation and amortization expenses from Won 273 billion in 2016 to Won 294 billion in 2017, which resulted largely from increased depreciation of buildings and office equipment.

Other Expenses, Net

Net other expenses increased by 24.2% from Won 270 billion in 2016 to Won 336 billion in 2017, as a combined result of a 34.8% decrease in other income from Won 112 billion in 2016 to Won 73 billion in 2017 and a 7.1% increase in other expenses from Won 382 billion in 2016 to Won 409 billion in 2017. Other income decreased primarily due to a decrease in miscellaneous income of Won 28 billion in 2017 compared to 2016, which was partially offset by a 1,600.0% increase in gain on disposal of assets from Won 1 billion in 2016 to Won 17 billion in 2017 as a result of an increase in the disposal of tangible asset and investment in real properties. Other expense increased primarily due to a 108.7% increase in miscellaneous expenses from Won 46 billion in 2016 to Won 96 billion in 2017 and a 20.0% increase in other expenses from Won 5 billion in 2016 to Won 6 billion in 2017, which was partially offset by a 7.9% decrease in agricultural support project expenses payment from Won 315 billion in 2016 to Won 290 billion in 2017, reflecting a decrease in the applicable rate of 2.50% (of the average of the Bank's total gross revenue during the past three fiscal years) in 2016 to a rate of 2.45% in 2017.

Income Before Income Tax Expense

As a cumulative result of the above factors, income before income tax expense increased 593.1% from Won 124 billion in 2016 to Won 858 billion in 2017.

Income Tax Expense

Income tax expense increased by 1,523.3% from Won 13 billion in 2016 to Won 206 billion in 2017, primarily as a result of the increase in the Bank's taxable income. The Bank's effective tax rate increased from 10.3% in 2016 to 24.0% in 2017.

Net Income

As a result of the above factors, net income for the period increased by 486.8% from Won 111 billion in 2016 to Won 652 billion in 2017.

2016 Compared to 2015

The following table sets out the principal components of the Bank's results of operations for the year ended 2015 and 2016.

	For the year ended 31 December		
	2015	**2016**	**% Changes**
	(in billions of Won, except percentages)		
Interest income	₩7,178	₩7,094	(1.2)%
Interest expenses	2,953	2,712	(8.2)
Commission income	788	832	5.6
Commission expenses	393	447	13.7
Gain (loss) on held-for-trading financial assets, net	(149)	66	N/M
Gain (loss) on financial investment assets, net	232	272	17.2
Other operating income (expenses), net	(350)	(536)	53.1
Provision for allowances for losses on credit	1,263	1,585	25.5
General administrative expenses	2,593	2,618	1.0
Operating income	496	366	(26.2)
Gain on valuation of equity method investments, net	16	28	75.0
Other expenses, net	(284)	(270)	(4.9)
Income tax expense	51	13	(74.5)
Net income	₩ 176	₩ 111	(36.9)%

Note:

(1) N/M means not meaningful.

Net Interest Income

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

	For the year ended 31 December		
	2015	**2016**	**% Changes**
	(in billions of Won, except percentages)		
Interest income:			
Due from banks	₩ 57	₩ 28	(51.2)%
Loans and receivables	5,700	5,624	(1.3)
Financial assets at fair value through profit or loss	144	121	(16.2)
Available-for-sale financial assets	260	256	(1.2)
Held-to-maturity financial assets	251	201	(19.7)
Others	766	864	12.7
Total interest income	7,178	7,094	(1.2)
Interest expenses:			
Deposits	2,475	2,151	(13.1)
Debentures	288	387	34.4
Borrowings	133	133	(0.2)
Financial liabilities at fair value through profit or loss	3	0	(100.0)
Others	53	41	(22.6)
Total interest expenses	2,953	2,712	(8.2)
Interest income, net	₩4,224	₩4,382	3.7%

Interest Income

Interest income decreased by 1.2% from Won 7,178 billion in 2015 to Won 7,094 billion in 2016, primarily due to a 1.3% decrease in interest on loans and receivables from Won 5,700 billion in 2015 to Won 5,624 billion in 2016. This decrease was primarily driven by a decrease in average interest rates for loans and receivables in 2016 compared to 2015. The average interest rates for most of the Bank's interest-earning assets decreased, while the average balance of most of interest-earning assets, including loans and receivables, increased in 2016 compared to 2015. On a non-consolidated basis, the average yield on interest-earning assets decreased by 39 basis points from 3.49% in 2015 to 3.10% in 2016, reflecting decrease in market interest rates in Korea, while the average balance of interest-earning assets increased by 11.7% from Won 201,731 billion in 2015 to Won 225,294 billion in 2016.

The decrease in interest income on loans and receivables in 2016 was largely due to a 4.5% decrease in interest income on corporate loans, on a non-consolidated basis, from Won 2,353 billion in 2015 to Won 2,247 billion in 2016 and a 0.1% decrease in interest income on retail loans, on a non-consolidated basis, from Won 2,474 billion in 2015 to Won 2,472 billion in 2016. More specifically:

- The decrease in interest on corporate loans was primarily the result of a 36 basis point decrease in the average yield, on a non-consolidated basis, from 3.27% in 2015 to 2.91% in 2016, which was partially offset by a 7.5% increase in the average balance, on a non-consolidated basis, from Won 71,958 billion in 2015 to Won 77,336 billion in 2016. The decrease in the average yield on corporate loans also reflected the continued general decrease in market interest rates in Korea. The increase in the average balance of corporate loans was primarily due to an increase in loans made to SMEs secured by real property or letter of guarantees, primarily due to policies of the Government encouraging SME lending, which was partially offset by a decrease in loans made to chaebols. Loans made to chaebols decreased, primarily due to the Bank's cautious measures for extending credits to borrowers with financial difficulties, such as companies in the shipping and shipbuilding industry.

- The decrease in interest on retail loans was primarily the result of a 41 basis point decrease in the average yield, on a non-consolidated basis, from 3.48% in 2015 to 3.07% in 2016, which was partially offset by a 13.4% increase in the average balance, on a non-consolidated basis, from Won 71,040 billion in 2015 to Won 80,563 billion in 2016. The decrease in the average yield on retail loans reflected the continued general decrease in market interest rates in Korea. The increase in the average balance of retail loans was primarily due to an increase in mortgage, home-equity and other residential loans reflecting a rising demand for such loans as a result of low interest rates and an increase in home purchases.

Interest Expenses

Interest expenses decreased by 8.2% from Won 2,953 billion in 2015 to Won 2,712 billion in 2016, primarily due to a 13.1% decrease in interest expenses on deposits from Won 2,475 billion to Won 2,151 billion, which was partially offset by a 34.4% increase in interest expenses on debentures from Won 288 billion to Won 387 billion. On a non-consolidated basis, the average cost of interest-bearing liabilities decreased by 28 basis points from 1.51% in 2015 to 1.23% in 2016, while the average balance of interest-bearing liabilities increased by 12.5% from Won 191,215 billion in 2015 to Won 215,157 billion in 2016.

The decrease in interest expenses on deposits resulted mainly from a 17.9% decrease in interest expenses on savings deposits, on a non-consolidated basis, from Won 2,107 billion in 2015 to Won 1,729 billion in 2016. The decrease in interest expense on savings deposits primarily resulted from a 37 basis point decrease in the average cost, on a non-consolidated basis, from 1.58% in 2015 to 1.22% in 2016, which was partially offset by a 6.7% increase in the average balance, on a non-consolidated basis, from Won 133,266 billion in 2015 to Won 142,239 billion in 2016. The decrease in the average cost of savings deposits was mainly due to a decrease in market interest rates. The increase in the average balance of savings deposits was attributable mainly to increasing customer preference for deposits compared to other investment means in a generally low interest rate environment.

The increase in interest expenses on debentures was primarily due to a 42.2% increase in interest expense on Won-denominated debentures, on a non-consolidated basis, from Won 232 billion in 2015 to Won 330 billion in 2016. This increase primarily resulted from a 97.7% increase in the average balance of such debentures, on a non-consolidated basis, from Won 7,009 billion in 2015 to Won 13,856 billion in 2016, which was partially offset by a 93 basis point decrease in the average cost, on a non-consolidated basis, from 3.31% in 2015 to 2.38% in 2016. The increase in the average balance of such debentures was attributable mainly to the Bank's increased funding needs as a result of an increase in loans and receivables. The decrease in the average cost of such debentures was mainly due to a decrease in market interest rates.

Net Interest Margin

On a non-consolidated basis, net interest margin decreased by 14 basis points from 2.07% in 2015 to 1.93% in 2016, reflecting a 4.1% increase in net interest income (which is the numerator in the net interest margin formula), on a non-consolidated basis, from Won 4,168 billion in 2015 to Won 4,337 billion in 2016 and a 11.7% increase in the average balance of interest-earning assets (which is the denominator in the formula), on non-consolidated basis, from Won 201,731 billion in 2015 to Won 225,294 billion in 2016. On a non-consolidated basis, the net interest income increased by Won 169 billion in 2016 compared to 2015, as a result of a decrease of Won 234 billion in total interest expense, partially offset by an increase of Won 65 billion in total interest income during the compared periods, due to the reasons described above.

On a non-consolidated basis, net interest spread also decreased by 12 basis points from 1.99% in 2015 to 1.87% in 2016 largely as a result of the general decrease of market interest rate over these two periods. In general, the net interest spread tends to narrow when general market interest rates decrease.

Net Commission Income

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

	For the year ended 31 December		
	2015	**2016**	**% Changes**
	(in billions of Won, except percentages)		
Commission income	₩788	₩832	5.6%
Commission expenses	393	447	13.7
Total Commission income, net	₩395	₩385	(2.5)%

The Bank's net commission income decreased by 2.5% from Won 395 billion in 2015 to Won 385 billion in 2016, as a result of a 13.7% increase in commission expenses from Won 393 billion in 2015 to Won 447 billion in 2016, which was partially offset by a 5.6% increase in commission income from Won 788 billion in 2015 to Won 832 billion in 2016. The increase in commission income resulted mainly from a 33.3% increase in commission income from credit cards from Won 102 billion in 2015 to Won 136 billion in 2016, primarily due to increase of check card transactions. The increase in commission expenses was resulted mainly from a 16.7% increase in commission expenses from credit cards from Won 299 billion in 2015 to Won 349 billion in 2016, primarily due to expenses related to increased credit card issuances.

Gain (Loss) on Held-For-Trading Financial Assets

The Bank recorded net gain on held-for-trading financial assets of Won 66 billion in 2016 compared to net loss of Won 149 billion in 2015, primarily due to a net gain on disposal of trading derivatives of Won 53 billion in 2016 compared to a net loss of Won 171 billion in 2015, in each case, largely due to a combination of the volatility of the exchange rate of the Korean Won against major foreign currencies, particularly the U.S. dollar, and the mix of the Bank's positions for trading derivatives.

Gain on Financial Investment Assets

Net gain on financial investment assets increased by 17.2% from Won 232 billion in 2015 to Won 272 billion in 2016, primarily due to a 51.5% increase in dividend income from available-for-sale financial assets from Won 76 billion in 2015 to Won 115 billion in 2016.

Other Operating Expenses

Net other operating expenses increased by 53.4% from Won 350 billion in 2015 to Won 536 billion in 2016, primarily due to a 90.1% decrease in net gain from changes in foreign exchange rate from Won 202 billion in 2015 to Won 20 billion in 2016 as a result of fluctuations of applicable foreign exchange rates.

Provision of Allowances for Loss on Credit

Provision of allowances for losses on credit increased by 25.5% from Won 1,263 billion in 2015 to Won 1,585 billion in 2016, primarily due to an increase in allowances for credit losses in respect of the Bank's outstanding loans and other credits to companies such as STX Offshore & Shipbuilding Co., Ltd., Changmyung Shipping Co., Ltd., STX Corporation and Hanjin Shipping Co., Ltd.

The Bank's write-offs for loans increased by 75.1% from Won 1,175 billion in 2015 to Won 2,057 billion in 2016, primarily due to an increase in write-offs of corporate loans extended to borrowers in financial trouble in construction business and shipbuilding business including STX Offshore & Shipbuilding Co., Ltd., Changmyung Shipping and Sungdong Shipbuilding & Marine Engineering Co., Ltd. in 2016.

The Bank's provision for acceptances and guarantees and unused loan commitments increased by 15.5% from Won 193 billion in 2015 to Won 223 billion in 2016, due primarily to a decrease in the volume of payment guarantees and unused loan commitments reflecting financial stagnation of the shipbuilding and plant construction industries. Sungdong Shipbuilding & Marine Engineering, Daewoo Shipbuilding & Marine Engineering, and STX Heavy Industries, Ltd.'s credit ratings were downgraded, resulting in a significant increase in provision for guarantee payments.

General Administrative Expenses

General administrative expenses increased by 1.0% from Won 2,593 billion in 2015 to Won 2,618 billion in 2016. Such increase was primarily attributable to a 1.5% increase in employee benefits from Won 1,687 billion in 2015 to Won 1,712 billion in 2016, which resulted largely from an increase in retirement benefits, and a 11.9% increase in depreciation and amortization expenses from Won 244 billion in 2015 to Won 273 billion in 2016, which resulted largely from increased depreciation of buildings and office equipment.

Other Expenses, Net

Net other expenses decreased by 4.9% from Won 284 billion in 2015 to Won 270 billion in 2016, as a combined result of a 9.8% increase in other income from Won 102 billion in 2015 to Won 112 billion in 2016 and a 1.0% decrease in other expenses from Won 386 billion in 2015 to Won 382 billion in 2016. Other income increased primarily due to an increase in gain on disposal of investments in subsidiaries by Won 28 billion in 2016 compared to 2015, which was partially offset by a 93.8% decrease in gain on disposal of assets from Won 16 billion in 2015 to Won 1 billion in 2016 as a result of the sale of a building in 2015 while there was no similar event in 2016. Other expense decreased primarily due to a 70.0% decrease in loss on disposal of assets from Won 10 billion in 2015 to Won 3 billion in 2016 and a 8.0% decrease in miscellaneous expenses from Won 50 billion in 2015 to Won 46 billion in 2016, which was partially offset by a 3.3% increase in agricultural support project expenses payment from Won 305 billion in 2015 to Won 315 billion in 2016, reflecting an increase in the applicable rate of 2.25% (of the average of the Bank's total gross revenue during the past three fiscal years) in 2015 to a rate of 2.5% in 2016.

Income Before Income Tax Expense

As a cumulative result of the above factors, income before income tax expense decreased 45.6% from Won 228 billion in 2015 to Won 124 billion in 2016.

Income Tax Expense

Income tax expense decreased by 74.5% from Won 51 billion in 2015 to Won 13 billion in 2016, primarily as a result of the decrease in the Bank's taxable income. The Bank's effective tax rate decreased from 22.5% in 2015 to 10.3% in 2016.

Net Income

As a result of the above factors, net income for the period decreased by 36.9% from Won 176 billion in 2015 to Won 111 billion in 2016.

Financial Condition

Assets

The following table sets out the principal components of the Bank's assets on a consolidated basis as of 31 December 2015, 2016 and 2017 and 31 March 2018.

	As of 31 December			As of 31 March	% Change		
	2015	2016	2017	2018	31 December 2015/ 31 December 2016	31 December 2016/ 31 December 2017	31 December 2017/ 31 March 2018
		(in billions of Won)				*(percentage)*	
Cash and due from banks	₩ 14,705	₩ 8,746	₩ 7,789	₩ 5,453	(40.5)%	(10.9)%	(30.0)%
Financial assets at FVTPL	—	—	—	9,249			—
Held-for-trading financial assets	5,576	6,009	5,965	—	7.8	(0.7)	—
Derivative assets	627	615	1,031	607	(1.9)	67.6	(41.1)
Financial assets at FVOCI	—	—	—	21,349	—	—	—
Available-for-sale financial assets	13,169	15,373	21,007	—	16.7	36.6	—
Securities at amortized cost	—	—	—	9,094	—	—	—
Held-to-maturity financial assets	7,153	8,167	8,231	—	14.2	0.8	—
Loans and receivables at amortized cost	—	—	—	219,361	—	—	—
Loans and receivables	186,666	207,732	218,905	—	11.3	5.4	—
Investments in associates	75	94	69	67	25.2	(26.6)	(2.4)
Tangible assets	2,650	2,634	2,645	2,617	(0.6)	0.4	(1.1)
Investment properties	525	648	586	584	23.3	(9.5)	(0.4)
Intangible assets	327	311	372	410	(5.0)	19.6	10.2
Current income tax assets	72	67	—	—	(7.4)	—	—
Deferred income tax assets	307	366	652	707	19.4	77.9	8.5
Other assets	67	75	80	88	12.0	6.8	9.5
Non-current assets classified as held for sale	0	0	0	0	0.0	0.0	0.0
Total assets	₩231,920	₩250,837	₩267,333	₩269,590	8.2%	6.6%	0.8%

Comparison as of 31 March 2018 and 31 December 2017

Total assets increased by 0.84% from Won 267,333 billion as of 31 December 2017 to Won 269,590 billion as of 31 March 2018, principally due to increases in financial assets at FVTPL and loans and receivables, which was partially offset by a decrease in cash and due from banks.

Cash and due from banks decreased by 29.99% from Won 7,789 billion as of 31 December 2017 to Won 5,453 billion as of 31 March 2018, primarily due to reduction of cash outflow from purchase of financial assets at FVOCI. Financial assets at FVOCI (corresponding to AFS financial assets as at 31 December 2017) increased by 1.63% from Won 21,007 billion as of 31 December 2017 to Won 21,349 billion as of 31 March 2018, primarily due to an increase of financial bonds. Loans and receivables increased by 0.21% from Won 218,905 billion as of 31 December 2017 to Won 219,361 billion as of 31 March 2018, primarily due to a Won 1,509 billion increase in loans in Korean Won.

Comparison as of 31 December 2017 and 31 December 2016

Total assets increased by 6.6% from Won 250,837 billion as of 31 December 2016 to Won 267,333 billion as of 31 December 2017, principally due to an increase in loans and receivables, which was partially offset by a decrease in cash and due from banks.

Loans and receivables increased by 5.4% from Won 207,732 billion as of 31 December 2016 to Won 218,905 billion as of 31 December 2017, primarily due to the reasons described above in the discussion of the Bank's results of operations. Cash and due from banks decreased by 10.9% from Won 8,746 billion as of

31 December 2016 to Won 7,789 billion as of 31 December 2017, primarily due to a Won 407 billion decrease in reserve deposits due from banks in Korean Won and a Won 1,200 billion decrease in other deposits due from banks in Korean Won.

Comparison as of 31 December 2016 and 31 December 2015

Total assets increased by 8.2% from Won 231,920 billion as of 31 December 2015 to Won 250,837 billion as of 31 December 2016, principally due to an increase in loans and receivables, which was partially offset by a decrease in cash and due from banks.

Loans and receivables increased by 11.3% from Won 186,666 billion as of 31 December 2015 to Won 207,732 billion as of 31 December 2016, primarily due to the reasons described above in the discussion of the Bank's results of operations. Cash and due from banks decreased by 40.5% from Won 14,705 billion as of 31 December 2015 to Won 8,746 billion as of 31 December 2016, primarily due to a Won 5,117 billion decrease in reserve deposits due from banks in Korean Won and a Won 2,819 billion decrease in other deposits due from banks in Korean Won.

For more information on the Bank's assets, see "*Description of Assets and Liabilities*".

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 2015, 2016 and 2017 and 31 March 2018.

	As of 31 December			As of 31 March	% Change		
	2015	2016	2017	2018	31 December 2015/ 31 December 2016	31 December 2016/ 31 December 2017	31 December 2017/ 31 March 2018
		(in billions of Won)				*(percentage)*	
Liability:							
Deposits	₩178,584	₩194,212	₩205,768	₩212,652	8.8%	6.0%	3.3%
Financial liabilities at FVTPL	—	—	—	18	—	—	—
Held-for-trading financial liabilities	—	—	52	—	—	—	—
Derivative liabilities	620	634	994	656	2.2	56.8	(34.0)
Borrowings	14,081	12,186	12,227	10,727	(13.5)	0.3	(12.3)
Debentures	12,201	18,718	18,969	16,921	53.4	1.3	(10.8)
Provisions	274	288	432	391	5.2	50.0	(9.5)
Current income tax liabilities	—	—	207	248	—	—	19.5
Net defined benefit liabilities	402	337	312	505	(16.2)	(7.6)	62.1
Other liabilities	11,593	10,380	13,721	12,701	(10.5)	32.2	(7.4)
Share capital repayable on demand	0	0	0	0	N/M[1]	N/M[1]	N/M[1]
Total Liabilities	217,754	236,754	252,682	254,819	8.7	6.7	0.8
Equity:							
Capital stock	2,133	2,133	2,133	2,133	0.0	0.0	0.0
Other paid-in capital	9,678	9,678	9,678	9,678	0.0	0.0	0.0
Retained earnings	2,475	2,579	3,284	3,627	4.2	27.4	10.5
Other component of equity	(119)	(306)	(443)	(667)	157.0	44.7	50.5
Total Equity	14,166	14,083	14,651	14,771	(0.6)	4.0	0.8
Total Liabilities and Equity	₩231,920	₩250,837	₩267,333	₩269,590	8.2%	6.6%	0.8%

Note:

(1) N/M means not meaningful.

Comparison as of 31 March 2018 and 31 December 2017

The Bank's total liabilities increased by 0.8% from Won 252,682 billion as of 31 December 2017 to Won 254,819 billion as of 31 March 2018, primarily due to an increase in deposits, which was partially offset by a decrease in debentures and borrowings.

Deposits increased by 3.3% from Won 205,768 billion as of 31 December 2017 to Won 212,652 billion as of 31 March 2018, primarily due to the reasons described above in the discussion of the Bank's results of operations. Debentures decreased by 10.8% from Won 18,969 billion as of 31 December 2017 to Won 16,921 billion as of 31 March 2018 and borrowings decreased by 12.3% from Won 12,227 billion as of 31 December 2017 to Won 10,727 billion as of 31 March 2018.

The Bank's equity increased by 0.8% from Won 14,651 billion as of 31 December 2017 to Won 14,771 billion as of 31 March 2018, primarily due to a Won 343 billion increase in retained earnings, as a result of the increase in quarterly net income by Won 318 billion.

Comparison as of 31 December 2017 and 31 December 2016

The Bank's total liabilities increased by 6.7% from Won 236,754 billion as of 31 December 2016 to Won 252,682 billion as of 31 December 2017, primarily due to an increase in deposits and, to a lesser extent, an increase in other liabilities.

Deposits increased by 6.0% from Won 194,212 billion as of 31 December 2016 to Won 205,768 billion as of 31 December 2017, primarily due to the reasons described above in the discussion of the Bank's results of operations. Other liabilities increased by 32.2% from Won 10,380 billion as of 31 December 2016 to Won 13,721 billion as of 31 December 2017, primarily due to an increase in domestic exchange settlement credits.

The Bank's equity increased by 4.0% from Won 14,083 billion as of 31 December 2016 to Won 14,651 billion as of 31 December 2017, primarily due to a Won 705 billion increase in retained earnings which was partially offset by a Won 137 billion decrease in other component of equity, resulting from a decrease in valuation of available-for-sale financial assets of Won 76 billion and a decrease in actuarial valuation gain and loss of Won 6 billion.

Comparison as of 31 December 2016 and 31 December 2015

The Bank's total liabilities increased by 8.7% from Won 217,754 billion as of 31 December 2015 to Won 236,754 billion as of 31 December 2016, primarily due to an increase in deposits and, to a lesser extent, an increase in debentures.

Deposits increased by 8.8% from Won 178,584 billion as of 31 December 2015 to Won 194,212 billion as of 31 December 2016, primarily due to the reasons described above in the discussion of the Bank's results of operations. Debentures increased by 53.4% from Won 12,201 billion as of 31 December 2015 to Won 18,718 billion as of 31 December 2016, primarily due to an increase in the Bank's funding needs as a result of an increase in loans and receivables.

The Bank's equity decreased by 0.6% from Won 14,166 billion as of 31 December 2015 to Won 14,083 billion as of 31 December 2016, primarily due to a Won 187 billion decrease in other component of equity, as a result of a gain in actuarial valuation of Won 117 billion in 2016, which was partially offset by a Won 104 billion increase in retained earnings as result of a decrease in the valuation of available-for-sale financial assets of Won 69 billion.

Liquidity

The Bank's primary source of funding has historically been, and continues to be, customer deposits, particularly savings deposits. Deposits amounted to Won 178,584 billion as of 31 December 2015, Won 194,212 billion as of 31 December 2016, Won 205,768 billion as of 31 December 2017 and Won 212,652 billion as of 31 March 2018, which represented 87.2%, 86.3%, 88.5% and 86.8% 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 31 March 2018, the treasury deposits placed by local governments and other public entities at the Bank amounted to Won 58,536 billion, which represented 28.4% of the total deposits placed with the Bank.

The Bank also obtains funding through borrowings and issuance of debentures. Borrowings amounted to Won 14,081 billion as of 31 December 2015, Won 12,186 billion as of 31 December 2016, Won 12,227 billion as of 31 December 2017 and Won 10,727 billion as of 31 March 2018, representing 6.9%, 5.4%, 5.2% and 4.5%, respectively, of the Bank's total funding. Debentures amounted to Won 12,201 billion as of 31 December 2015, Won 18,718 billion as of 31 December 2016, Won 18,969 billion as of 31 December 2017 and Won 16,921 billion as of 31 March 2018, representing 6.0%, 8.3%, 8.0% and 7.0%, 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, the Bank issued subordinated debt of Won 800 billion in 2015.

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, Won 400 billion and Won 200 billion in March 2013, September 2013, March 2015 and June 2018 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*".

Contractual Cash Obligations

The following table sets forth the Bank's contractual cash obligations as of 31 March 2018.

	As of 31 March 2018 Payments Due by Period(1)						
	Less than 1 Month	**1-3 Months**	**3-6 Months**	**6-12 Months**	**1-5 Years**	**More than 5 Years**	**Total**
	(in billions of Won)						
Deposits	₩104,636	₩30,170	₩24,158	₩45,664	₩ 8,223	₩2,041	₩214,892
Borrowings	3,270	345	712	1,014	4,238	1,422	11,001
Debt securities issued	879	2,233	2,267	2,841	7,084	2,776	18,080
Total	₩108,785	₩32,748	₩27,137	₩49,519	₩19,545	₩6,239	₩243,973

Note:

(1) Reflects all estimated contractual interest payments due on the Bank's interest-bearing deposits, borrowings and debt securities issued, and the estimated contractual interest payments on borrowings and debt securities that were on a floating rate basis as of 31 March 2018 were computed as if the interest rate used on the last applicable date (for example, the interest payment date for such floating rate loans immediately preceding the determination date) were the interest rate applicable throughout the remainder of the term.

Commitments, Guarantees 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 31 March
	2015	2016	2017	2018
	(in billions of Won)			
Confirmed Acceptance and Guarantees:	₩6,392	₩4,356	₩3,178	₩3,124
Local Currency	705	602	470	423
Foreign Currency	5,687	3,754	2,708	2,701
Acceptances	177	125	148	143
Guarantees in acceptance of imported goods	27	29	48	21
Others	5,483	3,600	2,512	2,537
Unconfirmed Acceptance and Guarantees:	3,306	2,437	2,245	2,210
Issuance of local letter of credit	343	307	227	207
Issuance of import letter of credit	1,437	1,408	1,383	1,505
Other	1,526	722	635	498
Endorsed notes in foreign currencies	12	15	5	18
ABS Credit Lines	930	1,575	1,890	1,733
Commitments on Purchase of ABS	219	516	684	903

Capital Adequacy

The Bank is subject to FSC capital adequacy requirements applicable to Korean banks. The requirements applicable commencing in December 2013 pursuant to the 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, 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 2015, 2016 and 2017 and 31 March 2018.

	As of 31 December			As of 31 March
	2015	2016	2017	2018
	(in billions of Won, except percentages)			
Tier I capital	₩ 11,878	₩ 12,647	₩ 12,900	₩ 13,025
Tier I common equity capital	11,479	12,298	12,551	12,745
Tier II capital	3,349	3,230	3,036	2,833
Total core and supplementary capital	15,227	15,877	15,936	15,858
Risk-weighted assets	107,554	108,611	108,240	104,289
Credit risk	98,165	99,084	98,099	93,865
Market risk	1,981	1,989	2,332	2,560
Operational risk	7,408	7,538	7,809	7,864
Total Tier I and Tier II capital adequacy ratio	14.16%	14.62%	14.72%	15.21%
Tier I capital adequacy ratio	11.04%	11.64%	11.92%	12.49%
Tier I common equity capital adequacy ratio	10.67%	11.32%	11.60%	12.22%
Tier II capital adequacy ratio	3.11%	2.97%	2.80%	2.72%

BUSINESS

Overview

Ownership and Control

The Bank's shares of the common stock are 100% owned by NH Financial Group, which is in turn 100% owned by NACF.

NACF's shares are 100% owned by its member co-operatives, which are comprised of 1,129 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% 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 and NACF's articles of incorporation.

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 and implementing 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 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 70.0% 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 indirectly flows to the Bank, including Won 1.35 trillion capital contributions from NH Financial Group that the Bank received since its 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 form of (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 of up to 5% per annum for five years up to Won 4 trillion of principal amount of debt securities issued by NACF and/or the Bank. In each of January 2013 and December 2016, through National Assembly approval, the Government agreed to additional payment of interest of up to 5.0% per annum for five years up to Won 0.5 trillion of principal amount of debt securities issued by NACF and/or the Bank in lieu of providing in-kind capital contribution in the amount of Won 0.5 trillion. Based on the above plan, the Bank issued bonds in the aggregate principal amount of Won 4 trillion in February 2012, Won 0.5 trillion in June 2013 and Won 0.5 trillion in August 2017, and as of 31 March 2018, the Bank has received effectively a subsidy of Won 867 billion as compensation for interest payments under such bonds.

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 31 March 2018, the Bank operated 1,150 branches and had operational access to an additional 4,708 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 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 industries.

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:

Focus on the Bank's main areas of strength. The Bank plans to focus on its traditional areas of strength such as agricultural and public banking, retail and corporate banking while also gradually strengthening its activities in other areas. The Bank also plans to expand support for the agricultural industry and establish a comprehensive platform to support young entrepreneurs.

Enhance the financial integrity of the Bank. The Bank aims to thoroughly manage its financial soundness in a more competitive economic environment. As such, the Bank plans to continue to enhance its financial integrity and improve its credit review and risk management practices. In addition, the Bank will maintain a profit focused approach, promote growth strategies that ensure internal stability and improve its asset quality.

Secure new growth opportunities. The Bank is preparing for changes in the banking industry by applying its strengths in developing new sources and methods of growth such as global expansion and fintech. The Bank plans to establish a foundation for long-term global expansion by focusing on Southeast Asia's agricultural finance market. The Bank intends to expand its public fintech services by providing smart bill services and continuing to engage new payment institutions. In addition, the Bank will strive to strengthen its digital capabilities by acquiring innovative fintech-related content and technology.

Improve competitiveness. The Bank is committed to increasing the overall expertise of its employees through professional training programs, such as financial MBA programs, and assigning them in positions that will allow them to achieve their potential. The Bank is striving to transition into a more dynamic and flexible organizational culture that will improve individual work efficiency and productivity.

Enhance customer confidence. The Bank plans to provide greater value and more reliable service for its customers by continuously improving its IT system, strengthening its customer protection policies, bolstering internal control and taking measures to prevent disruptions to its services.

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. 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'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.

As of 31 March 2018, the total assets, loans and deposits of the Bank were Won 269,590 billion, Won 219,361 billion and Won 212,652 billion, respectively. In 2017, the Bank's operating income and net income amounted to Won 1,192 billion and Won 652 billion, respectively, and for the three months ended 31 March 2018, the Bank's operating income and net income amounted to Won 472 billion and Won 318 billion, respectively.

As of 31 March 2018, 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 has been formulated in light of Bank for International Settlement ("BIS") standards, was 15.21%. See "*Supervision and Regulation—Capital Adequacy and Allowances*".

Branch Network and Other Distribution Channels

Branch Network

As of 31 March 2018, the Bank's banking network consisted of 1,150 branches operated by the Bank itself, coupled with an additional 4,708 branches operated by NACF's 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 districts, national universities and the National Assembly. The Bank has two overseas branches in New York, United States and Hanoi, Vietnam, two representative offices in Beijing, China and New Delhi, India and one subsidiary in Yangon, Myanmar. In 2016, the Bank established a subsidiary in Myanmar to pursue micro-financing business in the region. The overseas branches are primarily engaged in trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets, as well as providing foreign exchange services in conjunction with the Bank's headquarters.

The following table sets forth the number of the Bank's domestic branches by region:

Region	Number of Branches[(1)]
Seoul	172
Busan	61
Daegu	44
Incheon	42
Gwangju	32
Daejeon	30
Ulsan	29
Sejong	17
Jeju	22
Gyeonggi	218
Gangwon	64
Chungbuk	52
Chungnam	66
Jeonbuk	52
Jeonnam	67
Gyeongbuk	82
Gyeongnam	100
Total	1,150

Note:

(1) Excludes representative offices.

Electronic Banking

The Bank operates ATMs and cash dispensers at its branches and other locations in order to improve customer accessibility to banking services. As of 31 March 2018, the Bank currently operates 6,589 ATMs.

In order to reduce operating costs, increase customer convenience and offer 24/7 services, the Bank operates a variety of electronic financial services including internet, mobile and phone banking. The Bank's electronic banking system provides fund transfers, balance and transaction inquiries, bill payments, processing of loan applications and foreign exchange transactions. As of 31 March 2018, the number of subscribers to the Bank's internet, mobile and phone banking services were approximately 14.7 million, 9.9 million and 3.7 million, respectively. In order to address the increasing number of online transactions and the establishment of Internet-only banks such as K-Bank and Kakao Bank, the Bank released a new mobile platform called "All One Bank" in August 2016. Utilizing online authentication technology, All One Bank allows users to create new accounts, apply for loans and transfer money to foreign accounts as well as apply for other products and services offered by subsidiaries of NH Financial Group.

Deposit-Taking Activities

The Bank offers various 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 compared to 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 time deposit accounts in 14 currencies and demand deposit, checking and passbook accounts in 19 currencies.

As of 31 March 2018, the Bank had approximately 23.4 million deposit customers, consisting of approximately 22.9 million retail customers and approximately 0.5 million corporate customers. As 31 March 2018, deposits made by the Bank's retail customers, corporate customers and other customers amounted to Won 70,733 billion, Won 76,945 billion and Won 58,532 billion, respectively, on a separate basis. 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 Monetary Policy Committee also regulates maximum interest rates that can be paid on certain deposits. The Depositor Protection Act provides for a deposit insurance system under which 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 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 mortgage and home equity loans, the Bank's policy is to lend up to 70% 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) and for the borrower's debt-to-income ratio to not exceed 100%. Under the currently applicable regulations, the maximum loan-to-value ratio as to loans secured by collateral of housing generally is 70%. As to loans secured by collateral of housing located in areas of excessive investment or housing located in areas of high speculation, in each case as designated by the Government, (i) the loan-to-value ratio should not exceed 40%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 80 million, low-income households with an annual income of less than Won 70 million or buyers of low-price housing valued at less than Won 600 million should not exceed 50%; and (ii) the borrower's debt-to-income ratio should not exceed 40%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 80 million, low-income households with an annual income of less than Won 70 million or buyers of low-price housing valued at less than Won 600 million should not exceed 50%. As to loans secured by collateral housing located in areas of adjustments-targeted areas as designated by the Government, (i) the loan-to-value ratio should not exceed 60%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 70 million, low-income households with an annual income of less than Won 60 million or buyers of low-price housing valued at less than Won 500 million should not exceed 70%; and (ii) the borrower's debt-to-income ratio shall not exceed 50%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 70 million, low-income households with an annual income of less than Won 60 million or buyers of low-price housing valued at less than Won 500 million should not exceed 60%. For further details, see "*Supervision and Regulation—Regulations Relating to Retail Household Loans*". As of 31 March 2018, most of the Bank's mortgage and home equity loans were secured by residential property, and the Bank's average loan-to-value ratio of mortgage and home equity loans was 62.0% on a separate basis.

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 2015	As of 31 December 2016	As of 31 December 2017	As of 31 March 2018
	(in billions of Won, except percentages)			
Retail loans[(1)]				
Mortgage and home-equity[(2)] . . .	₩49,089	₩56,202	₩59,271	₩ 60,749
Other	30,500	35,253	40,136	40,660
Total	₩79,589	₩91,455	₩99,407	₩101,409
Percentage of retail loans to total gross loans	44.5%	45.0%	46.3%	47.4%

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 2015		As of 31 December 2016		As of 31 December 2017		As of 31 March 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(in billions of Won, except percentages)							
SME loans(1)	₩64,104	77.9%	₩68,991	81.3%	₩73,393	82.9%	₩74,084	83.4%
Large corporate loans	17,490	21.2	15,007	17.7	14,236	16.1	13,950	15.7
Other(2)	752	0.9	844	1.0	921	1.0	835	0.9
Total corporate loans	₩82,346	100.0%	₩84,842	100.0%	₩88,550	100.0%	₩88,869	100.0%

Notes:

(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.

(2) Includes loans extended to governmental entities and public interest organizations, among others.

SME Banking

The Bank's SME loans denominated in Won as of 31 March 2018 amounted to Won 72,957 billion, which represented 82.1% of the total corporate loans, on a separate basis. Under the Framework Act on Small and Medium-sized Enterprises and its Presidential Decree, in order to be qualified as an SME, a company must meet certain requirements prescribed thereunder, including the following: (i) the relevant company must meet the standards prescribed by the Presidential Decree in relation to the average and total annual sales revenues applicable to the type of its main business, (ii) its total assets at the end of the immediately preceding fiscal year must be less than Won 500 billion, (iii) its largest stockholder who, directly or indirectly, owns at least 30% of the issued and outstanding shares (excluding shares without voting rights) of the relevant company must not be a company whose total assets, as set forth in the relevant stockholder's balance sheet as at the end of the immediately preceding fiscal year, are equal to or more than Won 500 billion and (iv) it must 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 12,030 billion as of 31 March 2018, which represented 13.5% 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.

Agriculture 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. 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 0.1% to 3.0% during 2017 and in the first three months of 2018. 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 1.25% of the loan amount in consideration of the policy loan services provided by the Bank. As of 31 December 2016, 31 December 2017 and 31 March 2018, policy loans provided by the Bank amounted in the aggregate to Won 17,873 billion, Won 18,767 billion and Won 18,759 billion, respectively, representing 9.8%, 9.8% and 9.8% of the Bank's total Won-denominated loans as of such dates respectively. Of such amounts, as of 31 December 2016, 31 December 2017 and 31 March 2018, policy loans funded by the Government amounted to Won 3,750 billion, Won 3,357 billion and Won 3,192 billion respectively, while policy loans funded by the Bank amounted to Won 14,123 billion, Won 15,410 billion and Won 15,567 billion respectively. Repayment of a large portion of the policy loans is guaranteed by the Agricultural Credit Guarantee Fund, which is mostly funded by the Government.

Credit Card Business

The Bank's credit card business has approximately 7.0 million credit card users as of 31 March 2018. The total value of credit card transactions amounted to Won 44,097 billion for the year ended 31 December 2015, Won 49,680 billion for the year ended 31 December 2016, Won 52,713 billion for the year ended 31 December 2017, and Won 13,291 billion for the three months ended 31 March 2018 on a separate basis. 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 857 billion for the year ended 31 December 2015, Won 990 billion for the year ended 31 December 2016, Won 1,066 billion for the year ended 31 December 2017, and Won 270 billion for the three months ended 31 March 2018 on a non-consolidated basis. The Bank offers a diverse range of credit card products under various brands.

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 or non-consolidated basis as indicated below, as of and for the periods indicated.

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	(in billions of Won, except percentages)				
Credit card interest and fees:					
Instalment and cash advance interest[1]	₩ 241	₩ 300	₩ 327	₩ 79	₩ 86
Annual membership fees[1]	15	21	22	5	6
Merchant fees[1]	550	587	619	144	151
Other fees[1]	51	82	98	24	27
Total[1]	₩ 857	₩ 990	₩1,066	₩ 252	₩ 270
Outstanding balances[1],[3] (at period end):					
General purchase[1]	₩2,078	₩2,387	₩2,646	₩2,305	₩2,471
Instalment purchase[1]	1,107	1,268	1,418	1,244	1,393
Cash advance[1]	524	523	527	519	517
Card loan[1]	1,304	1,658	1,807	1,669	1,871
Total[1]	₩5,013	₩5,836	₩6,398	₩5,737	₩6,252
Delinquent balances[2],[4]	₩ 39	₩ 65	₩ 68	₩ 69	₩ 72
Delinquency ratios[2],[5]	1.2%	1.5%	1.5%	1.5%	1.5%
Less than 1 month[2]	0.4	0.4	0.4	0.3	0.4
From 1 month to 3 months[2]	0.5	0.5	0.5	0.5	0.5
From 3 months to 6 months[2]	0.3	0.4	0.3	0.4	0.4
Over 6 months[2]	0.0	0.2	0.3	0.3	0.3
Total[2]	₩ 39	₩ 65	₩ 68	₩ 69	₩ 72
Non-performing loan ratio[2],[6]	0.3%	0.6%	0.6%	0.7%	0.7%
Write-offs (gross)[1]	121	119	157	36	40
Recoveries[1]	23	19	17	4	4
Net write-offs[1]	98	100	140	32	36
Gross write-off ratio[1],[7]	2.5%	2.1%	2.5%	0.6%	0.6%
Net write-off ratio[1],[8]	2.0%	1.8%	2.2%	0.5%	0.5%

Notes:

(1) On a non-consolidated basis

(2) On a separate basis

(3) Includes credit card loans, the interest on which is classified as fee income of the bank accounts.

(4) Represents balances that are overdue for more than one month.

(5) Equals the total delinquency balances divided by total credit card balances.

(6) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant period (excluding confirmed acceptances and guarantees).

(7) Represents the ratio of gross write-offs to average outstanding balances for the period.

(8) Represents the ratio of net write-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 "*—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 31 March 2018, the Bank's investment portfolio, which consists primarily of securities at amortized cost and financial assets at FVOCI, and the Bank's trading portfolio had a combined total book value of Won 39,693 billion, which represented 14.7% 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 Bank's outstanding derivatives commitments in terms of notional amount were Won 53,864 billion as of 31 March 2018.

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 2017, the Bank generated investment banking revenues of Won 113 billion, which consisted of Won 7 billion of interest income and Won 106 billion of non-interest income on a separate basis. For the three months ended 31 March 2018, the Bank generated investment banking revenues of Won 27 billion, which consisted of Won 3 billion of interest income and Won 24 billion of non-interest income on a separate basis.

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 31 March 2018, specified performance-based money trust accounts amounted to Won 11,867 billion, representing 48.1% of the money trusts managed by the Bank, while discretionary trust accounts amounted to Won 12,812 billion, representing 51.9% of the money trusts managed by the Bank on a separate basis.

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. Under the FSCMA, a bank with a trust business license is permitted to offer both specified money trust account products and unspecified money 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 31 March 2018, the Bank had total trust assets of Won 34,145.8 billion and, among such trust assets, securities investments amounted to Won 8,315.6 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 31 March 2018, total securities of Won 2,957 billion were in principal or interest guaranteed variable trust accounts on a separate basis. Securities investments primarily consist of bonds issued by financial institutions, corporate bonds, Government-related bonds and other securities, primarily commercial paper. As of 31 March 2018, debt securities of Won 4,453 billion accounted for 13.0% of the Bank's total trust assets and equity securities of Won 3,863 billion accounted for 11.3% of the Bank's total trust assets on a separate basis. 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 31 March 2018, 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. Furthermore, with the growing popularity of online financial service platforms, online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics have also intensified the competition by making significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as "fintech." In addition, Internet-only banks, which have commenced operations in 2017, may introduce new services and offer promotions to attract customers of the existing commercial banks.

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, 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 in the 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. See "*Risk Factors—Risks Relating to the Bank—Competition in the Korean banking industry is intense and may further intensify as a result of mergers and acquisitions in the Korean banking industry changing competitive landscape or other reasons, and the Bank's business may experience declining margins as a result*".

Information Technology

The Bank's mainframe-based IT system is designed to ensure continuity of services even if 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 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.

Following the transfer of the IT division from NACF to the Bank in January 2014, the Bank has made and intends to continue to upgrade its IT infrastructure and security system. In order to enhance the management of its overall security system, the Bank created a new position of Chief Information Security Officer in March 2014. In January 2017, the Bank completed the separation of its IT system, which was previously operated together with the mutual credit division of NACF, and such system is currently in stable operation.

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 31 March 2018, the Bank had a nationwide network of 1,150 branches. Approximately 35.7% 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 31 March 2018 was Won 3,201 billion.

Legal Proceedings

The Bank is involved in various legal actions arising in the normal course of its business. As of 31 March 2018, the Bank was a defendant in 211 cases with related claims amounting to Won 114 billion in the aggregate and as of 31 March 2018, the Bank is named as a plaintiff in 142 cases with related aggregate claims amounting to Won 157 billion. The Bank is unable to estimate with reasonable certainty the outcome of any of these lawsuits. The Bank accrued a litigation-related liability of Won 9 billion in other liabilities.

In February 2014, the FSC 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 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 (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.

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. In December 2013, the FSS issued an institutional caution against the Bank and the Bank 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. In addition, in September 2014, the Bank was fined in the amount of Won 9 million for violation of personal information protection regulations in relation to such incident. In October 2014, the FSS issued a warning against the president of the bank and the standing member of the audit committee in relation to such incident. 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. As of 31 March 2018, the total aggregate claim amount for these lawsuits is approximately Won 7.9 billion, for which the Bank has recorded a provision of Won 5.8 billion.

In January 2017, the FSS issued an institutional caution against the Bank and assessed a fine of Won 10.7 million after a comprehensive audit finding cases of wrongful termination of insurance contracts, wrongful issuance of deposit balance certificates, improper collection of commissions, violation of notification requirements regarding the terms and conditions for credit card services and improper access of private credit information. In November 2017, the FSS issued a fine of Won 40 million against the Bank for the improper management of comprehensive floating securities.

In January 2017, the Bank entered into a written agreement with the Federal Reserve Bank of New York to submit a plan to enhance its compliance with the Bank Secrecy Act and anti-money laundering regulations, among others. Subsequently, the Bank has submitted such plan and believes it is in compliance with the written agreement. The written agreement was due to findings by the Federal Reserve Bank of New York and the New York State Department of Financial Services of deficiencies relating to risk management and compliance with applicable federal and state laws, rules and regulations relating to anti-money laundering compliance, including the Bank Secrecy Act, among others.

DESCRIPTION OF ASSETS AND LIABILITIES

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 31 March 2018, the Bank had loans and receivables of Won 220,820 billion, which accounted for 81.9% of total assets of the Bank. As of 31 March 2018, loans in Korean Won accounted for 90.3% of total loans, and loans in foreign currencies (including offshore loans) accounted for 0.7% 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 2015		As of 31 December 2016		As of 31 December 2017		As of 31 March 2018	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)							
Loans in Won								
Retail	₩ 75,514	45.1%	₩ 86,669	47.3%	₩ 94,190	49.1%	₩ 96,198	49.8%
Corporate	75,342	44.9	78,715	43.0	82,984	43.3	83,576	43.2
Public(1)	15,522	9.3	16,876	9.2	13,886	7.2	12,828	6.6
Integrated(2)	1,118	0.7	945	0.5	794	0.4	765	0.4
Sub-total(3)	₩167,496	100.0%	₩183,205	100.0%	₩191,854	100.0%	₩193,367	100.0%
Loans in Foreign currencies:								
General	₩ 2,361	97.1	₩ 1,687	96.3	₩ 1,374	95.0	₩ 1,320	94.5
Offshore	70	2.9	65	3.7	72	5.0	77	5.5
Credit	—	—	—	—	—	—	—	—
Sub-total(3)	₩ 2,431	100%	₩ 1,752	100.0%	₩ 1,446	100%	₩ 1,397	100%
Others								
Credit card receivables	5,013	26.8	5,836	24.4	6,398	23.8	6,252	24.0
Bills purchased	63	0.3	11	0.0	1	0.0	10	0.0
Foreign exchange purchased	1,504	8.0	1,468	6.1	1,581	5.9	1,325	5.1
Private placement bond	88	0.5	83	0.3	85	0.3	42	0.2
Payment for acceptances and guarantees	13	0.1	50	0.2	21	0.1	19	0.1
Domestic import usance	2,203	11.8	1,972	8.2	1,557	5.8	1,668	6.4
Others	4,336	23.2	8,853	37.0	11,977	44.4	10,052	38.5
Receivables	5,484	29.3	5,694	23.8	5,295	19.7	6,688	25.7
Sub-total(3)	₩ 18,704	100.0%	₩ 23,967	100.0%	₩ 26,915	100.0%	₩ 26,056	100.0%
Total	₩188,631		₩208,924		₩220,215		₩220,820	

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 2015		As of 31 December 2016		As of 31 December 2017		As of 31 March 2018	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(in billions of Won, except percentages)							
Manufacturing	₩18,485	10.1%	₩17,649	8.7%	₩17,856	8.3%	₩17,678	8.3%
Construction	3,898	2.1	3,587	1.8	3,454	1.6	3,244	1.5
Retail & wholesale	₩ 4,851	2.6	₩ 5,226	2.6	5,124	2.4	5,087	2.4
Financing & insurance	3,677	2.0	6,564	3.2	3,482	1.6	3,333	1.6
Member co-operatives	15,462	8.4	16,026	7.9	16,973	7.9	16,659	7.8
Others(1)	136,773	74.8	154,179	75.9	168,031	78.2	168,132	78.5
Total(2)(3)	₩183,146	100.0%	₩203,231	100.0%	₩214,920	100.0%	₩214,133	100.0%

Notes:

(1) Include loans to households and public institutions 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 individuals, legal entities or persons sharing credit risk with such individuals or legal entities, such as companies belonging to the same enterprise groups as defined under the Monopoly Regulation and Fair Trade Act 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 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 (including trust accounts) to its ten largest borrowers as of 31 March 2018.

	Loans(1)	**Securities**(2)	**Total Exposure**(1)	**Total credit ratio**(1)(3)
	(in billions of Won, except percentages)			
NH Agribusiness Group	₩1,738	₩0	₩1,738	0.6%
National Agricultural Cooperative Federation	1,235	0	1,235	0.4
Samsung Electronics Co., Ltd.	907	0	907	0.3
Korea Electric Power Corporation	631	249	880	0.3
NongHyup Feed Inc.	684	0	684	0.2
LG Display Co., Ltd.	595	30	625	0.2
Kia Motors Corporation.	615	0	615	0.2
Shinhan Card Co., Ltd.	300	308	608	0.2
GS Caltex Corporation	544	20	564	0.2
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	555	0	555	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 31 March 2018, on a separate basis, the total amount of the Bank's exposure to the 10 largest chaebols was Won 14,276 billion with the Bank's largest single credit (based on outstanding balances) to a chaebol member company amounting to Won 3,279 billion, which represented 1.1% of the Bank's total credits.

The following table sets forth, on a separate basis, the Bank's ten largest exposures to chaebols as of 31 March 2018.

	Loans(1)	Securities(2)	Total Exposure(1)	Total credit ratio(1)(3)
	(in billions of Won, except percentages)			
Hyundai Motors	₩2,972	₩307	₩3,279	1.1%
Samsung	2,266	140	2,406	0.8
LG	1,509	160	1,669	0.5
SK	1,338	159	1,497	0.5
Lotte	836	219	1,055	0.3
GS	978	30	1,008	0.3
Hyundai Heavy Industries	1,007	0	1,007	0.3
Hanhwa	804	21	825	0.3
LS	781	5	786	0.3
POSCO	713	31	744	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.

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 31 March 2018 on a non-consolidated 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	98,133	80.3%	37,185	88.8%	56,313	98.4%	191,631	86.6%
Loans in Foreign currencies	886	0.7%	618	1.5%	445	0.8%	1,949	0.9%
Others	23,292	19.0%	4,050	9.7%	436	0.8%	27,778	12.5%
Total	122,311	100.0%	41,853	100.0%	57,194	100.0%	221,358	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, on a separate basis, the total amount of Won-denominated loans (excluding trust accounts) due after one year with fixed interest rates and floating interest rates as of 31 March 2018.

	As of 31 March 2018	
	Amount	%
	(in billions of Won, except percentages)	
Fixed rate loans(1)	₩18,551	18.8%
Floating rate loans	54,287	54.9
Others	26,004	26.3
Total	₩98,842	100%

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 31 March 2018, on a non-consolidated basis, 64.7% 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 non-consolidated basis, loans by collateral type (including guarantees by third parties) as of the dates indicated.

	As of 31 December			As of 31 March
	2015	2016	2017	2018
	(in billions of Won, except percentages)			
Secured Loans:				
Real estate and property	₩ 84,884	₩ 94,129	₩98,988	₩100,085
Securities	46	22	5	5
Payment guarantees	16,709	22,018	26,418	28,396
Others	2,019	2,334	1,261	10,003
Sub-total	103,658	118,503	126,672	138,489
Unsecured loans	70,458	84,584	87,951	75,480
Secured loans as a percentage of total loans of credit and banking	59.5%	58.4%	59.0%	64.7 %
Total	₩174,116	₩203,087	₩214,623	₩213,969

Depending on the type and the risk of the collateral or guarantees, loans are disbursed up to a maximum proportion of the appraised value of the collateral or guarantees. For loans secured by real estate, stocks/bonds, or guarantees, the Bank's general policy is to lend up to 45% to 80%, 60% to 90% or 100%, respectively, of the appraisal value of the collateral. For loans secured by all other assets, loans are disbursed up to 40% to 60% of the appraisal value of the collateral. 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

Prior to 1 January 2011, the FSC required banks in Korea to analyse and classify their assets by quality into one of five categories for Korean GAAP 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, among 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 arrear 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.

Although it is not required under the Korean IFRS, from 1 January 2011, the Bank has used the aforementioned loan classification. From 1 January 2011, however, the Bank has based its provisioning of reserves for credit losses by assessing whether an objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant by calculating an objective and reasonable method. The Bank uses the Loan Loss Estimate on individual loans or a homogeneous loan group. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events described below that has occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Objective evidence that a financial asset is impaired includes the following events:

(i) significant financial difficulty of the issuer or counterparty;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granted to the borrower a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or financial reorganisation;

(v) the disappearance of an active market for the financial asset due to financial difficulties; and

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets after initial recognition, although the decrease in the estimated future cash flows of individual financial assets included in the group is not identifiable.

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 arrear 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 arrear 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 arrear 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 arrear 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 "substandard," "doubtful" or "estimated loss" is generally considered to be "non-performing" credits. 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.

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 2015		As of 31 December 2016		As of 31 December 2017		As of 31 March 2018	
	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans
	(in billions of Won, except percentages)							
Normal	₩173,207	96.9%	₩190,535	98.1%	₩199,450	98.3%	₩200,678	98.4%
Precautionary	1,759	1.0	1,312	0.7	1,341	0.7	1,209	0.6
Non-performing Loans:(1)								
Substandard	2,109	1.2	1,423	0.7	1,111	0.5	1,114	0.5
Doubtful	1,326	0.7	677	0.3	556	0.3	615	0.3
Estimated loss	305	0.2	310	0.2	335	0.2	339	0.2
Subtotal	3,740	2.1	2,410	1.2	2,002	1.0	2,068	1.0
Total(2)	₩178,706	100.0%	₩194,257	100.0%	₩202,793	100.0%	₩203,955	100.0%

Notes:

(1) Excluding confirmed acceptances and guarantees.

(2) Calculated on a present value basis.

Loan Loss Provisioning Policy

The Bank has established an allowance for loan losses to absorb losses that the Bank incurs in its loan portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that exceed the individual assessment threshold of Won 3 billion and are therefore considered individually significant. For financial assets that are not individually significant, the Bank assesses whether the objective evidence of impairment exists collectively. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognised in net income.

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognised by the difference between the asset's carrying amount and the present value of future cash flows expected to be collected, considering borrower's management performance, financial position, overdue period and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognised by adjusting probability of default and loss given default from Basel III for the purpose of accounting and applying that to carrying amount. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period and collection period, and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

Similar provisioning requirements apply to other types of credits such as guarantees and acceptances and loans from the trust accounts.

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	50.0% 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.

Analysis of the Allowance for Loan Losses

The Bank's allowance for possible loan losses compared to total loans as of 31 December 2015, 2016 and 2017 and 31 March 2018 was as follows:

	Total Loans	Allowance for Possible Loan Losses	Percentage
	(in billions of Won, except percentages)		
31 December 2015	₩183,145	₩2,092	1.1%
31 December 2016	203,323	1,451	0.7%
31 December 2017	214,920	1,511	0.7%
31 March 2018	214,133	1,661	0.8%

The following table summarises, on a non-consolidated basis, prepared in accordance with K-IFRS, the changes in the allowance for loan losses for each period indicated.

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2017	For the three months ended 31 March 2018
	(in billions of Won)			
Allowance at beginning of the period	₩1,710	₩ 2,067	₩1,425	₩1,577
Provision for allowance for losses on credit	1,275	1,535	721	126
Transactions during the period	(837)	(2,073)	(564)	(29)
Foreign exchange translation	7	(2)	(18)	(2)
Unwinding effect	(86)	(105)	(70)	(12)
Other changes	(2)	3	1	1
Allowance at end of the period	₩2,067	₩ 1,425	₩1,495	₩1,661
Allowance of loan losses[(1)] as a percentage of:				
Average loans outstanding for the period	0.8%	0.8%	0.4%	0.1%

Note:

(1) Based on period-end non-performing loans for each of the period indicated.

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 2015	₩177,498	99.4%	₩216	0.1%	₩250	0.1%	₩742	0.4%	₩178,706	100.0%
As of 31 December 2016	193,174	99.5	211	0.1	229	0.1	642	0.3	194,256	100.0
As of 31 December 2017	201,920	99.6	177	0.1	103	0.1	592	0.3	202,792	100.0
As of 31 March 2018	203,024	99.5	205	0.1	176	0.1	550	0.3	203,955	100.0

Non-accrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, the Bank generally recognizes interest income on non-accrual loans using the rate of interest used to discount the future cash flows of such loans for the purpose of measuring impairment loss. Generally, the Bank discontinues accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by 90 days. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

The Bank generally does not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in the case of corporate loans and one to 30 days in the case of retail loans.

Interest foregone is the interest due on non-accrual loans that has not been accrued in the Bank's books of account. As of 31 March 2018, the total non-accrual loans of the Bank amounted to Won 2,040 billion on a separate basis.

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, KDIC 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 31 March
	2015	2016	2017	2018
	(in billions of Won)			
Loans accounted for on a non-accrual basis[(1)]	₩3,557	₩2,444	₩1,953	₩2,040
Accruing loans which are contractually past due one day or more as to principal or interest	1,165	1,205	962	934

Note:

(1) Represents either loans that are "troubled debt restructurings" as defined under K-IFRS or loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting).

Potential Problem Loans

As of 31 March 2018, on a separate basis, the Bank had Won 1,209 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.

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 (excluding confirmed acceptances and guarantees) by the type of borrowing.

	As of 31 December 2015		As of 31 December 2016		As of 31 December 2017		As of 31 March 2018		
	Total Loans	Non-Performing Loans	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	₩174,073	₩ 3,572	₩ 190,532	₩ 2,126	₩ 199,792	₩1,827	₩ 200,893	₩ 1,854	0.9%
Corporations	77,730	3,230	81,135	1,817	85,564	1,564	85,823	1,581	1.8
Retail	79,572	321	91,437	307	99,392	256	101,393	266	0.3
Public and others	16,771	21	17,960	2	14,836	7	13,677	7	0.1
Foreign currencies	4,633	168	3,725	285	3,001	174	3,062	214	7.0
Total	₩178,706	₩ 3,740	₩194,257	₩ 2,411	₩ 202,793	₩ 2,001	₩ 203,955	₩ 2,068	1.0%

The Bank's total non-performing loans (including confirmed acceptances and guarantees) was Won 2,114 billion as of 31 December 2017 and Won 2,160 billion as of 31 March 2018 on a separate basis.

The following table sets out, on a separate basis, the Bank's total non-performing loans (including payment guarantees but excluding confirmed acceptances and guarantees) according to industry sector in which the borrower operates, as of the dates indicated.

	As of 31 December 2015	As of 31 December 2016	As of 31 December 2017	As of 31 March 2018
	(in billions of Won)			
Manufacturing	₩1,733	₩ 855	₩ 710	₩ 717
Construction	824	191	151	147
Real estate and rental	931	609	421	408
Retail and wholesale	52	146	83	104
Service and others	340	585	495	522
Total	₩3,880	₩2,386	₩1,860	₩1,898

10 Largest Non-Performing Credits

As of 31 March 2018, the Bank's largest non-performing credits (including loans and confirmed acceptances and guarantees, among others) outstanding was Won 154 billion, and the ten largest non-performing credits totalled Won 870 billion. The following table sets out, on a separate basis, certain information regarding the ten largest non-performing credits of the Bank as of 31 March 2018.

Borrower	Industry	Gross Principal Outstanding
		(in billions of Won)
1	Real estate development and supply	₩154
2	Manufacturing	132
3	Real estate development and supply	106
4	Shipbuilding	92
5	Operation of golf courses	74
6	Manufacturing	72
7	Shipping	68
8	Manufacturing	66
9	Shipbuilding	61
10	Real estate development and supply	45
Total		₩870

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 write-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 arrear 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 arrear 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 arrear 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.

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.

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which the Bank, together with the borrower and other creditors, restructures the borrower's credit terms. Previously, workouts were regulated under the Corporate Restructuring Promotion Act (the "**Former Corporate Restructuring Promotion Act**"), which expired on 31 December 2015. In March 2013, the National Assembly of Korea adopted the revised Corporate Restructuring Promotion Act (the "**New Corporate Restructuring Promotion Act**"), which became effective on 18 March 2016. Workouts that had been initiated under the Former Corporate Restructuring Promotion Act continue to be governed by the Former Corporate Restructuring Promotion Act. Under the Former Corporate Restructuring Promotion Act, creditor financial institutions of a financially troubled borrower are required to participate in the creditors' committee. The creditors' committee solely consists of such creditor financial institutions and the resolution adopted by the creditors' committee is binding on any creditor financial institution which has not participated in the relevant creditors' committee. However, under the New Corporate Restructuring Promotion Act, any creditor, whether it is a financial institution or not, as long as they have financial claims (as defined under the New Corporate Restructuring Promotion Act) against the relevant financially troubled borrower, may participate in a creditors' committee. The scope of the member of the creditors' committee will be determined at the first meeting of the creditors' committee. A resolution passed by the creditors' committee is binding on the members of the relevant creditors' committee only and the creditors who are not members of the relevant creditors' committee will not be bound to such resolution. The creditors' committee is authorised to prohibit such creditors 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 creditors holding interests as creditor in 75% or more of the total debt outstanding of a borrower. An additional approval of creditors holding interests as creditor in 75% or more of the secured debt is required with respect to the borrower's debt restructuring.

Creditors that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditors 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 creditors 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 30 June 2018.

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. Such restructuring plan is subject to court approval.

As of 31 March 2018, Won 548 billion, or 0.2%, of the Bank's total loans were in workout. As of the same date, the Bank's allowances for possible loan losses on these loan exposures amounted to Won 218 billion, or 39.8% of these loans. Upon approval of a workout 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, 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 as of 31 March 2018.

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	₩143	₩ 14	9.8%
2	Manufacturing	Machinery manufacturing	139	43	30.9
3	Construction	Construction of non-residential buildings	56	19	33.9
4	Arts, Sports and Leisure	Operation of golf course	36	36	100.0
5	Construction	Construction of roads	33	20	60.6
6	Accommodation and restaurant business	Recreation Condominium Operation	23	18	78.3
7	Construction	Construction of apartment	21	1	4.8
8	Construction	Construction of apartment	12	9	75.0
9	Construction	Construction of residential buildings	10	10	100.0
10	Agriculture	Poultry industry	9	2	22.2
Total			₩482	₩172	

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 pre-workout 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).

Loan Write-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 write-offs are required, the Bank follows write-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, 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; or

- the portion of loans classified as "estimated loss," net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Write-off Approval

An application for the Bank's loans to be charged-off is submitted by the relevant branch of department to the Loan Management Department. The Loan Management Department refers the application to the Audit Department for their review to ensure compliance with the Bank's internal procedure for charge-offs. The Loan Management Department, after reviewing the application to confirm that it meets relevant requirements, seeks approval from FSS for the charge-offs, which is typically granted. Once the FSS approves(except for household loans with estimated losses of Won 10 million or less, whose charge-off is considered automatically approved by the FSS), loans are charged-off upon approval by the General Manager of the Loan Management Department.

Treatment of Loans Charged Off

Once loans are charged off, the Bank classifies them as charged-off loans and they are recognised from its balance sheet. The Bank continues collection efforts in respect of these loans through third-party collection agencies. The General Manager of the Loan Management Department must report to the FSS the amounts of loans permanently written off or recovered during each reporting period.

Treatment of Collateral

When the Bank determines that a loan collateralised by real estate cannot be recovered through normal collection channels, the Bank's general policy is to petition a court to foreclose and sell the collateral through a court-supervised auction. If a debtor still fails to repay and the court grants its approval for foreclosure, the Bank will sell the collateral and recover the principal amount and interest accrued up to the sales price, 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 Trading Office under the Bank's Treasury Department.

Classification Prior to Adoption of K-IFRS 1109

The following table sets out the definitions of the four types of securities investments the Bank held under K-IFRS prior to the adoption of K-IFRS 1109 on 1 January 2018:

Category	Classification
Financial assets at fair value through profit and loss	(i) Financial assets acquired or incurred principally for the purpose of selling or repurchasing in near term; (ii) financial assets that on initial recognition form part of a portfolio together and for which there is evidence of a recent actual pattern of short term profit-taking; and (iii) derivatives (except financial guarantee contract or derivatives designated as effective hedging instruments).
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.

Classification Upon Adoption of K-IFRS 1109

K-IFRS 1109 requires a financial instrument to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown in the table below. In contrast with the previous guidance under K-IFRS 1039, the requirements are applied to an entire financial asset even if it contains an embedded derivative. Therefore, a derivative embedded within a hybrid (combined) contract containing a financial asset host is not accounted for separately.

Objective of the business model	Classification	
	Composed solely of principal and interest	Others
Collecting contractual cash flows	Subsequently measured at amortized cost(1)	
Collecting contractual cash flows and selling	FVOCI(1)	FVTPL(2)
Selling or other purposes	FVTPL	

Notes:

(1) An entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or reduces an accounting mismatch.

(2) An entity may make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading.

K-IFRS 1109 also introduces additional requirements for a financial asset to be classified as measured at amortized costs or fair value through other comprehensive income compared to the previous guidance and therefore would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, thereby increasing volatility in the Bank's profit or loss. See "*Risk Factors—Risks Relating to the Bank—The implementation of K-IFRS 1109 may cause the Bank to increase its allowance for impairment losses to cover expected credit loss on its loan portfolio and other financial instruments and may increase volatility in the Bank's profit or loss*".

For a description of the method by which the Bank values its securities for purposes of its financial statements under K-IFRS, see Note 2.2 of the notes to the Bank's Audited Consolidated 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 (other than stocks referred to in item 1 of paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry), in debt securities under the FISCMA with a maturity in excess of three years (other than bonds issued by the Government and Monetary Stabilisation Bonds issued by the BOK or debentures referred to in item 2 of paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry) and in derivatives-linked securities as defined under the FISCMA, beneficiary certificates, investment agreement securities or depositary receipts with a maturity in excess of three years to an amount not exceeding 100% 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% 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.

As of 31 March 2018, total investment in securities amounted to Won 39,761 billion, representing 14.7% 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.

	As of 31 December 2015			As of 31 December 2016			As of 31 December 2017		
Classification	**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	₩ 76	₩ 76	100%	₩ 224	₩ 224	100%	₩ 322	₩ 322	100%
Debt securities:									
Government and public bond	1,308	1,308	23.7%	1,582	1,582	27%	1,316	1,316	23.2%
Financial bonds	2,962	2,962	53.9	2,719	2,719	47	2,926	2,926	51.9
Corporate bonds	685	685	12.5	656	656	11	545	545	9.7
Public corporation bonds	408	408	7.4	476	476	8	399	399	7.1
Others	10	10	0.2	—	—	0	10	10	0.2
Securities lent pledged as collateral	126	126	2.3	351	351	6	447	447	7.9
Subtotal	5,499	5,499	100.%	5,784	5,784	100%	5,643	5,643	100%
Total trading securities	₩ 5,575	₩ 5,575		₩ 6,008	₩ 6,008		₩ 5,965	₩ 5,965	
AFS financial assets:									
Equity securities	₩ 2,416	₩ 2,416	100.%	₩ 2,705	₩ 2,705	100%	₩ 3,018	₩ 3,018	100%
Debt securities:									
Government and public bond	2,657	2,657	24.6%	2,987	2,987	23.6%	2,466	2,466	13.7%
Financial bonds	3,029	3,029	28.2	6,254	6,258	49.4	10,890	10,890	60.5
Public bonds	2,256	2,256	21	270	270	2.1	279	279	1.6
Corporate bonds	760	760	7.1	1,456	1,456	11.5	951	951	5.3
Foreign currency	451	451	4.2	575	575	4.5	635	635	3.5
Securities lent pledged as collateral	1,600	1,600	14.9	1,126	1,122	8.9	2,768	2,768	15.4
Subtotal	10,753	10,753	100.%	12,668	12,668	100%	17,989	17,989	100%
Total AFS financial assets	₩13,169	₩13,169		₩15,373	₩15,373		₩21,007	₩21,007	
HTM financial assets:									
Debt securities:									
Government and public bond	₩ 448	₩ 395	6%	₩ 122	₩ 116	1%	₩ 163	₩ 166	2%
Financial bonds	801	786	11	968	967	12	1,104	1,107	13.4
Public bonds	1,133	1,100	15	1,036	1,025	13	3,120	3,169	38.5
Corporate bonds	2,599	2,569	36	3,266	3,265	40	485	483	5.9
Foreign currency	43	37	1	—	—	0	—	—	0
Securities lent pledged as collateral	2,277	2,277	32	2,821	2,794	34	3,306	3,306	40.2
Total HTM financial assets	7,301	7,153	100.%	8,213	8,167	100.%	8,178	8,231	100.%
Total	₩26,045	₩25,897		₩29,594	₩29,548		₩35,150	₩35,203	

Note:

(1) Represents percentage of the book value.

Classification	As of 31 March 2018		
	Fair Value	Book Value	%(1)
	(in billions of Won, except percentages)		
Financial assets at FVTPL:			
Equity securities	₩ 187	₩ 187	100%
Debt securities:			
Government and public bond	1,827	1,827	30.2%
Financial bonds	2,576	2,576	42.6
Corporate bonds	506	506	8.4
Public corporation bonds	481	481	8
Others	—	—	0
Securities lent pledged as collateral	655	655	10.8
Subtotal	6,045	6,045	100%
Other securities	2,963	2,963	100%
Loans	54	54	100%
Total financial assets at FVTPL	₩ 9,249	₩ 9,249	
Financial assets at FVOCI:			
Equity securities	₩ 388	₩ 388	100%
Debt securities:			
Government and public bond	2,798	2,798	13.4%
Financial bonds	12,554	12,554	59.9
Public bonds	1,393	1,393	6.6
Corporate bonds	329	329	1.6
Foreign currency	652	652	3.1
Securities lent pledged as collateral	3,235	3,235	15.4
Subtotal	20,961	20,961	100%
Total financial assets at FVOCI	₩21,349	₩21,349	
Securities at amortized cost:			
Debt securities:			
Government and public bond	₩ 697	₩ 699	7.7%
Financial bonds	1,126	1,127	12.4
Public bonds	3,267	3,315	36.5
Corporate bonds	660	658	7.2
Foreign currency	—	—	0
Securities lent pledged as collateral	3,295	3,295	36.2
Total securities at amortized cost	9,045	9,094	100.%
Total	₩39,643	₩39,682	

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 31 March 2018 on a non-consolidated basis.

	As of 31 March 2018			
	Within 1 year	**Over 1 but within 5 years**	**Over 5 but within 10 years**	**Over 10 years**
	(in billions of Won)			
Financial assets at FVTPL:				
Debt securities:				
Government and public bond	₩ 1,102	₩ 19	₩ 10	₩18
Financial bonds	—	—	—	—
Corporate bonds	—	—	—	—
Securities lent pledged as collateral	—	—	—	—
Subtotal	₩ 1,102	₩ 19	₩ 10	₩18
Financial assets at FVOCI:				
Government and municipal bonds	₩ 160	₩ 2,509	₩129	₩—
Debentures issued by financial institution	6,171	6,383	—	—
Corporate bonds	815	578	—	—
Public bonds	20	309	—	—
Beneficiary certificates(1)	—	—	—	—
Securities lent pledged as collateral	1,929	1,306	—	—
Investments in foreign currency	105	518	29	—
Subtotal	₩ 9,200	₩11,603	₩158	₩—
Securities at amortized cost:				
Government and municipal bonds	₩ 72	₩ 628	₩ —	₩—
Debentures issued by financial institution	407	720	—	—
Corporate bonds	160	3,127	—	28
Public bonds	128	530	—	—
Investments in foreign currency	—	—	—	—
Securities lent pledged as collateral	128	3,066	100	—
Sub Total	₩ 895	₩ 8,071	₩100	₩28
Total	₩11,198	₩19,694	₩268	₩46

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

The following table presents securities held by the Bank whose aggregate book value exceeded 10% of the Bank's equity as of 31 March 2018. The Bank's equity was Won 14,771 billion as of such date.

	As of 31 March 2018	
	Book Value	**Market Value**
	(in billions of Won)	
Name of Issuer:		
Korean Government	₩ 5,490	₩ 5,532
Bank of Korea	9,408	9,429
Korea Housing Finance Corp	5,442	5,453
Korea Development Bank	3,579	3,587
Industrial Bank of Korea	1,623	1,666
Total	₩25,542	₩25,667

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 instalments and certificates of deposit. The Bank's other sources of funding consist of borrowings from Government-related entities such as the Ministry of Agriculture, Food and Rural Affairs 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.

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 31 March 2018, foreign currency borrowings by the Bank amounted to Won 1,975 billion.

Deposits

As of 31 March 2018, 95.2% 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 for the periods indicated.

	For the year ended 31 December 2015		For the year ended 31 December 2016		For the year ended 31 December 2017		For the three months ended 31 March 2018	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(in billions of Won, except percentages)							
Deposits:								
Demand deposits	₩ 25,583	0.67%	₩ 32,803	0.72%	₩ 34,094	0.55%	₩ 32,008	0.09%
Savings deposits	133,266	1.58	142,239	1.22	159,880	1.11	170,081	0.30
Certificates of deposit	743	1.73	1,463	1.64	610	1.43	1,017	0.42
Deposits in foreign currency	1,954	0.41	2,598	0.51	2,759	0.62	3,355	0.23
Other Deposits	4,455	2.35	4,631	1.84	3,303	1.62	2,888	0.39
Total	₩166,001	1.45%	₩183,734	1.14%	₩200,645	1.02%	₩209,350	0.27%

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 31 March 2018.

	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	₩ 1,182	98.58%	₩ 54	71.05%	₩ 1,236	96.94%
Due between 3 months and 6 months	5	0.42	22	28.95	27	2.12
Due between 6 months and 1 year	8	0.67	—	—	8	0.63
Due after 1 year	4	0.33	—	—	4	0.31
Sub-total	₩ 1,199	100%	₩ 76	100%	₩ 1,275	100%
Other time deposits:						
Due in 3 months or less	₩ 48,224	40.34%	₩ 679	58.99%	₩ 48,903	40.52%
Due between 3 months and 6 months	23,215	19.42	102	8.86	23,317	19.32
Due between 6 months and 1 year	43,655	36.52	344	29.89	43,999	36.46
Due between 1 year and 5 years	4,373	3.66	26	2.26	4,399	3.65
Due after 5 years	65	0.05	—	—	65	0.05
Sub-total	119,533	100%	1,151	100%	120,684	100%
Total	₩120,732		₩1,227		₩121,959	

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 31 March 2018 on a separate basis.

	As of 31 March 2018
	(in billions of Won)
Due by 31 March 2019	9,443
Due by 31 March 2020	2,778
Due by 31 March 2021	2,994
Thereafter	8,038
Total long term debt	₩23,253

Short term borrowings

The following table presents information regarding the Bank's Won-denominated short-term borrowings (borrowings with an original maturity of one year or less) as of and for the periods indicated on a separate basis.

	As of and for the year ended 31 December			As of and for the three months ended 31 March
	2015	2016	2017	2018
	(in billions of Won, except percentages)			
Call money:				
Period end balance	₩2,334	₩1,097	₩1,616	₩ 100
Average balance(1)	1,117	1,578	2,657	2,218
Average interest rate(2)	1.61%	1.32%	1.24%	1.47%
Period end interest rate	0.77%	1.90%	2.04%	32.52%
Other short term borrowings(3):				
Period end balance	₩1,009	₩1,191	₩ 968	₩ 889
Average balance(1)	857	1,104	1,072	908
Average interest rate(2)	0.76%	0.72%	0.75%	0.45%
Period end interest rate	0.65%	0.67%	0.83%	0.46%

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 three 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 Department 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 an ad-hoc basis.

Risk Management Working Party Meeting: The Risk Management Working Party Meeting is a meeting among 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 an ad-hoc basis.

Risk Management Department: The Risk Management Department consists of the Risk Policy team, the Market Risk team, the Operational Risk team and the Credit Risk Management office. Each team and office 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. The Chief Risk Officer oversees the Risk Management Department and all risk-related issues with respect to the Bank.

The business of the Bank is primarily exposed to counter-party credit risk, market risk, liquidity risk, interest rate risk, foreign exchange risk and operational 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 assesses and manages all types of credit exposures, including loans, guarantees, investment securities and derivative products. The current level of credit risk is determined by "expected" and "unexpected" loss levels. The Bank calculates the expected loss level based on the probability of default, the loss given default and the exposure at default, and uses the measured expected loss to determine interest rates and provision levels in relation to new or renewed credits. The unexpected loss level, which incorporates the possibility of fluctuations in the expected loss level, is calculated by Advanced Internal Rating-Based method as proposed by the Basel Committee for internal control purpose and by a risk-weighted method approved by the FSS for use with regard to external regulations.

The Bank believes it has comprehensive risk management procedures in place for approving and monitoring the quality of its credit portfolio.

Credit Evaluation

Each of the Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's biographic details, past dealings with the Bank and external credit ration information, among others. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument for the Bank's credit risk management, and is applied to a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. The Bank has separate credit evaluation systems for retail customers and corporate customers, which are further segmented and refined to meet Basel II requirements, which requirements have not changed under Basel III.

The Bank's retail loan credit scoring system is comprised of an applicant scoring system model and a behaviour scoring system model. The applicant scoring system model evaluates the applicant's financial and non-financial information to determine the appropriate amount and pricing for the loan and the preliminary terms and conditions of the loan. The behaviour scoring system model automatically evaluates a borrower's payment history on a monthly basis to determine the borrower's credit rating and the appropriate amendments to the terms and conditions of a loan, including an extension of loan maturity.

The Bank's corporate credit evaluation system assigns credit risk ratings to corporate borrowers by measuring and analysing various quantitative and qualitative risk factors. After a preliminary credit rating is generated in light of the borrower's probability of default and past ratings, the rating is adjusted based on the borrower's ownership structure, corporate history, outlook, contingent liabilities, credit history and other special considerations to produce a final credit rating.

The Bank uses a number of corporate risk assessment models to analyse credit risk of corporate loans. The Bank classifies corporate borrowers into seven categories: general corporate, financial institutions, public institutions, non-profit organisation, special financings, securitisation exposure and foreign borrowers. Certain categories are further divided into 26 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. In general, approval decisions on retail loan applications are made at the branch level. For retail loan approval limits, see "—*Credit Policies*".

A corporate loan application is assigned to one of the four committees, depending on the amount of loan sought, the health of the industry to which the applicant's business belongs, the loan applicant's credit rating and merits of collateral, if applicable. The four committees which make approval or denial decisions on corporate loan applications are as follows:

- The lowest level of the four committees is the Credit Review Committee, consisting of a total of five examiners.

- The next level above is the Loan Consultation Committee, consisting of a total of five examiners.

- The second highest committee is the Loan Review Committee, consisting of the heads of various departments such as the Credit Analysis Department, Risk Management Department and Loan Planning Department.

- The Loan Examination Committee is at the highest level and consists of the heads of various departments and divisions such as Fund Management Division, Marketing and Sales Division and Corporate Marketing Division.

At each of these four committees, a corporate loan application is reviewed for approval according to certain criteria, including lawfulness of the loan application, feasibility of the loan, default risk and contribution to the Bank's profit. The loan application is approved with the consent of two thirds or more of the present committee members, provided a quorum (two thirds of the committee members) is present.

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:

Credit Ratings Review: The Bank's reviews the credit ratings in order to timely detect indications of insolvency.

Credit Review Management: The Bank reviews adequacy of the credit and handling of newly issued loans.

Early Warning System: The Bank constantly collects and analyses available data on corporate borrowers in order to detect signs of insolvency beforehand and implement measures to prevent insolvency. Companies that are labelled as needing "monitoring" or "caution" according to the early warning system levels are classified as early warning companies and receive periodic credit reviews and are listed as companies of interest.

Periodic Reviews of Corporate Credit Risk: Pursuant to the Corporate Restructuring Promotion Act, which was enacted in March 2016, the Bank assesses whether a company should be classified as showing signs of insolvency and also assesses the possibility of recovery of the business. Following such assessment, if a company is assessed as showing signs of insolvency, the corporate rehabilitation processes begin.

Credit Remediation

Recognition of problem loans generally begins when an interest or principal payment is late. The Bank produces weekly reports containing arrear 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 arrear 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.

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 on a separate basis.

	As of 31 December			As of 31 March
	2015	2016	2017	2018
	(in billions of Won)			
Risk categories:				
Interest rate risk	₩ 8.0	₩ 13.5	₩ 7.7	₩ 8.6
Equity risk	1.9	3.8	4.3	8.8
Foreign exchange risk	0.9	0.4	0.7	4.6
Less: diversification	2.0	3.3	4.5	12.8
VaR for overall trading activities	8.9	14.5	8.2	9.2

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 may also issue Agricultural Bonds to maintain liquidity at sufficient levels.

With respect to foreign currency liquidity ratios, the Regulation on the Supervision of the Banking Business requires that financial institutions dealing with foreign exchange affairs (i.e., banks) whose foreign-currency denominated liabilities are equal to or greater than US$500 million or 5% of its total liabilities, as of the end of the immediately preceding half-year period, maintain a foreign currency liquidity coverage ratio of not less than 60% as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 10% until the minimum foreign currency LCR reaches 80% as of 1 January 2019, and to make monthly reports to the FSC. However, the FSC requires certain specialised banks (which includes the Bank) to maintain a foreign currency LCR of not less than 40% as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 20% until the minimum foreign currency LCR reaches 80% as of 1 January 2019. The FSC requires each Korean bank 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 of one year or more in the repayment period) of 100% or more. Details regarding the computation of these ratios as well as HQLA and net cash outflows and foreign currency assets and liabilities are provided in the Detailed Regulation on Supervision of Banking Business of Korea.

The following table shows the liquidity status and limits for total accounts and foreign currency accounts of the Bank as of the dates indicated on a separate basis, in accordance with FSC regulations:

	As of 31 March 2018
	30 days or less
	(in billions of Won, except percentages)
Total accounts:	
High Quality Liquid Assets (A)	₩36,830
Total net cash outflows over the next 30 calendar days (B)	33,627
Liquidity Coverage Ratio (A/B)	109.5%
Limit	90%

Note: LCR regulation limit will be increased by 10% annually until 2019.

	As of 31 March 2018
	30 days or less
	(in millions of US$, except percentages)
Foreign currency accounts:	
High Quality Liquid Assets (A)	$ 771
Total net cash outflows over the next 30 calendar days (B)	599
Liquidity Coverage Ratio (A/B)	128.7%
Limit	60%

Note: Foreign currency LCR regulation limit will be increased by 20% annually until 2019.

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.

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:

- With respect to the maturities and re-pricing dates of the Bank's assets, the Bank assumes that the maturity of its prime rate-linked loans is the same as that of its fixed-rate loans. The Bank excludes equity securities from interest-earning assets.

- With respect to the maturities and re-pricing of the Bank's liabilities, the Bank assumes that money market deposit accounts and "non-core" demand deposits under the FSC guidelines have a maturity of one month or less for both Won-denominated accounts and foreign currency-denominated accounts.

- With respect to "core" demand deposits under the FSC guidelines, the Bank assumes that they have maturities of eight different intervals ranging from one month to five years.

The following tables show the Bank's interest rate gaps as of 31 March 2018 for (i) Won-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging, and (ii) foreign currency-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging.

	Total	Within 3 months	Within 6 months	Within 1 year	Within 3 years	Over 3 years
			(in billions of Won)			
Won denominated:						
Assets:						
Interest-earning assets	₩237,697	₩84,669	₩132,982	₩183,968	₩217,468	₩20,229
Fixed rates	96,380	21,349	35,751	64,912	88,392	7,987
Floating rates	141,318	63,320	97,232	119,056	129,076	12,242
Liabilities:						
Interest- bearing liabilities	₩232,731	₩91,026	₩126,406	₩185,407	₩211,404	₩21,327
Fixed liabilities	98,212	36,764	46,887	57,313	78,005	20,208
Floating liabilities	134,519	54,263	79,518	128,094	133,400	1,119
Sensitive gap	4,966	(6,358)	12,935	(8,016)	7,503	(1,098)
Cumulative gap	4,966	(6,358)	6,577	(1,439)	6,064	4,966
% of total assets	2.09%	(2.67)%	2.77%	(0.61)%	2.55%	2.09%

	Total	Within 3 months	Within 6 months	Within 1 year	Within 3 years	Over 3 years
			(in millions of U.S.$)			
Foreign currency denominated:						
Interest-earning assets	$8,897	$5,438	$ 6,154	$6,599	$7,453	$1,444
Interest- bearing liabilities	9,555	3,542	5,618	6,855	8,006	1,550
Sensitive gap	(659)	1,896	(1,359)	(793)	(297)	(106)
Cumulative gap	(633)	1,896	537	(256)	(553)	(659)
% of total assets	(7.11)%	21.31%	6.04%	(2.88)%	(6.22)%	(7.41)%

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 2015	0.92	0.87	0.05
31 December 2015	0.88	0.91	(0.03)
30 June 2016	0.99	1.00	(0.01)
31 December 2016	0.98	0.96	0.02
30 June 2017	0.97	0.96	0.01
31 December 2017	0.89	0.92	(0.03)
31 March 2018	0.89	0.90	(0.01)

The Bank also monitors its exposure to interest rate changes by measuring its VaR with respect to interest rate fluctuations. 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.

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 March 2018.

	As of 31 March 2018					
	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	₩84,643	₩48,314	₩50,986	₩33,500	₩20,229	₩237,671
Liability position	87,993	38,060	58,998	25,991	21,321	232,363
Gap	3,350	10,253	(8,012)	7,509	(1,092)	5,308
Average maturity	0.1	0.36	0.71	1,815	7.4	—
Interest rate volatility	2.0%	2.0%	2.0%	2.0%	2.0%	—
Amount at risk	15	93	(114)	224	(108)	110

	As of 31 March 2018					
	(in millions of U.S.$, except maturities in years)					
Foreign currency denominated:						
Asset position	$5,444	$717	$444	$854	$1,444	$8,903
Liability position	2,575	3,010	1,203	1,088	1,512	9,388
Gap	2,869	(2,293)	(759)	(234)	(69)	(485)
Average maturity	0.1	0.36	0.71	1,815	7.4	—
Interest rate volatility	2.0%	2.0%	2.0%	2.0%	2.0%	—
Amount at risk	(3)	10	11	9	(13)	15

The Bank enters into interest rate swaps and 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 31 March 2018, the Bank had entered into interest rate derivative contracts with an aggregate notional amount equivalent to Won 9,397 billion.

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. Pursuant to the Foreign Exchange Transaction Regulations of Korea, the Bank's overpurchased and oversold positions are each limited to 50% of the Bank's Tier I and Tier II Capital as of the end of the prior month. Risks relating to exchange rate fluctuations are also managed through the Bank's foreign exchange dealing, which is conducted by the Bank's foreign exchange and derivatives trading centre and overseas branches. In the Bank's foreign exchange dealings, counterparties are restricted to domestic and foreign financial institutions and banks with respect to which the Risk Management 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.

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.

Except within the open position limits applicable to its foreign exchange dealings, the Bank generally does not engage in unmatched speculative trading of derivative instruments for its own account and enters into interest rate and currency derivative transaction such as swaps, options and forward contracts either on behalf of customers of for the purpose of hedging interest rate and foreign exchange mismatches. The Bank's exposure in connection with such transaction is therefore generally limited to the credit risk with respect to its transaction counterparties. As of 31 March 2018, the Bank had entered into foreign currency derivatives, with an aggregate notional amount equivalent to Won 44,428 billion.

Operations Risk Management

The Basel Committee 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 similarly defines its operations risk as risk of loss resulting from improper or inadequate internal procedures, people and systems or from external events (including legal risks but excluding strategy and reputation related risks). Operations risk has the following characteristics: (i) as such risk is inherent in all operations, the range of activities to manage is broad and may occur due to multiple factors, (ii) unlike market risk and credit risk, it is difficult to objectively quantify the level of risk, and (iii) it requires the cooperation of multiple departments of the Bank, such as internal audit, the legal and compliance department and the risk management department.

The Bank maintains a system of comprehensive policies and has 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's operations risk management system is operated by operational risk team of the Risk Management Department. Through such operations risk management system, the Bank manages operational risk by applying methods such as risk control self-assessments, risk quantification through the use of key risk indicators, loss data collection, scenario management and operational risk capital measurement among others.

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 and compliance 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.

MANAGEMENT AND EMPLOYEES

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 President, 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. Regular Board meetings are held once every three months.

The Chairman 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 approved by the shareholders' meeting, and the Independent Non-Executive Directors are recommended by the Officer Candidate Recommendation Committee. Members of the Audit Committee are recommended by the Officer Candidate Recommendation 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 the date of this Offering Circular, the Board of Directors consisted of the following persons.

Name	Age	Director Since	Position	Other Activities
Dae Hoon Lee	58	1 January 2018	President; Chief Executive Officer	• Former President of NACF Cooperative Banking
Yeong Rin Kim	60	8 April 2016	Executive Director; Member of the Audit Committee	• Former Director of Financial Security Institute; Former Deputy Director of the FSS
Yun Yong Choi	63	1 April 2017	Non-Executive Director	• Current Union Representative of Joongbu Agricultural Cooperative Federation, Former Director of NACF
Chull Hyun Park	67	1 April 2016	Non-Executive Director	• Former Executive Director of NACF; Former Head of the Financial Strategy Department of NACF
Hyo Ik Lee	67	1 April 2016	Chairman; Independent Non-Executive Director; Member of the Audit Committee	• Current Professor of Sungkyunkwan University School of Business; Former Director of Korea Accounting Standards Board
Myunghun Kang	64	1 April 2017	Independent Non-Executive Director	• Current Professor of Dankook University School of Economics; Current Member of the Public Fund Oversight Committee; Former Member of the Monetary Policy Board of the Bank of Korea
You Sun Nam	52	1 April 2016	Independent Non-Executive Director	• Current Professor of Kookmin University College of Law; Current Member of the Legal Advisory Committee of the FSC
Jung Kie Hahn	69	1 April 2018	Independent Non-Executive Director; Member of the Audit Committee	• Former President of Koscom Co., Ltd., Former Head of Committee on International Affairs of MOSF

Brief descriptions of the business experience of each member of the Board of Directors are set out below:

Mr. Dae Hoon Lee was appointed to the Board of Directors of the Bank on 1 January 2018. He is currently the president and Chief Executive Officer of the Bank. Mr. Lee has an undergraduate degree in Business Administration from Korea National Open University and a graduate degree from Chung-Ang University. He has previously served as the President of NACF Cooperating Banking.

Mr. Yeong Rin Kim was appointed to the Board of Directors of the Bank on 8 April 2016. He is currently the Executive Director and member of the Audit Committee of the Bank. Mr. Kim has an undergraduate degree in Economics from Sungkyunkwan University and a Ph.D. from University of Oregon. He has previously served as the Director of the Financial Security Institute and the Deputy Director of the FSS.

Mr. Yun Yong Choi was appointed to the Board of Directors of the Bank on 1 April 2017. He is currently a Non-Executive Director of the Bank. Mr. Choi has an undergraduate degree from Jinju Polytechnic University (currently Gyeongnam National University of Science and Technology) and a graduate degree from Gyeongsang National University Graduate School of Business Administration. He is currently the Union Representative of the Joongbu Agricultural Cooperative Federation and has previously served as a Director of NACF.

Mr. Chull Hyun Park was appointed to the Board of Directors of the Bank on 1 April 2016. He is currently a Non-Executive Director of the Bank. Mr. Park has an undergraduate degree in Economics from Dongguk University. He has previously served as the Executive Director of NACF and the Head of the Financial Strategy Department of NACF.

Mr. Hyo Ik Lee was appointed to the Board of Directors of the Bank on 1 April 2016. He is currently the Chairman of the Board of Directors, an Independent Non-Executive Director and member of the Audit Committee of the Bank. Mr. Lee has an undergraduate degree in Business Administration from Sungkyunkwan University, a graduate degree from University of Wisconsin and a Ph.D. in Economics from Seoul National University. He is currently an emeritus professor at Sungkyunkwan University School of Business and has previously served as the Director of Korea Accounting Standards Board.

Mr. Myunghun Kang was appointed to the Board of Directors of the Bank on 1 April 2017. He is currently an Independent Non-Executive Director of the Bank. Mr. Kang has an undergraduate degree in Economics from Seoul National University, a graduate degree in Economics from the State University of New York at Albany and a Ph.D. in Economics from the State University of New York at Albany. He is currently a professor at Dankook University School of Economics and a member of the Public Fund Oversight Committee of the Korea Fair Trade Commission. He has previously served as a member of the Monetary Policy Board of the Bank of Korea.

Ms. You Sun Nam was appointed to the Board of Directors of the Bank on 1 April 2016. She is currently an Independent Non-Executive Director of the Bank. Ms. Nam has an undergraduate degree and a graduate degree in law from Seoul National University and a Ph.D. in Law from University of California, Berkeley. She is currently a professor of Kookmin University College of Law and serves on the Legal Advisory Committee of the FSC.

Mr. Jung Kie Hahn was appointed to the Board of Directors of the Bank on 1 April 2018. He is currently an Independent Non-Executive Director and member of the Audit Committee of the Bank. Mr. Hahn has an undergraduate degree in Business Administration from Seoul National University. He has previously served as the President of Koscom Co., Ltd.

Board Committees

The Bank has the following five committees to serve under the Board of Directors: (i) Management Committee, (ii) Risk Management Committee, (iii) Audit Committee, (iv) Officer Candidate Recommendation Committee, and (v) Remuneration Committee.

Management Committee

The Management Committee comprises the President and the Vice-Presidents. The Management Committee determines and discusses important matters relating to the Bank's business and major current issues including matters required to be resolved by the Board of Directors and the shareholders' meeting and matters delegated by the Board of Directors. This committee holds regular meetings on a monthly basis.

Risk Management Committee

The Risk Management Committee is consisted of three or more Directors with more than half of the members of the Risk Management Committee required to be Independent Non-Executive Directors. The members are elected by the resolution of the Board of Directors. The chairperson of this committee is elected by the resolution of this committee. The Risk Management Committee oversees and makes determinations on issues relating to the Bank's comprehensive risk management function including the establishment of the general risk management policy and strategy. 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 Directors 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 Act on Corporate Governance of Financial Companies and the enforcement decree thereof. This committee holds regular meetings every three months.

Officer Candidate Recommendation Committee

The Officer Candidate Recommendation Committee comprises three or more Directors with more than half of the members of the Officer Candidate Recommendation Committee required to be Independent Non-Executive Directors. The chairperson of this committee is required to be an Independent Non-Executive Director and is elected by the resolution of this committee. The Officer Candidate Recommendation Committee is responsible for the nominations of candidates for the President, Independent Non-Executive Directors and the members of the Audit Committee. This committee convenes when necessary.

Remuneration Committee

The Remuneration Committee comprises three or more Directors, including at least one member of the Risk Management Committee and at least one Director who has experience in finance, accounting, or the financial affairs of a financial company or other company established under the Commercial Code of Korea. More than half of the members of this committee are required to be Independent Non-Executive Directors. The chairperson of this committee must be an Independent Non-Executive Director and is elected by the resolution of this committee. The Remuneration Committee monitors the establishment and management of the remuneration system sets up and implements the remuneration strategy independently. This committee convenes annually.

Compensation of Directors

For 2017 and the three months ended 31 March 2018, an aggregate amount of remuneration and benefits of Won 3 billion and Won 1 billion, respectively, 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 31 March 2018, the Bank had 16,288 employees. The following table sets forth the number of the Bank's employees by category as of 31 March 2018.

Category	Number of employees
Full-Time Employees	13,104
Contract Employees	3,184
Total	16,288

The Bank believes that it maintains a good relationship with its employees. As of 31 March 2018, 11,397 employees were members of a union. Currently there are two labour unions in the Bank. The Bank has not 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 2017 and the three months ended 31 March 2018, employee benefits comprised 67.6% and 71.4%, respectively, 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 37 of the Bank's Audited Consolidated Financial Statements and Unaudited Consolidated 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

Unless otherwise expressly stated, the information and statistics set out in this section are derived from publicly available information, including materials published by the FSC. No further verification has been made by the Bank or any of its subsidiaries, affiliates or advisers.

The banking sector in Korea is composed of five specialized banks, six nationwide domestic commercial banks, six regional commercial banks and 42 branches of foreign banks as of 31 December 2016.

The specialized banks are organized under, or chartered by, special laws and are designed to meet the needs of specific sectors of the Korean economy in accordance with Government policy, that cannot be met by commercial banks due to limited resources or lack of profitability. The Korea Development Bank, for example, offers long-term facility investment funds to major industries in Korea, while The Export-Import Bank of Korea offers export loans and trade finance. Industrial Bank of Korea focuses on the small- and medium-sized enterprises sector while the Bank and the National Federation of Fisheries Cooperatives support their respective industries. All of these specialized banks also provide traditional deposit products, except for The Export-Import Bank of Korea.

The commercial banks are designed to serve the general public and corporate sectors. The six nationwide banks consist of Shinhan Bank, Kookmin Bank, Woori Bank, KEB Hana Bank, Citibank Korea Inc. and Standard Chartered Bank Korea Limited. Among these, Shinhan Bank, Kookmin Bank and KEB Hana Bank are major banking flagships of their respective financial holding companies, established based on the Commercial Act of Korea and the Financial Holding Company Act to facilitate cross-selling opportunities between traditional banking and nonbanking operations and promoting improved resources allocation and capital efficiency.

Except for the customers of their branches in Seoul, the regional banks' main business clients are small and medium-sized companies in their regions. The regional banks are Busan Bank, Daegu Bank, Kwangju Bank, Jeonbuk Bank, Kyongnam Bank and Jeju Bank.

As in most countries, commercial banks in Korea may engage in a wide range of business. Their core activities include the taking of deposits, the extension of loans and discounts, remittances and collections, and foreign exchange. They also handle such business as guarantees and acceptances and own-account securities investment. Specific authorization is required for each area of non-bank business in which they engage such as the trust and credit card businesses. In addition, many commercial banks have been expanding their businesses into non-interest but fee-based businesses such as bancassurance and fund sales.

SUPERVISION AND REGULATION

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 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 not exceeding Won 50 million, a risk-weight ratio of 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 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.

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 100% 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 an LCR of not less than 80.0% as of 1 January 2015, which shall be raised each year thereafter by an annual increment of 5% until the minimum LCR reaches 100% as of 1 January 2019, and to make monthly reports to the FSC; **provided, however,** that in the case of certain specialised banks (which includes the Bank), an LCR of not less than 60.0% as of 1 January 2015, which shall be raised each year thereafter by an annual increment of 10% until the minimum LCR reaches 100% as of 1 January 2019;

- maintain a foreign currency LCR of not less than 60% effective as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 10% until the minimum foreign currency liquidity coverage ratio reaches 80% by 1 January 2019; **provided, however,** that for certain specialised banks (including the Bank), the foreign currency liquidity coverage ratio of not less than 40% applies effective as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 20% until the minimum liquidity coverage ratio reaches 80% by 1 January 2019;

- for banks to which the foreign currency LCR requirements are not applicable, 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%; and

- for banks to which the foreign-currency LCR requirements are not applicable, 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 FSC announced its plan to amend the Regulation on Supervision of Banking Business and Detailed Regulation on Supervision of Banking Business under which banks, with certain exceptions, would be required to maintain a foreign currency LCR of not less than 60% effective as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 10% until the minimum foreign currency LCR reaches 80% by 1 January 2019; **provided, however, that** for certain specialised banks (including the Bank), the foreign currency LCR of not less than 40% applies effective as of 1 January 2017, which shall be raised each year thereafter by an annual increment of 20% until the minimum LCR reaches 80% by 1 January 2019.

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 instalments, housing instalments 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.

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 Banking Act, there are no legal restrictions on interest rates on loans extended by banks in Korea. 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 KRX 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; and

  (ii) 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 the 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 70%;

- as to loans secured by collateral of housing located in areas of excessive investment or housing located in areas of high speculation, in each case as designated by the Government, the loan-to-value ratio should not exceed 40%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 80 million, low-income households with an annual income of less than Won 70 million or buyers of low-price housing valued at less than Won 600 million should not exceed 50%;

- as to loans secured by collateral housing located in areas of adjustments-targeted areas as designated by the Government the loan-to-value ratio should not exceed 60%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 70 million, low-income households with an annual income of less than Won 60 million or buyers of low-price housing valued at less than Won 500 million should not exceed 70%;

- as to loans secured by collateral of housing located in areas of excessive investment or housing located in areas of high speculation, in each case as designated 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%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 80 million, low-income households with an annual income of less than Won 70 million or buyers of low-price housing valued at less than Won 600 million should not exceed 50%;

- as to loans secured by collateral housing located in areas of adjustments-targeted areas as designated by the Government the borrower's debt-to-income ratio shall not exceed 50%, except that the loan-to-value ratio for first-home buyers with an annual income of less than Won 70 million, low-income households with an annual income of less than Won 60 million or buyers of low-price housing valued at less than Won 500 million should not exceed 60%;

- 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; and

- 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.

Regulations Regarding Advertisement of Financial Products

Under the Banking Act, 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 three year.

Restrictions on Shareholdings in Other Companies

Under the Banking Act, a bank may not acquire more than 15% of issued and outstanding shares with voting rights of another corporation, except where, among other reasons:

- the corporation issuing such shares is engaged in certain categories of business designated by the FSC or where the acquisition of shares by such bank is necessary for corporate restructuring and is approved by the FSC; and

- the total investment by the bank in the corporation in which the bank owns more than 15% of the total issued shares with voting rights does not exceed 20% of such bank's sum of Tier I and Tier II capital (less any capital deductions) or where the acquisition satisfies other requirements determined by the FSC.

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 Finance Business Act, enacted on 28 August 1997 and last amended on 17 April 2018. The registered bank is regulated by the FSC and the FSS.

Disclosure and Reports

Under the Specialised Credit Finance 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 Finance 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 Finance 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 Finance 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 satisfy all of 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; and

- (i) persons whose capability to pay bills as they come due has been verified using standards established by the bank or (ii) 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; **provided, however, that** if the relevant person becomes the cardholder using the computerized communication system on his/her own initiative, a bank may provide or promise to provide economic benefits of not more than 100% of the annual credit card fee;

- 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 Finance 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 but "Notes Issuance Facility, USCP, Euro CP and Banker's Acceptance, etc." are not treated as "foreign currency denominated bonds" according to the Basic Ruling No. 21-0-1 under Article 21 of the STTCL. 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 the 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 automatically 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.

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 the 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, 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 it 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 or had been residing in Korea for at least 183 days immediately prior to his death 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 where 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 each transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the 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 income, 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 income, 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 income an application for treaty-reduced tax rates prior to the Non-Resident's receipt of such Korean source income.

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 income 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 material United States federal income tax consequences of the purchase, ownership and disposition 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 United States Holder (as defined below) whose "functional currency" is not the United States dollar;
- a person required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement; 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 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 (or other entity treated as a partnership for United States federal income tax purposes) 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 Subordinated Notes, 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, and the tax treatment of any Subordinated Notes will 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 United States federal income 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 (as ordinary 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 that are denominated in or determined by reference to a currency other than the U.S. dollar ("**foreign currency Notes**") and that are issued with OID 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 Instalment 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 for cash. 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 (or, in the case of an Instalment Note, the weighted average 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 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 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. An election to accrue market discount on a current basis will apply to all debt instruments acquired with market discount that you acquire on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the IRS.

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 recognise on retirement or other disposition of the Note.

Sale, Exchange, Retirement or other Disposition of Notes

Your adjusted 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, retirement or other taxable disposition of a Note, you will recognise gain or loss equal to the difference between the amount you realise upon the sale, exchange, 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 and will generally be long-term capital gain or loss if you have held the Note for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) 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 Note will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

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 (or portions thereof) 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 exchange 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. Exchange gain or loss will generally be treated as United States source ordinary income or loss.

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 includible in income with respect to a foreign currency Note 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 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. Long-term capital gains of non-corporate United States Holders (including individuals) 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 will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a foreign currency Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

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. 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 payment 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 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 purchase, 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.

Backup withholding is not an additional tax and 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.

Certain United States Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in the Notes. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the Notes.

Additional Withholding Requirements

Under FATCA, FFIs may be subject to a 30% U.S. withholding tax on certain U.S. source payments made to the FFI (and beginning in 2019, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities), unless the FFI is a "participating FFI," which is generally defined as an FFI that (i) enters into an agreement with the IRS pursuant to which it agrees to comply with a complicated and expansive reporting regime, (ii) complies with the requirements of an IGA or (iii) is otherwise deemed compliant with or exempt from FATCA.

FATCA also contains complex provisions requiring certain participating FFIs to withhold on certain "foreign passthru payments" made to FFIs that are not participating FFIs or otherwise exempt from FATCA withholding and to holders that fail to provide the information required by FATCA. Although the definition of a "foreign passthru payment" is still reserved under current regulations, the term generally refers to payments that are from non-U.S. sources but that are "attributable to" certain U.S. source payments and gross proceeds described above. 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; as of the date of this Offering Circular, no such final regulations have been published. In addition, if applicable, withholding on foreign passthru payments would not be required with respect to payments made before 1 January 2019. It is unclear whether or to what extent payments on the Notes would be considered foreign passthru payments that are subject to withholding under FATCA. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

Europe

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission 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**"). However, Estonia has since stated that it will not participate.

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 proposed FTT remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of 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 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. Furthermore, newly issued class exemptions, such as the "Best Interest Contract Exemption" (PTCE 2016-01), once they become effective, may provide relief for certain transactions involving certain investment advisers who are fiduciaries. 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.

Additionally, if any purchaser or subsequent transferee of a Note is using assets of any ERISA Plan to acquire and hold the Notes, such purchaser or subsequent transferee will be deemed to represent that (i) neither the issuer, the initial purchasers, the guarantors nor any of their respective affiliates has acted as the ERISA Plan's fiduciary, or has been relied upon for any advice, with respect to the ERISA Plan's decision to acquire or hold the Notes and neither the issuer, the initial purchasers, the guarantors nor any of their respective affiliates shall at any time be relied upon as the ERISA Plan's fiduciary with respect to any decision to acquire, continue to hold or transfer the Notes, (ii) the ERISA Plan is aware of and acknowledges that (a) none of the issuer or guarantors are undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the ERISA Plan's investment in the Notes and (b) the issuer and guarantors have a financial interest in the ERISA Plan's investment in the Notes and (iii) the decision to invest in the Notes has been made at the recommendation or direction of an "independent fiduciary" ("Independent Fiduciary") within the meaning of US Code of Federal Regulations 29 C.F.R. Section 2510.3-21(c), as amended from time to time (the "Fiduciary Rule") who (a) is independent of the issuer, the initial purchasers and the guarantors; (b) is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies (within the meaning of the Fiduciary Rule); (c) is a fiduciary (under ERISA and/or Section 4975 of the Internal Revenue Code) with respect to the purchaser or transferee's investment in the Notes and is responsible for exercising independent judgment in evaluating the investment in the Notes; (d) is either (A) a bank as defined in Section 202 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency of the United States; (B) an insurance carrier which is qualified under the laws of more than one state of the United States to perform the services of managing, acquiring or disposing of assets of such an ERISA Plan; (C) an investment adviser registered under the Advisers Act or, if not registered an as investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state (referred to in such paragraph (1)) in which it maintains its principal office and place of business; (D) a broker dealer registered under the Securities Exchange Act of 1934, as amended; and/or (E) an Independent Fiduciary (not described in clauses (A), (B), (C) or (D) above) that holds or has under management or control total assets of at least $50 million, and will at all times that such purchaser or transferee holds the Notes hold or have under management or control, total assets of at least $50 million; and (e) is aware of and acknowledges that (I) neither the issuer, the initial purchasers, the guarantors nor any of their respective affiliates is undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the purchaser's or transferee's investment in the Notes, and (II) the issuer, the initial purchasers, the guarantors and their respective affiliates have a financial interest in the purchaser's or transferee's investment in the Notes on account of the fees and other remuneration they expect to receive in connection with transactions contemplated hereunder. Notwithstanding the foregoing, any ERISA Plan which is an individual retirement account that is not represented by an Independent Fiduciary shall not be deemed to have made the representation in paragraph (iii) above.

Each Plan investor is advised to contact its own financial advisor or other fiduciary unrelated to the issuer and its affiliates about whether an investment in the Notes may be appropriate for the ERISA Plan's circumstances.

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 Notes in registered form, 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 Manual) 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 "*Form 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 Manual) 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 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 supplemented by the First Supplemental Dealer Agreement dated 2 September 2016, the Second Supplemental Dealer Agreement dated 23 June 2017 and the Third Supplemental Dealer Agreement dated 13 July 2018, 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 and any future update 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 and named in the applicable Pricing Supplement 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, NH 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

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.

In respect of Notes offered or sold in reliance on Category 1 (in the case of Category 1, the Issuer shall provide a representation and warranty stating that there is no substantial market interest (as defined in Regulation S) in its debt securities; if such representation and warranty is not provided, then Category 2 shall apply), 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 respect of Notes offered or sold in reliance on Category 2, the Notes 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. In respect of Notes offered or sold in reliance on Category 2, 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.

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.

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.

European Economic Area

Unless the final terms (or pricing supplement, as the case may be) in relation to the Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the offering circular as supplemented by the final terms (or pricing supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the final terms (or pricing supplement, as the case may be) in relation to the Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State no offer of Notes which are the subject of the offering contemplated by the offering circular may be made to the public in that Relevant Member State other than:

(a) to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental 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 for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

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 agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

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 and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, 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 made 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, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

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

securities (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 to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 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, or for the account or benefit of, any resident of Korea (as such term is defined in the Foreign Exchange Transaction Act of Korea and the rules and regulations promulgated thereunder) 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 and for the year ended 31 December 2015, 2016 and 2017 included in this Offering Circular have been prepared in accordance with K-IFRS and have been audited by Ernst & Young Han Young. Our unaudited consolidated interim financial statements as of 31 March 2018 and for the three months ended 31 March 2017 and 2018 included in this Offering Circular have been prepared in accordance with K-IFRS 1034 Interim Financial Reporting and have been reviewed by Ernst & Young Han Young. Their review report 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 Ernst & Young Han Young is Taeyoung Building, 111 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul 07241, Korea. Ernst & Young Han Young is a member 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.$50 million with the maturity of more than one year. In addition, a report to the Ministry of Agriculture, Food and Rural Affairs of Korea should be made by the Issuer in respect of each issue of Notes and a report to the FSS 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

Approval in-principle has been received from the SGX-ST in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Note or, as the case may be, Global Certificate representing such Notes is exchanged for Definitive Notes or, as the case may be, Individual Note Certificates, the Issuer will appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption. In addition, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST. Such announcement will include all material information with respect to the delivery of the Definitive Notes or, as the case may be, Individual Note Certificates, 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 2015, 2016 and 2017, and for the year ended 31 December 2015, 2016 and 2017 (with an English translation thereof);

(iii) the unaudited, but reviewed, consolidated financial statements of the Issuer as of 31 March 2018 and for the three months ended 31 March 2017 and 2018 (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.

INDEX TO FINANCIAL STATEMENTS

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Report on review of interim condensed consolidated financial statements

The Shareholders and Board of Directors
NongHyup Bank

We have reviewed the accompanying interim condensed consolidated financial statements of NongHyup Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim condensed consolidated statement of financial position as at March 31, 2018, and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three-month periods ended March 31, 2018 and 2017, interim condensed consolidated statements of changes in equity and interim condensed consolidated statements of cash flows for the three-month periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the interim condensed consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the review standards 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.

Conclusion

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

Other matter

We have audited the consolidated statement of financial position of the Group as at December 31, 2017, and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea (not presented herein), and our report dated March 9, 2018 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as at December 31, 2017 presented for comparative purposes is not different, in all material respects, from the above audited consolidated statement of financial position.

Ernst & Young Han Young

May 15, 2018

This review report is effective as at May 15, 2018, the independent auditors' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' review report to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim condensed consolidated financial statements and may result in modifications to this review report.

NongHyup Bank and its subsidiaries

Interim condensed consolidated financial statements

for the three-month periods ended March 31, 2018 and 2017

"The accompanying interim condensed consolidated financial statements, including all footnotes and disclosures, were prepared by, and are the responsibility of, the Group."

Dae Hoon Lee

Chief Executive Officer
NongHyup Bank

NongHyup Bank and its subsidiaries
Interim condensed consolidated statements of financial position
as at March 31, 2018 and December 31, 2017
(Korean won in millions)

	Notes		March 31, 2018		December 31, 2017
Assets					
Cash and due from banks	5, 6, 11, 42, 46	₩	5,453,439	₩	7,788,698
Financial assets at FVTPL	5, 7, 11, 42, 43		9,249,343		-
Held-for-trading financial assets	5, 13, 42, 43		-		5,965,461
Derivative assets	5, 7, 11, 13, 27, 42, 43		607,463		1,031,312
Financial assets at FVOCI	5, 8, 42, 43		21,349,445		-
AFS financial assets	5, 14, 42, 43		-		21,006,812
Securities at amortized cost	5, 9, 42, 43		9,094,488		-
HTM financial assets	5, 14, 42, 43		-		8,231,407
Loans and receivables at amortized cost	5, 10, 11, 42, 43		219,361,283		-
Loans and receivables	5, 11, 15, 42, 43		-		218,904,533
Investments in associates	16		67,464		69,090
Tangible assets	17		2,617,290		2,645,240
Investment properties	18		583,712		586,242
Intangible assets	19		410,234		372,193
Deferred income tax assets			707,464		651,878
Other assets	20, 43		87,984		80,347
Non-current assets classified as held for sale	12, 15, 18		15		15
Total assets		₩	269,589,624	₩	267,333,228
Liabilities and equity					
Liabilities					
Deposits	21, 22, 42, 43	₩	212,652,282	₩	205,768,316
Financial liabilities at FVTPL	21, 42, 43		17,831		-
Held-for-trading financial liabilities	21, 42, 43		-		51,737
Derivative liabilities	21, 27, 42, 43		656,024		993,510
Borrowings	21, 23, 42, 43		10,727,036		12,227,485
Debentures	21, 24, 42, 43		16,920,644		18,968,727
Provisions	25, 45		391,018		431,964
Current income tax liabilities			247,590		207,213
Net defined benefit liabilities	28		505,098		311,512
Other liabilities	21, 26, 42, 43		12,701,233		13,721,345
Share capital repayable on demand			23		23
Total liabilities			254,818,779		252,681,832
Equity					
Controlling interests					
Capital stock	29		2,132,779		2,132,779
Other paid-in capital	29		9,677,978		9,677,978
Retained earnings	29		3,627,285		3,283,817
Other components of equity	29		(667,197)		(443,178)
Non-controlling interests			-		-
Total equity			14,770,845		14,651,396
Total liabilities and equity		₩	269,589,624	₩	267,333,228

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NongHyup Bank and its subsidiaries
Interim condensed consolidated statements of profit or loss and other comprehensive income
for the three-month periods ended March 31, 2018 and 2017
(Korean won in millions, except per share amounts)

	Notes	For the three-month period ended March 31, 2018	For the three-month period ended March 31, 2017
Net interest income	32, 33		
Interest income			
Interest income calculated using the effective interest method		₩ 1,918,058	
Interest income on financial instruments at FVTPL		30,542	
		1,948,600	₩ 1,731,666
Interest expenses		737,233	655,563
		1,211,367	1,076,103
Net commission income	34		
Commission income		276,256	258,512
Commission expenses		137,675	133,437
		138,581	125,075
Gain (loss) on financial instruments at FVTPL, net	32		
Gain on financial instruments at FVTPL		507,598	-
Loss on financial instruments at FVTPL		381,086	-
		126,512	-
Gain (loss) on held-for-trading financial instruments, net	32, 35		
Gain on held-for-trading financial instruments		-	1,331,605
Loss on held-for-trading financial instruments		-	1,272,879
		-	58,726
Gain (loss) on financial investment assets, net	32, 35		
Gain on financial investment assets		3,854	53,509
Loss on financial investment assets		10	16,748
		3,844	36,761
Gain (loss) on disposal of financial assets at amortized cost, net	32		
Gain on disposal of financial assets at amortized cost		3,143	-
Loss on disposal of financial assets at amortized cost		314	-
		2,829	-
Other operating income (expenses), net	37		
Other operating income		202,985	807,888
Other operating expenses		405,066	949,695
		(202,081)	(141,807)
Operating income before expected credit losses and general and administrative expenses		1,281,052	1,154,858
Transfer in allowance for expected credit losses	6, 8, 9, 10, 15, 25, 32	84,401	187,352
Operating income before general and administrative expenses		1,196,651	967,506
General and administrative expenses			
Employee benefits	38	517,262	476,282
Depreciation and amortization expenses	17, 19	73,539	74,066
Other selling and administrative expenses	39	133,642	127,382
		724,443	677,730
Operating income		472,208	289,776
Gain (loss) on valuation of equity method investments, net	16	4,718	(3,186)
Other expenses, net	40	(76,027)	(77,128)
Income before income tax expenses		400,899	209,462
Income tax expenses	31	83,334	58,996
Net income	29		
Controlling interests		317,565	150,466
Non-controlling interests		-	-
		317,565	150,466

(Continued)

NongHyup Bank and its subsidiaries
Interim condensed consolidated statements of profit or loss and other comprehensive income
for the three-month periods ended March 31, 2018 and 2017 (cont'd)

(Korean won in millions, except per share amounts)

	Notes	For the three-month period ended March 31, 2018	For the three-month period ended March 31, 2017
Other comprehensive income (loss)			
Items not subsequently reclassified to profit or loss			
Remeasurements of defined benefit liabilities	28, 29	₩ (3,479)	₩ (2,584)
Gain on valuation of financial assets at FVOCI (Equity securities)	29	4,853	-
Loss on disposal of financial assets at FVOCI (Equity securities)	29	(963)	-
		411	(2,584)
Items subsequently reclassified to profit or loss			
Gain on valuation & translation of AFS financial assets	29	-	2,746
Gain on valuation of financial assets at FVOCI (Debt securities)	29	9,327	-
Exchange differences on translation of foreign operations	29	(88)	(4,461)
Gain (loss) on valuation of investments in associates	16, 29	2	(358)
		9,241	(2,073)
		9,652	(4,657)
Total comprehensive income (loss)			
Controlling interests		327,217	145,809
Non-controlling interests		-	-
		₩ 327,217	₩ 145,809
Earnings per share	41		
Basic earnings and diluted earnings per share		₩ 734	₩ 343

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NongHyup Bank and its subsidiaries
Interim condensed consolidated statements of changes in equity
for the three-month periods ended March 31, 2018 and 2017
(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustment	Hybrid equity securities	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance as at January 1, 2017	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,578,561	₩ (306,285)	₩ -	₩ 14,083,033
Changes due to consolidated tax	-	-	-	-	27,015	-	-	27,015
Total comprehensive income								
Net income	-	-	-	-	150,466	-	-	150,466
Other comprehensive income (loss)								
Changes in remeasurements of defined benefit liabilities	-	-	-	-	-	(2,584)	-	(2,584)
Gain on valuation & translation of AFS financial assets	-	-	-	-	-	2,746	-	2,746
Exchange differences on translation of foreign operations	-	-	-	-	-	(4,461)	-	(4,461)
Loss on valuation of Investments in associates	-	-	-	-	-	(358)	-	(358)
Dividends on hybrid equity securities	-	-	-	-	(4,270)	-	-	(4,270)
Balance as at March 31, 2017	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,751,772	₩ (310,942)	₩ -	₩ 14,251,587

	Capital stock	Capital surplus	Capital adjustment	Hybrid equity securities	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance as at January 1, 2018	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 3,283,817	₩ (443,178)	₩ -	₩ 14,651,396
Changes in accounting policies	-	-	-	-	218,189	(233,671)	-	(15,482)
Changes due to consolidated tax	-	-	-	-	1,984	-	-	1,984
Total comprehensive income								
Net income	-	-	-	-	317,565	-	-	317,565
Other comprehensive income (loss)								
Changes in remeasurements of defined benefit liabilities	-	-	-	-	-	(3,479)	-	(3,479)
Gain on valuation of debt securities at FVOCI	-	-	-	-	-	9,327	-	9,327
Gain on valuation of equity securities at FVOCI	-	-	-	-	-	4,853	-	4,853
Loss on disposal of equity securities at FVOCI	-	-	-	-	-	(963)	-	(963)
Exchange differences on translation of foreign operations	-	-	-	-	-	(88)	-	(88)
Gain on valuation of Investments in associates	-	-	-	-	-	2	-	2
Dividends on hybrid equity securities	-	-	-	-	(4,270)	-	-	(4,270)
Dividends	-	-	-	-	(190,000)	-	-	(190,000)
Balance as at March 31, 2018	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 3,627,285	₩ (667,197)	₩ -	₩ 14,770,845

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NongHyup Bank and its subsidiaries
Interim condensed consolidated statements of cash flows
for the three-month periods ended March 31, 2018 and 2017
(Korean won in millions)

	Notes		For the three-month period ended March 31, 2018		For the three-month period ended March 31, 2017
Operating activities					
Net income before income tax expenses		₩	400,899	₩	209,462
Additions of expenses not involving cash outflows or deductions of revenues not involving cash inflows:					
Net interest income			(1,211,367)		(1,076,103)
Dividend income			(3,031)		(15,681)
Gain on valuation of financial assets at FVTPL			(255)		-
Gain on valuation of held-for-trading financial assets			-		(9,152)
Loss on valuation of trading derivatives			2,779		23,679
Loss (gain) on valuation of hedging derivatives			15,421		(2,839)
Gain related to fair value hedge			(15,962)		(2,002)
Gain related to financial assets at FVOCI			(2,458)		-
Gain related to AFS financial assets			-		(22,408)
Gain related to financial assets at AC			(2,829)		-
Loss on disposal of investments in associates			-		1,093
Loss (gain) on valuation of equity method investments			(4,718)		3,186
Depreciation and amortization expenses			74,713		75,444
Gain on disposal of assets			(73)		(70)
Transfer in allowance for expected credit losses			84,401		187,352
Transfer in (reversal of) provisions			(3,766)		4,810
Retirement expenses of a defined benefit liabilities			46,494		50,719
Loss on transaction of foreign exchange			88,234		20,711
Other losses			7,806		13,044
		₩	(924,611)	₩	(748,217)
Changes in operating assets and liabilities:					
Increase in financial instruments at FVTPL			(601,819)		-
Decrease in held-for-trading financial assets			-		108,177
Decrease in trading derivative assets			591,796		678,003
Decrease (Increase) in loans and other receivables			(556,939)		148,390
Decrease (Increase) in due from banks			2,324,551		(3,706,924)
Decrease (Increase) in other assets			(7,220)		8,403
Decrease in plan assets			129,101		126,933
Increase in deposits			6,784,315		4,317,356
Increase (decrease) in financial liabilities at FVTPL			(33,919)		10,095
Decrease in trading derivative liabilities			(524,185)		(664,690)
Decrease in provisions			(2,882)		(7,241)
Payment of retirement benefits and changes resulting from transfer of staff among affiliates			(39,430)		(135,688)
Increase (decrease) in other liabilities			(1,274,566)		3,562,090
			6,788,803		4,444,904
Cash provided by operating activities:					
Net cash received for interest			1,779,072		1,654,534
Net cash received for dividend			3,031		15,681
			1,782,103		1,670,215
Cash used in operating activities:					
Payment of interest expenses			534,630		745,596
Payment of income tax			20,345		16,973
			(554,975)		(762,569)
Net cash flows provided by operating activities		₩	7,492,219	₩	4,813,795
Investing activities					
Cash flows provided by investing activities:					
Disposal of financial assets at FVOCI		₩	2,975,393	₩	-
Disposal of AFS financial assets			-		3,787,678
Disposal of securities at amortized cost			155,531		-
Redemption of HTM financial assets			-		535,037
Disposal of tangible assets			588		647
Disposal of intangible assets			-		963
Disposal of Investment properties			32		1
Disposal of equity method investments in associates			6,590		19,667
Dividend of associates			1,677		-
			3,139,811		4,343,993

(Continued)

NongHyup Bank and its subsidiaries
Interim condensed consolidated statements of cash flows
for the three-month periods ended March 31, 2018 and 2017 (cont'd)

(Korean won in millions)

	Notes		For the three-month period ended March 31, 2018		For the three-month period ended March 31, 2017
Cash flows used in investing activities:					
Purchase of financial assets at FVOCI			5,938,500		-
Purchase of AFS financial assets			-		6,347,873
Purchase of securities at amortized cost			1,017,925		-
Purchase of HTM financial assets			-		100,000
Purchase of equity method investments in associates			1,920		5,514
Purchase of investment properties			50		21
Purchase of tangible assets			13,343		9,316
Purchase of intangible assets			69,421		82,486
			(7,041,159)		(6,545,210)
Net cash flows used in investing activities		₩	(3,901,348)	₩	(2,201,217)
Financing activities					
Cash flows provided by financing activities:					
Increase in borrowings, net		₩	-	₩	696,737
Increase in debentures			479,945		150,000
Increase in borrowings from trust accounts, net			123,184		447,403
			603,129		1,294,140
Cash flows used in financing activities:					
Decrease in borrowings, net			1,496,515		-
Decrease in debentures			2,516,012		3,910,954
Dividends			194,270		4,270
			(4,206,797)		(3,915,224)
Net cash flows used in financing activities		₩	(3,603,668)	₩	(2,621,084)
Net decrease in cash and cash equivalents			(12,797)		(8,506)
Cash and cash equivalents at the beginning of the period			2,882,412		2,303,552
Effect of exchange rate changes on cash and cash equivalents			4,685		(22,073)
Cash and cash equivalents at the end of the period	46	₩	2,874,300	₩	2,272,973

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

1. Corporate 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 the National Agricultural Cooperative Federation (the "NACF") on March 2, 2012. The Bank's headquarters is located at 120 Tongil-ro, Jung-gu in Seoul.

As at March 31, 2018, the Bank's capital stock amounts to ₩2,132,779 million with 426,555,827 shares of common stock outstanding, which are 100% owned by NongHyup Financial Group. As at March 31, 2018, the Bank operates 157 regional offices, 689 branches, 304 depositary offices, and 5 overseas branches and offices.

1.2 Scope and principles of consolidation

The Bank's consolidated subsidiaries as at March 31, 2018 and December 31, 2017 are as follows:

March 31, 2018

Subsidiaries	Main business	Location	Percentage of ownership (%)	Financial statements date
NongHyup Finance Myanmar Co., Ltd.	Small loan business	Myanmar	100.00	March 31, 2018
Personal pension trust and 10 other trusts (*1)	Trust business	Korea	-	March 31, 2018
KAMCO Value Recreation 4th Securitization Specialty Ltd. (*2)	Asset securitization business and others	Korea	15.00	March 31, 2018
NH-CA (NH Securities) privately placed securities investment trust 12-5th and 29 others (*2)	Beneficiary certificate	Korea	100.00	March 31, 2018
Eugene (NH Securities) zarang private placed securities investment 70th and another (*2)	Beneficiary certificate	Korea	99.98	March 31, 2018

(*1) The Bank 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 that of principal and interest.
(*2) The Bank 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.

December 31, 2017

Subsidiaries	Main business	Location	Percentage of ownership (%)	Financial statements date
NongHyup Finance Myanmar Co., Ltd.	Small loan business	Myanmar	100.00	December 31, 2017
Personal pension trust and 10 other trusts (*1)	Trust business	Korea	-	December 31, 2017
KAMCO Value Recreation 4th Securitization Specialty Ltd.	Asset securitization business and others	Korea	15.00	December 31, 2017
NH-CA (NH Securities) privately placed securities investment trust 12-5th and 30 others (*2)	Beneficiary certificate	Korea	100.00	December 31, 2017
Eugene (NH Securities) zarang private placed securities investment 70th and another (*2)	Beneficiary certificate	Korea	99.98	December 31, 2017

(*1) The Bank 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 that of principal and interest.
(*2) The Bank 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.

1. Corporate information (cont'd)

1.2 Scope and principles of consolidation (cont'd)

The Bank and its subsidiaries (collectively referred to as the "Group") include the structured entities, to which KIFRS 1110 and KIFRS 1112 are applicable, in the consolidation scope and controls 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.

1.3 Summary of financial information of subsidiaries

A summary of financial information of subsidiaries in consolidation as at March 31, 2018 and for the three months then ended and as at December 31, 2017 and for the year then ended is as follows (Korean won in millions):

March 31, 2018

Subsidiaries	Asset	Liabilities	Equity	Operating Income	Net income	Total comprehensive income
NongHyup Finance Myanmar Co., Ltd.	₩ 8,172	₩ 345	₩ 7,827	₩ 281	₩ (125)	₩ 11
Personal pension trust and 10 other trusts	3,531,255	3,531,255	-	33,375	-	-
KAMCO Value Recreation 4th Securitization Specialty Ltd.	275	80,492	(80,217)	-	(1,129)	(1,129)
Consolidated beneficiary certificate	2,237,648	634,617	1,603,031	22,329	8,216	8,216

December 31, 2017

Subsidiaries	Asset	Liabilities	Equity	Operating Income	Net income	Total comprehensive income
NongHyup Finance Myanmar Co., Ltd.	₩ 7,999	₩ 183	₩ 7,816	₩ 418	₩ (480)	₩ (1,206)
Personal pension trust and 10 other trusts	3,565,663	3,565,663	-	96,227	-	-
KAMCO Value Recreation 4th Securitization Specialty Ltd.	275	79,363	(79,088)	134	(4,227)	(4,227)
Consolidated beneficiary certificate	2,041,285	395,402	1,645,883	79,261	38,936	38,936

1.4 Consolidated structured entities

Characteristics and intentions of contractual commitments offered by Group to consolidated structured entities are as follows:

Entity	Characteristics	Purpose
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
11 trusts including personal pension trust	The Group offers principal and interest conservation commitment to trust accounts. The Group is 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. Corporate information (cont'd)

1.5 Changes in subsidiaries

Tongyang (NH Future) Safe Plus PF Bond (W-4) is no longer a subsidiary of the Bank as the entity was liquidated during the three-month period ended March 31, 2018.

1.6 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 project financing, asset-backed securitization, investment fund contracts and others as at March 31, 2018. 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.

1.6.1 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.

1.6.2 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.

1.6.3 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 group 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.

1. Corporate information (cont'd)

1.6 Unconsolidated structured entities (cont'd)

1.6.3 Investment funds (cont'd)

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 three-month period ended March 31, 2018 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):

	March 31, 2018			
	Asset-backed securitization	Investment funds	Project financing	Total
Total assets of unconsolidated structured entity	₩ 46,523,439	₩ 29,136,411	₩ 13,686,621	₩ 89,346,471
Recognized assets related to unconsolidated structured entities:	4,321,041	2,683,804	895,954	7,900,799
Loans	41,368	-	885,833	927,201
Securities	4,279,673	2,683,804	10,121	6,973,598
Recognized liabilities related to unconsolidated structured entities	27,282	-	-	27,282
Loss on unconsolidated structured entity	-	-	-	-
Maximum exposure to loss:	6,990,923	2,683,804	895,954	10,570,681
Commitments and guarantees	2,669,882	-	-	2,669,882
Securities (including derivatives)	4,279,673	2,683,804	10,121	6,973,598
Loans	41,368	-	885,833	927,201

	December 31, 2017			
	Asset-backed securitization	Investment funds	Project financing	Total
Total assets of unconsolidated structured entity	₩ 51,354,698	₩ 29,045,822	₩ 11,402,193	₩ 91,802,713
Recognized assets related to unconsolidated structured entities:	5,371,660	2,484,363	921,901	8,777,924
Loans	36,677	-	910,301	946,978
Securities	5,334,983	2,484,363	11,600	7,830,946
Recognized liabilities related to unconsolidated structured entities	25,235	-	-	25,235
Loss on unconsolidated structured entity	1,206	-	-	1,206
Maximum exposure to loss:	7,956,279	2,484,363	921,901	11,362,543
Commitments and guarantees	2,584,619	-	-	2,584,619
Securities (including derivatives)	5,334,983	2,484,363	11,600	7,830,946
Loans	36,677	-	910,301	946,978

2. Significant basis of preparation and accounting policies

The Group prepares interim condensed consolidated financial statements in the Korean language in accordance with KIFRS 1034 *Interim Financial Reporting* enacted by the *Act on External Audit of Stock Companies*. The accompanying interim condensed consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The accompanying interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended December 31, 2017.

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as at and for the year ended December 31, 2017, except for the adoption of new standards and interpretations as at January 1, 2018.

The nature and the impact of each new standard, amendment and enactments are described below:

Enactments of KIFRS 1115 *Revenue from Contracts with Customers*

Beginning January 1, 2018, the Group applied KIFRS 1115 *Revenue from Contracts with Customers.* The new standard KIFRS 1115 replaced KIFRS 1018 *Revenue*, KIFRS 1011 *Construction Contracts*, KIFRS 2031 *Revenue: Exchange Transaction of Advertising Services*, KIFRS 2113 *Customer Loyalty Programmes*, KIFRS 2115 *Agreements for the Construction of Real Estate*, KIFRS 2118 *Transfer of Assets from Customers*.

The current KIFRS 1018 provides the criteria for the recognition of revenue relating to: sale of goods, rendering of services, interest, royalties, dividends and construction contracts; however, under the new KIFRS 1115, revenue is recognized by applying a five-stage revenue recognition model (① Identify a contract with a customer. → ② Identify the performance obligations in the contract. → ③ Determine the transaction price → ④ Allocate the transaction price to the separate performance obligations in the contract. → ⑤ Recognize revenue when the entity satisfies a performance obligation) to its all contracts with customers.

These amendments do not have any impact on the Group's consolidated financial statements.

Enactments of KIFRS 1109 *Financial Instruments*

KIFRS 1109, is effective for annual periods beginning on or after January 1, will replace KIFRS 1039 *Financial Instruments: Recognition and Measurement*. KIFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The new KIFRS 1109 is retrospectively applied in principle, but there are some exceptions such as exemption of restatement of comparative information for classification, measurement, impairment of financial instruments. For hedge accounting, the requirements are generally applied prospectively, with some exceptions such as time value accounting of options.

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures (cont'd)

The impacts of the first application of KIFRS 1109 on the classification and measurement of financial assets and liabilities of the Group as at January 1, 2018 are as follows (Korean won in millions):

			January 1, 2018	
	Classification under KIFRS 1039	Classification under KIFRS 1109	Amount under KIFRS 1039	Amount under KIFRS 1109
Equity securities	Financial assets at FVTPL	Financial assets at FVTPL	₩ 322,492	₩ 322,492
Debt securities	Financial assets at FVTPL	Financial assets at FVTPL	5,642,969	5,642,969
Trading derivatives	Financial assets at FVTPL	Financial assets at FVTPL	1,023,737	1,023,185
Hedging derivatives	Hedging derivative assets	Hedging derivative assets	7,575	7,575
Equity securities	AFS financial assets	Financial assets at FVOCI	384,950	384,950
Equity securities	AFS financial assets	Financial assets at FVTPL	2,633,392	2,633,392
Debt securities	AFS financial assets	Financial assets at FVOCI	17,988,470	17,988,470
Debt securities	HTM financial assets	Financial assets at amortized cost	8,231,407	8,230,523
Cash and due from banks	Loans and receivables	Financial assets at amortized cost	7,788,698	7,781,728
Loans and receivables	Loans and receivables	Financial assets at amortized cost	218,861,709	218,771,188
Loans and receivables	Loans and receivables	Financial assets at FVTPL	42,824	53,110

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures (cont'd)

Changes of the first application of KIFRS 1109 on the classification and measurement of financial assets and liabilities of the Group as at January 1, 2018 are as follows (Korean won in millions):

	December 31, 2017	Adjustments		January 1, 2018	
	Amount under KIFRS 1039	Reclassification	Remeasurement	Amount under KIFRS 1109	Changes in retained earnings
Financial assets:					
Financial assets at FVTPL					
Beginning balance	₩ 6,996,773	₩ -	₩ -	₩ 6,996,773	₩ -
Reclassified as financial assets at FVTPL	-	(6,996,773)	-	(6,996,773)	-
	6,996,773	(6,996,773)	-	-	-
AFS financial assets:					
Beginning balance	21,006,812	-	-	21,006,812	-
Reclassified as financial assets at FVOCI (debts)	-	(17,988,470)	-	(17,988,470)	-
Reclassified as financial assets at FVOCI (securities)	-	(384,950)	-	(384,950)	-
Reclassified as financial assets at FVTPL	-	(2,633,392)	-	(2,633,392)	-
	21,006,812	(21,006,812)	-	-	-
HTM financial assets:					
Beginning balance	8,231,407	-	-	8,231,407	-
Reclassified as financial assets at amortized cost	-	(8,231,407)	-	(8,231,407)	-
	8,231,407	(8,231,407)	-	-	-
Loans and receivables:					
Beginning balance	226,693,231	-	-	226,693,231	-
Reclassified as financial assets at amortized cost	-	(226,650,407)	-	(226,650,407)	-
Reclassified as financial assets at FVTPL	-	(42,824)	-	(42,824)	-
	226,693,231	(226,693,231)	-	-	-
Financial assets at FVTPL:					
Beginning balance	-	-	-	-	-
Reclassified from financial assets at FVTPL	-	6,996,773	-	6,996,773	-
Reclassified from AFS financial assets	-	2,633,392	-	2,633,392	-
Reclassified from loans and receivables	-	42,824	9,734	52,558	9,734
	-	9,672,989	9,734	9,682,723	9,734

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures (cont'd)

	December 31, 2017	Adjustments		January 1, 2018	
	Amount under KIFRS 1039	Reclassification	Remeasurement	Amount under KIFRS 1109	Changes in retained earnings
Financial assets at FVOCI:					
Beginning balance	-	-	-	-	-
Reclassified from AFS financial assets (debts)	-	17,988,470	-	17,988,470	-
Reclassified from AFS financial assets (securities)	-	384,950	-	384,950	-
	-	18,373,420	-	18,373,420	-
Financial assets at amortized cost:					
Beginning balance	-	-	-	-	-
Reclassified from HTM financial assets	-	8,231,407	-	8,231,407	-
Reclassified from Loans and receivables	-	226,650,407	-	226,650,407	-
Expected credit losses	-	-	(98,375)	(98,375)	(98,375)
	-	234,881,814	(98,375)	234,783,439	(98,375)
Deferred income tax:					
Beginning balance	651,878	-	-	651,878	-
Remeasurement	-	78,759	-	78,759	78,759
	651,878	78,759	-	730,637	78,759
	₩263,580,101	₩ 78,759	₩ (88,641)	₩263,570,219	₩ (9,882)
Financial liabilities:					
Derivative liabilities:					
Beginning balance	₩ 993,510	₩ -	₩ -	₩ 993,510	₩ -
Provisions:					
Beginning balance	431,964	-	-	431,964	-
Expected credit losses	-	-	5,598	5,598	(5,598)
	431,964	-	5,598	437,562	(5,598)
	₩ 1,425,474	₩ -	₩ 5,598	₩ 1,431,072	₩ (5,598)

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures (cont'd)

Changes of the first application of KIFRS 1109 on allowance for expected credit losses of the Group as at January 1, 2018 are as follows (Korean won in millions):

		Allowance			
December 31, 2017	January 1, 2018	December 31, 2017	Adjustments		January 1, 2018
Classification under KIFRS 1039	Classification under KIFRS 1109	Classification under KIFRS 1039	Reclassification	Remeasurement	Classification under KIFRS 1109
Cash and due from banks	Financial assets at amortized cost	₩ -	₩ -	₩ 6,970	₩ 6,970
Loans and receivables	Financial assets at amortized cost	1,551,300	-	97,491	1,648,791
Loans and receivables	Financial assets at FVTPL	8,988	(8,988)	-	-
AFS financial assets	Financial assets at FVOCI	-	-	945	945
HTM financial assets	Financial assets at amortized cost	-	-	884	884
		1,560,288	(8,988)	106,290	1,657,590
Loss allowance for acceptances and guarantees	Loss allowance for acceptances and guarantees	198,550	-	2,358	200,908
Loss allowance for unused credit limit	Loss allowance for unused credit limit	103,491	-	3,240	106,731
		302,041	-	5,598	307,639
		₩ 1,862,329	₩ (8,988)	₩ 111,888	₩ 1,965,229

KIFRS 1028 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

Amendments to KIFRS 1102 *Classification and Measurement of Share-based Payment Transactions*

The KASB issued amendments to KIFRS 1102 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not expect any impact of amendments on its consolidated financial statements.

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures (cont'd)

Amendments to KIFRS 1040 *Investment Property – Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group does not expect any impact of amendments on its consolidated financial statements.

Enactments of KIFRS 2122 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. The Group does not expect any impact of enactments on its consolidated financial statements.

2.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not effective, until the issuance day of the Group's interim consolidated financial statements are as follows.

KIFRS 1116 Leases

KIFRS 1116 replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group assesses whether a contract is, or contains, a lease at inception of a contract and also assesses whether a contract is, or contains, a lease at the initial adoption of KIFRS 1116. However, the Group may not reassess all arrangements entered into before the date of initial application of the standard by applying the simplified approach.

For a contract that is, or contains a lease, the Group will account for each lease component within the contract as a lease separately from non-lease components of the contract.

A lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a liability representing the right to make lease payments (i.e., the lease liability). However, in case of short-term leases (i.e., leases with a lease term of 12 months or less at the commencement date) and leases of 'low-value' assets (e.g., the underlying assets of $5,000 or less), the Group may elect to apply the exception under KIFRS 1116. As a practical expedient, a lessee may elect, by class of the underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single component.

The standard is effective for annual periods beginning on or after January 1, 2019. The Group is assessing the potential effect of the amendments on its consolidated financial statements. The Group will apply these amendments on the required effective date.

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, 2017.

4. Operating segment information

The Group is organized into four operating segments as follows based on their products and services:

Segment	Main business activities
Personal financing	Personal banking services for general public – lending & borrowing, financial services, and etc.
Corporate financing	Corporate banking services for conglomerates, small & medium-sized companies, institutions – lending & borrowing, import & export supports, financial services, and etc.
Card	Credit card services for credit card holders, and etc.
Others	Activities other than the above

Details of net income by operating segment for the three-month periods ended at March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018						
	Personal financing	Corporate financing	Credit card	Others	Subtotal	Adjustments	Total
Operating income:							
Net interest income	₩ 598,357	₩ 370,159	₩ 157,644	₩114,185	₩1,240,345	₩ (28,978)	₩1,211,367
Net commission income (loss)	45,096	48,478	(27,511)	37,929	103,992	34,589	138,581
Net other operating income (loss)	(54,312)	(19,916)	(1,165)	36,587	(38,806)	(101,399)	(140,205)
	589,141	398,721	128,968	188,701	1,305,531	(95,788)	1,209,743
Operating loss:							
General and administrative expense	433,553	218,185	59,267	33,567	744,572	(20,129)	724,443
Operating income before credit losses and income tax expenses	155,588	180,536	69,701	155,134	560,959	(75,659)	485,300
Allowance for expected credit losses	-	-	-	-	-	84,401	84,401
Income tax expenses	-	-	-	-	-	83,334	83,334
Net income for the period	₩ 155,588	₩ 180,536	₩ 69,701	₩155,134	₩ 560,959	₩ (243,394)	₩ 317,565

	Three-month period ended March 31, 2017						
	Personal financing	Corporate financing	Credit card	Others	Subtotal	Adjustments	Total
Operating income:							
Net interest income	₩ 564,618	₩ 327,670	₩ 153,560	₩ 89,664	₩1,135,512	₩ (59,409)	₩1,076,103
Net commission income (loss)	64,836	54,066	(28,079)	19,993	110,816	14,259	125,075
Net other operating income (loss)	(70,859)	(29,823)	(2,796)	22,629	(80,849)	(45,785)	(126,634)
	558,595	351,913	122,685	132,286	1,165,479	(90,935)	1,074,544
Operating loss:							
General and administrative expense	238,089	91,889	87,076	34,055	451,109	226,621	677,730
Operating income before credit losses and income tax expenses	320,506	260,024	35,609	98,231	714,370	(317,556)	396,814
Provision for possible credit losses	-	-	-	-	-	187,352	187,352
Income tax expenses	-	-	-	-	-	58,996	58,996
Net income for the period	₩ 320,506	₩ 260,024	₩ 35,609	₩ 98,231	₩ 714,370	₩ (563,904)	₩ 150,466

4. Operating segment information (cont'd)

Revenue from the external customers for the three-month periods ended March 31, 2018 and 2017 and non–current assets as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	Revenue from external customers		Non–current assets	
	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017	March 31, 2018	December 31, 2017
Domestic	₩ 2,937,408	₩ 4,178,408	₩ 3,677,419	₩ 3,671,468
Foreign	5,028	4,772	1,281	1,297
	₩ 2,942,436	₩ 4,183,180	₩ 3,678,700	₩ 3,672,765

5. Financial assets

Details of financial assets as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

		March 31, 2018	
		Book value	Fair value
Financial assets at FVTPL:			
Equity securities		₩ 186,470	₩ 186,470
Debt securities		6,044,986	6,044,986
Other securities		2,963,496	2,963,496
Loans		54,391	54,391
		9,249,343	9,249,343
Derivative assets			
Trading derivative assets		594,220	594,220
Hedging derivative assets		13,243	13,243
		607,463	607,463
Financial assets at FVOCI:			
Equity securities		387,989	387,989
Debt securities		20,961,456	20,961,456
		21,349,445	21,349,445
Financial assets at amortized cost:			
Deposits (*1)	Deposits in Korean won	2,441,038	2,441,038
	Deposits in foreign currency	1,247,239	1,247,239
		3,688,277	3,688,277
Debt securities		9,094,488	9,044,896
Loans (*2)	Loans in Korean won	192,184,342	191,173,645
	Loans in foreign currency	1,257,264	1,151,808
	Credit card receivables	6,035,461	6,107,506
	Others	12,995,291	13,090,925
		212,472,358	211,523,884
Receivables (*3 and *4)		6,625,399	6,260,044
		231,880,522	230,517,101
		₩ 263,086,773	₩ 261,723,352

(*1) Deposits are presented at net carrying amount after deduction of allowance for expected credit losses.
(*2) Loans are presented at net carrying amount after deduction of allowance for expected credit losses and present value discounts. Deferred LOF/LOC amounting to ₩263,526 million as at March 31, 2018 is excluded. (Note 10. (3))
(*3) Accrued interests included in the calculation of fair value of loans are excluded from fair value of receivables.
(*4) Receivables consist of domestic exchange settlement debits, leasehold deposits, etc. Those amounts are presented in net carrying amount after deduction of allowance for expected credit losses and present-value discounts.

5. Financial assets (cont'd)

		December 31, 2017	
		Book value	Fair value
Financial assets at FVTPL:			
Held-for-trading financial assets		₩ 5,965,461	₩ 5,965,461
Trading derivative assets		1,023,737	1,023,737
		6,989,198	6,989,198
Hedging derivative assets		7,575	7,575
AFS financial assets		21,006,812	21,006,812
HTM financial assets		8,231,407	8,177,667
Loans and receivables:			
Deposits	Deposits in Korean won	4,755,463	4,755,463
	Deposits in foreign currency	1,216,427	1,216,427
		5,971,890	5,971,890
Loans (*1)	Loans in Korean won	190,675,378	188,780,147
	Loans in foreign currency	1,336,101	1,385,424
	Credit card receivables	6,254,341	6,296,457
	Others	15,137,092	15,281,557
		213,402,912	211,743,585
Receivables (*2 and *3)		5,229,953	4,933,202
		224,604,755	222,648,677
		₩ 260,839,747	₩ 258,829,929

(*1) Loans are presented at net carrying amount after deduction of allowance for expected credit losses and present value discounts. Deferred LOF/LOC amounting to ₩271,668 million as at December 31, 2017 is excluded. (Note 15.)
(*2) Accrued interests included in the calculation of fair value of loans are excluded from 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 expected credit losses and present-value discounts.

Transferred financial assets derecognized not in their entirety as at March 31, 2018 are as follows:

1) Bonds sold under repurchase agreements

Transferred bonds sold under repurchasable agreements with a condition to repurchase at a firm price derecognized not in their entirety as at March 31, 2018 and December 31, 2017 are as follow (Korean won in millions):

	Classification	March 31, 2018
Transferred assets	Financial assets at FVTPL	₩ 617,784
Related liabilities	Bonds sold under repurchase agreements	585,000

	Classification	December 31, 2017
Transferred assets	Financial assets at FVTPL	₩ 344,772
Related liabilities	Bonds sold under repurchase agreements	337,800

2) Loaned securities

In case the Group loans marketable securities held by the Group, the ownership of the securities is transferred. However, those loaned securities must be returned at the end of the lending period. Therefore, the Group holds most of the risks and rewards associated with the securities that the Group continues to recognize the entire securities loaned.

Loaned securities measured at FVOCI as at March 31, 2018 are as follows, and there was no marketable security loaned as at December 31, 2017 (Korean won in millions):

	March 31, 2018	Loaned to
Financial assets at FVOCI – Debt securities	₩ 532,494	Korea Securities Depository., Ltd. and 2 others

6. Cash and due from banks

Cash and due from banks as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	Details	Interest rate (%)	March 31, 2018	December 31, 2017
Cash in Korean won	Cash on hand	-	₩ 1,403,735	₩ 1,491,561
Cash in foreign currency	Cash on hand	-	361,427	325,247
Due from banks in Korean won	Reserve deposits	-	1,124,488	3,007,635
	Non-monetary financial institution deposits	2.57	501	501
	Bank deposits	1.15	59,836	42,829
	Other deposits	1.53~1.54	1,256,217	1,704,498
			2,441,042	4,755,463
Due from banks in foreign currency	Reserve deposits	-	153,120	175,543
	Deposits at other banks	(-)0.40~1.72	1,089,956	1,022,867
	Time deposits	1.23	8,001	9,610
	Other deposits	1.16	3,733	8,407
			1,254,810	1,216,427
Allowance for expected credit losses			(7,575)	-
			₩ 5,453,439	₩ 7,788,698

Changes in the total book value and allowance for expected credit losses for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		
	12 months expected credit losses (*1)		
	Total book value	Allowance for expected credit losses	Total
Beginning balance	₩ 5,971,890	₩ 6,970	₩ 5,964,920
Transferred (Returned)	(2,281,016)	605	(2,281,621)
Others (*2)	4,978	-	4,978
Ending balance	₩ 3,695,852	₩ 7,575	₩ 3,688,277

(*1) There is no due from banks applied with lifetime expected credit losses.
(*2) Other changes are due to exchange rate fluctuations.

6. Cash and due from banks (cont'd)

Cash and due from banks in Korean won and in foreign currency that are restricted in use as at March 31, 2018 and December 31, 2017 is as follows (Korean won in millions):

Classification	Financial institution	March 31, 2018	December 31, 2017	Reason for restriction
Reserve deposits in Korean won	The Bank of Korea	₩ 1,124,488	₩ 3,007,635	Required under the Bank Act and other related regulations
Monetary stabilization account	The Bank of Korea	1,250,000	1,700,000	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	153,120	175,543	Required under the Bank Act and other related regulations
Regular deposits in foreign currency	Other financial Institutions	5,333	5,357	Required under consumption contract of money loan with other foreign exchange banks
Other deposits in foreign currency	Other financial Institutions	3,733	8,407	Deposits related to derivatives trading
Deposit on securities and futures	Samsung Futures Inc. and 3 others	95	61	Reserve securities and futures
Allowance for expected credit losses		(39)	-	
		₩ 2,537,231	₩ 4,897,504	

7. Financial assets measured at FVTPL

Details of financial assets measured at FVTPL as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018
Equity securities	
Marketable securities	₩ 147,895
Non marketable securities	38,575
	186,470
Debt securities	
Government and public bonds	1,923,069
Financial bonds	3,113,404
Corporate bonds	505,645
Public and private bonds	502,809
Others	59
	6,044,986
Other securities	
Beneficiary certificate	2,393,808
Mutual fund	265,142
Foreign currencies	45,813
Others	258,733
	2,963,496
Loans and receivables	54,391
	₩ 9,249,343

The Group irrevocably designates a financial asset as measured at FVTPL at the time of initial recognition of the financial asset if doing so eliminates or significantly reduces the accounting mismatch. In this case, financial instruments designated as measured at FVTPL cannot be reversed. The Group does not hold financial instruments designated as measured at FVTPL as at March 31, 2018.

7. Financial assets measured at FVTPL (cont'd)

Financial assets measured at FVTPL provided as collaterals as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018		
Provided to	Remarks	Pledged amount	Book value of securities provided as collaterals
KB Asset Management and 14 others	Interinstitutional repurchase sale	₩ 621,020	₩ 617,784
NH Futures Co., Ltd. and 5 others	Substitute securities for derivative transactions	10,950	11,844
The Korea Securities Finance Corporation and another	Others	25,700	25,744
		₩ 657,670	₩ 655,372

8. Financial assets measured at FVOCI

Details of financial assets measured at FVOCI as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018					
	Par value	Acquisition cost	Amortized cost	Book value	Fair value	Allowance for expected credit losses
Equity securities:						
Marketable securities	₩ -	₩ 350,668	₩ -	₩ 186,683	₩ 186,683	₩ -
Non-marketable securities	-	148,572	-	201,034	201,034	-
Foreign currencies	-	83	-	272	272	-
	-	499,323	-	387,989	387,989	-
Debt securities:						
Government bonds	3,580,000	3,568,642	3,569,714	3,546,409	3,546,409	-
Financial bonds	15,080,000	15,060,719	15,060,680	15,041,146	15,041,146	(450)
Public and private bonds	1,394,700	1,394,039	1,394,136	1,392,747	1,392,747	(283)
Corporate bonds	330,000	330,297	330,286	328,902	328,902	(21)
Foreign currencies	660,057	697,282	661,838	652,252	652,252	(220)
	21,044,757	21,050,979	21,016,654	20,961,456	20,961,456	(974)
	₩21,044,757	₩ 21,550,302	₩ 21,016,654	₩ 21,349,445	₩ 21,349,445	₩ (974)

Details of financial assets measured at FVOCI at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018		
	Acquisition cost	Book value	Fair value
Equity securities			
Marketable securities	₩ 350,668	₩ 186,683	₩186,683
Non-marketable securities	148,572	201,034	201,034
Foreign currencies	83	272	272
	₩ 499,323	₩ 387,989	₩387,989

The Group designates financial assets that are held for strategic reasons as measured at FVOCI as these financial assets are not held for capital appreciation through investment. In other cases, it is classified as financial assets measured at FVTPL.

8. Financial assets measured at FVOCI (cont'd)

Details of disposal of equity securities measured at FVOCI at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018	
	Fair value at the time of disposal	Accumulated profit and loss at the time of disposal
Equity securities:		
Marketable securities	₩ 9,461	₩ (963)

The Group disposed an equity instrument measured at FVOCI for the three-month period ended March 31, 2018 to realize a gain and loss from changes in the fair value of an investment in the equity instrument. The Group will reclassify the accumulative profits or losses on equity securities measured at FVOCI from other comprehensive income to retained earnings at the end of the year.

Details of financial assets measured at FVOCI provided as collaterals as at March 31, 2018 are as follows (Korean won in millions):

		March 31, 2018	
Provided to	Remarks	Pledged amount	Book value of securities provided as collaterals
Others:			
The Bank of Korea	Payment risk	₩1,590,000	₩ 1,586,968
	Daylight overdraft	500,000	499,206
	Borrowing	490,000	489,569
NH Life Insurance Co., Ltd and 7 others	Credit enhancement for derivative transactions	132,148	130,597
Korea Securities Depository and 2 others	Loaned securities	534,113	532,494
Korea Exchange and another	Others	11,000	10,918
		₩3,257,261	₩ 3,249,752

Changes in the total book value and allowance for losses on credit for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018	
	12 months expected credit losses (*1)	
	Total book value	Allowance for expected credit losses
Beginning balance	₩ 18,053,099	₩ 945
Acquisition	5,927,427	-
Reversal of allowance for expected credit losses (*2)	(1,077,213)	75
Disposal	(1,884,953)	(45)
Amortization	1,383	-
Others (*3)	(3,089)	(1)
Ending balance	₩ 21,016,654	₩ 974

(*1) There are no debt securities applied with lifetime expected credit losses.
(*2) Includes the amount of decrease in the total book value from the repayment of debt securities, and reversal of allowance for losses on credit.
(*3) Others include the amount of changes in exchange rates.

9. Securities at amortized cost

Details of securities at amortized cost as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018					
	Par value	Acquisition cost	Amortized cost	Book value	Fair value	Allowance for credit losses
Debt securities:						
Government bonds	₩2,896,004	₩2,836,639	₩2,835,880	₩2,835,880	₩2,833,173	₩ -
Financial bonds	1,130,000	1,129,644	1,129,698	1,129,677	1,128,954	(21)
Public and private bonds	4,419,812	4,419,602	4,419,673	4,418,899	4,370,908	(774)
Corporate bonds	710,000	710,401	710,094	710,032	711,861	(62)
	₩9,155,816	₩9,096,286	₩9,095,345	₩9,094,488	₩9,044,896	₩ (857)

Details of securities at amortized cost provided as collaterals as at March 31, 2018 are as follows (Korean won in millions):

		March 31, 2018	
Provided to	Remarks	Pledged amount	Book value of securities provided as collaterals
Others:			
The Bank of Korea	Payment risk	₩ 2,008,500	₩ 1,996,670
	Daylight overdraft	468,900	463,947
	Borrowing	753,200	751,940
NH Futures Co., Ltd. and 4 others	Substituted securities for derivative transaction	72,500	72,502
NH Capital Co., Ltd. and another	Others	10,721	9,828
		₩ 3,313,821	₩ 3,294,887

Changes in the total book value and allowance for credit losses for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018	
	12 months expected credit losses (*1)	
	Total book value	Allowance for expected credit losses
Beginning balance	₩ 8,231,407	₩ 884
Acquisition	1,017,925	-
Reversal of allowance for expected credit losses (*2)	(155,531)	(27)
Amortization	1,544	-
Ending balance	₩ 9,095,345	₩ 857

(*1) There are no debt securities applied with lifetime expected credit losses.
(*2) Includes the amount of decrease in the total book value from the repayment of debt securities, and reversal of allowance for losses on credit.

10. Loans and receivables at amortized cost

Details of loans and receivables at amortized cost as at March 31, 2018 are as follows (Korean won in millions):

Classification	Type	March 31, 2018
Loans in Korean won	Corporate	₩ 83,576,467
	Household	96,197,735
	Public	12,827,640
	Integrated	764,624
		193,366,466
	Allowance for expected credit losses	(1,182,124)
		192,184,342
Loans in foreign currency	Loans	1,320,133
	Off-shore	77,442
		1,397,575
	Allowance for expected credit losses	(140,311)
		1,257,264
Other loans	Credit card receivables	6,251,559
	Bills purchased	10,170
	Bills purchased in foreign currency	1,325,184
	Private placement bonds	42,275
	Payment for acceptances and guarantees	19,066
	Domestic import usance	1,668,459
	Others	10,052,398
		19,369,111
	Allowance for expected credit losses	(338,359)
		19,030,752
Receivables	Receivables	6,687,613
	Allowance for expected credit losses	(47,136)
		6,640,477
Total loans and receivables		220,820,765
Total allowance for losses on credit		(1,707,930)
Deferred LOF/LOC		263,526
Present-value discounts of receivables		(15,078)
Total loans and receivables, net		₩ 219,361,283

Details of receivables at amortized cost as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018
Domestic exchange settlement debits	₩ 595,391
Accrued income	850,035
Accounts receivable	3,819,541
Suspense payment	9,828
Guarantee deposits paid	485,444
Unsettled credit card receivables	173,638
Intercompany receivables	745,425
Receivables from proxy sale of NACF	2,391
Others	5,920
	6,687,613
Allowance for expected credit losses	(47,136)
Present value discounts	(15,078)
	₩ 6,625,399

10. Loans and receivables at amortized cost (cont'd)

Changes in deferred LOF/LOC for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018			
	January 1, 2018	Increase	Decrease	March 31, 2018
Deferred LOF	₩ (15,644)	₩ (1,697)	₩ (2,946)	₩ (14,395)
Deferred LOC	287,312	47,777	57,168	277,921
Deferred LOC, net	₩ 271,668	₩ 46,080	₩ 54,222	₩ 263,526

As at March 31, 2018, 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):

	March 31, 2018
Total amount of loans and receivables (*)	₩ 221,084,291
Allowance for expected credit losses	1,707,930
Ratio (%)	0.77

(*) Receivables and deferred LOF/LOC are included in total amounts of loans and receivables.

Changes in allowance for losses on credit for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

		Lifetime expected credit losses		
	12 months expected credit losses	Financial assets with a significant increase in credit risk	Credit-impaired financial assets	Total
Beginning balance	₩ 296,718	₩ 333,696	₩ 1,011,407	₩ 1,641,821
Transfer to expected 12-month credit losses	33,998	(32,288)	(1,710)	-
Transfer to financial assets with a significant increase in credit risk	(19,893)	22,052	(2,159)	-
Transfer to credit-impaired financial assets	(2,360)	(81,915)	84,275	-
Provision (reversal) of allowance for expected credit losses	(16,460)	33,450	106,672	123,662
Write-offs	-	-	(130,535)	(130,535)
Recovery of write-offs	-	2	96,525	96,527
Disposal	-	(667)	(10,433)	(11,100)
Debt-equity swap	-	-	(130)	(130)
Others (*)	4	-	(12,319)	(12,315)
Ending balance	₩ 292,007	₩ 274,330	₩ 1,141,593	₩ 1,707,930

(*) Others include the amount of changes in exchange rates.

10. Loans and receivables at amortized cost (cont'd)

Significant changes in the total book value for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

	12 months expected credit losses (*1)	Lifetime expected credit losses (*1): Financial assets with a significant increase in credit risk	Lifetime expected credit losses (*1): Credit-impaired financial assets	Total
Beginning balance	₩ 199,593,876	₩ 18,508,774	₩ 2,054,318	₩ 220,156,968
Transfer to expected 12-month credit losses	3,162,763	(3,155,826)	(6,937)	-
Transfer to financial assets with a significant increase in credit risk	(4,048,227)	4,057,969	(9,742)	-
Transfer to credit-impaired financial assets	(96,265)	(301,991)	398,256	-
Financial assets originated or derecognised	1,906,003	(969,407)	(66,806)	869,790
Write-offs and disposals	-	(24,225)	(172,310)	(196,535)
Debt-equity swap	-	-	(1,274)	(1,274)
Others (*2)	(8,184)	-	-	(8,184)
Ending balance	₩ 200,509,966	₩ 18,115,294	₩ 2,195,505	₩ 220,820,765

(*1) Deferred LOF/LOC and present value discounts are not included.
(*2) Others include the amount of changes in exchange rates .

The uncollected contractual amount of financial assets that were written off during the three-month period ended March 31, 2018, but are still recoverable amounts to ₩130,535 million.

11. Risk exposure and concentration of financial instruments

11.1 The Group's maximum level of exposures to credit risk

The Group's maximum level of exposures to credit risk as at March 31, 2018 and December 31, 2017 are summarized as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Deposits	₩ 3,688,277	₩ 5,971,890
Loans	212,735,884	213,674,580
Receivables	6,625,399	5,229,953
Debt securities	36,154,328	31,862,846
Derivative assets	607,463	1,031,312
Loans and credit commitments	76,261,080	60,178,800
Guarantees and endorsed bills	4,767,292	4,904,107
Financial guarantee contracts	3,220,845	3,097,933
	₩344,060,568	₩ 325,951,421

11. Risk exposure and concentration of financial instruments (cont'd)

11.2 Classification of financial instruments based on credit risk

Measurement credit risk exposures of loan receivables at amortized cost based on internal risk level as of the end of the reporting period are as follows (Korean won in millions):

Credit risk levels (internal level)	Loans in Korean won (*1) 12-month	Loans in Korean won (*1) Significant increases	Loans in Korean won (*1) Impairment	Loans in foreign currency (*1) 12 months	Loans in foreign currency (*1) Significant increases	Loans in foreign currency (*1) Impairment	Others (*1 and *2) 12-month	Others (*1 and *2) Significant increases	Others (*1 and *2) Impairment
1~6 rating	₩176,503,412	₩13,460,690	₩ -	₩ 894,688	₩ 305,266	₩ -	₩16,015,915	₩ 2,853,588	₩ -
7 rating	87,844	1,044,687	-	-	203	-	21,956	53,891	-
8 rating	294	128,689	-	-	-	-	828	17,073	-
9,10 rating	-	-	958,726	-	-	57,107	-	-	67,501
Unrated	-	-	-	-	-	-	-	-	-
	₩176,591,550	₩14,634,066	₩ 958,726	₩ 894,688	₩ 305,469	₩ 57,107	₩16,038,699	₩ 2,924,552	₩ 67,501

(*1) The above amounts of loans and receivables are the net book values after deducting the allowance for losses, and are not including the deferred LOF/LOC and present value discounts.
(*2) Receivables are not included in others.

The level of exposures to credit risk of loan commitment and financial guarantee contract based on internal risk level as at March 31, 2018 are summarized as follows (Korean won in millions):

Credit risk levels (internal level)	Loan commitment 12 months	Loan commitment Significant increases	Loan commitment Impairment	Financial guarantee contract 12 months	Financial guarantee contract Significant increases	Financial guarantee contract Impairment
1~6 rating	₩ 56,181,749	₩ 19,549,480	₩ -	₩ 2,210,605	₩ 666,936	₩ -
7 rating	24,741	100,598	-	-	343,304	-
8 rating	242	9,401	-	-	-	-
9,10 rating	-	-	394,869	-	-	-
Unrated	-	-	-	-	-	-
	₩ 56,206,732	₩ 19,659,479	₩ 394,869	₩ 2,210,605	₩ 1,010,240	₩ -

The level of exposures to credit risk of debt securities as at March 31, 2018 are summarized as follows (Korean won in millions):

Credit risk levels (internal level)	March 31, 2018 — 12 months expected credit losses (*) Financial assets measured at FVTPL	Financial assets measured at FVOCI	Financial assets measured at amortized cost
AAA	₩3,878,349	₩ 19,699,136	₩ 9,074,495
AA+ ~ AA-	2,150,811	1,173,965	19,993
A+ ~ BBB	15,000	142,579	-
Under BBB-	-	-	-
Less than BB+	-	-	-
	₩6,044,160	₩ 21,015,680	₩ 9,094,488

(*) There are no debt securities applied with lifetime expected credit losses.

11. Risk exposure and concentration of financial instruments (cont'd)

11.3 Percentage of allowance for losses on credit of financial instruments

As at March 31, 2018, 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):

	March 31, 2018		
	Financial assets measured at FVOCI	Securities at amortized cost	Loans and receivables at amortized cost (*)
Total amount of loans and receivables	₩21,016,654	₩ 9,095,345	₩ 214,133,152
Allowance for expected credit losses	974	857	1,660,794
Ratio (%)	-	0.01	0.78

(*) Receivables and deferred LOF/LOC are not included in the above total amounts of loans and receivables.

12. Collateral and credit quality

12.1 Influence on the financial statements by collateral and credit quality enhancements

The extent of reducing credit risk due to collateral and other credit enhancements as at March 31, 2018 are as follows (Korean won in millions):

	Credit-impaired financial assets	Non credit-impaired financial assets
Loans	₩ 492,612	₩ 101,709,975
Commitments to loans and credit	42,900	2,797,778
Financial guarantee and notes payable	6,270	77,820
	₩ 541,782	₩ 104,585,573

12.2 Assets acquired by exercising security rights

Details of assets acquired by exercising security rights as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018
Property and equipment (*)	₩ 15

(*) Property and equipment are presented as non-current assets classified as held for sale in the statement of financial position.

12.3. Restructured loans

Details of restructured loans as at March 31, 2018 are as follows (Korean won in millions):

	March 31, 2018	
	Loans	Allowance
Reorganization and composition	₩ 184,035	₩ 83,344
Work-out	1,308,899	604,031
	₩1,492,934	₩687,375

13. Financial assets measured at FVTPL

Details of financial assets at FVTPL as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Held-for-trading financial assets:	
Equity securities	₩ 322,492
Debt securities	5,642,969
	5,965,461
Trading derivative assets	1,023,737
	₩ 6,989,198

Held-for-trading financial assets as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017				
	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 168,856	₩ -	₩ 181,072	₩ 181,072
Beneficiary certificates	-	100,000	-	100,454	100,454
Mutual funds	-	37,623	-	40,966	40,966
	-	306,479	-	322,492	322,492
Debt securities:					
Government and public bonds	1,425,356	1,463,777	1,427,565	1,424,510	1,424,510
Financial bonds	3,251,800	3,309,764	3,246,922	3,242,652	3,242,652
Corporate bonds	545,000	546,409	546,103	545,543	545,543
Public bonds	419,800	425,246	420,694	420,390	420,390
Others	10,088	9,921	9,891	9,874	9,874
	5,652,044	5,755,117	5,651,175	5,642,969	5,642,969
	₩5,652,044	₩6,061,596	₩5,651,175	₩5,965,461	₩5,965,461

Held-for-trading financial assets provided as collaterals as at December 31, 2017 are as follows (Korean won in millions):

		December 31, 2017	
Provided to	Remarks	Pledged amount	Book value of securities provided As collaterals
Kiwoom Asset Management and 7 others	Inter agency RP(Non-Ind Won)	₩347,650	₩ 344,772
NH Futures and 9 others	Substitute securities for derivative transactions	13,400	13,780
Korea Securities Finance and another	Others	89,000	88,839
		₩450,050	₩ 447,391

14. AFS and HTM financial assets

AFS and HTM financial assets as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017				
	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 350,145	₩ -	₩ 184,881	₩ 184,881
Non-marketable securities	-	267,729	-	270,871	270,871
Beneficiary certificates	-	2,104,711	-	2,096,043	2,096,043
Mutual funds	-	172,507	-	186,782	186,782
Foreign currency	-	98,727	-	52,436	52,436
Others	-	237,091	-	227,329	227,329
	-	3,230,910	-	3,018,342	3,018,342
Debt securities:					
Government and public bonds	3,090,000	3,083,041	3,083,676	3,059,587	3,059,587
Financial bonds	13,110,000	13,096,591	13,095,803	13,063,963	13,063,963
Public bonds	280,000	280,274	280,215	278,624	278,624
Corporate bonds	954,700	954,236	954,249	951,050	951,050
Foreign currency	636,947	671,358	669,149	635,246	635,246
	18,071,647	18,085,500	18,083,092	17,988,470	17,988,470
Total AFS financial assets	18,071,647	21,316,410	18,083,092	21,006,812	21,006,812
HTM financial assets:					
Debt securities:					
Government and public bonds	2,186,007	2,158,664	2,156,394	2,156,394	2,152,747
Financial bonds	1,110,000	1,109,697	1,109,712	1,109,712	1,107,386
Public bonds	540,000	540,401	540,112	540,112	541,586
Corporate bonds	4,425,340	4,425,130	4,425,189	4,425,189	4,375,948
Total HTM financial assets	8,261,347	8,233,892	8,231,407	8,231,407	8,177,667
	₩26,332,994	₩29,550,302	₩26,314,499	₩29,238,219	₩29,184,479

Details of AFS financial assets measured at acquisition costs as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017 (*)
Korea Asset Management Corporation	₩ 6,670
Green GunSan GiKiMi Co., Ltd.	1,287
Others	1,653
	₩ 9,610

(*) Measured at acquisition costs since it is difficult to estimate the future cash flows as there is no other company of a similar business and size that can be compared to and it is difficult to have their fair values measured reliably by third-party valuation agencies.

14. AFS and HTM financial assets (cont'd)

Details of AFS and HTM financial assets provided as collaterals as at December 31, 2017 are as follows (Korean won in millions):

		December 31, 2017	
Provided to	Remarks	Pledged amount	Book value of securities provided as collaterals
Others			
The Bank of Korea	Payment risk	₩3,600,300	₩ 3,588,276
The Bank of Korea	Daylight overdraft	968,900	961,549
The Bank of Korea	Borrowing	1,243,200	1,240,560
NH Futures Co., Ltd and 4 others	Substituted securities for derivative transaction	77,500	77,504
NH Life Insurance Co., Ltd. and 5 others	Credit reinforcements for derivative transaction	187,835	184,877
Korea Exchange and 3 others	Others	21,721	20,735
		₩6,099,456	₩ 6,073,501

Structured securities as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Callable bonds	₩ 3,925,200

15. Loans and receivables

Loans and receivables as at December 31, 2017 are as follows (Korean won in millions):

Classification	Type	December 31, 2017
Loans in Korean won	Corporate	₩ 82,983,921
	Household	94,189,772
	Public	13,886,365
	Integrated	793,728
		191,853,786
	Allowance	(1,178,408)
	Book value, net	190,675,378
Loans in foreign currency	Loans	1,373,783
	Off-shore	72,193
		1,445,976
	Allowance	(109,875)
`	Book value, net	1,336,101
Other loans	Credit card receivables	6,398,406
	Bills purchased	710
	Bills purchased in foreign currency	1,580,829
	Private placement bonds	84,682
	Payment for acceptances and guarantees	21,122
	Domestic import usance	1,557,220
	Others	11,977,043
		21,620,012
	Allowance	(222,949)
	Book value, net	21,397,063
Receivables	Receivables	5,294,634
	Allowance	(49,056)
	Book value, net	5,245,578
Total loans and receivables		220,214,408
Total allowance for losses on credit		(1,560,288)
Deferred LOF/LOC		271,668
Present-value discounts	Loans	(5,630)
	Receivables	(15,625)
Total loans and receivables, net		₩ 218,904,533

15.1 Percentage of allowance for losses on credit of loans and receivables

As at December 31, 2017 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):

	December 31, 2017
Total amount of loans and receivables (*)	₩ 220,486,076
Allowance for losses on credit	1,560,288
Ratio (%)	0.71

(*) Receivables and deferred LOF/LOC are included in the total amounts of loans and receivables.

15. Loans and receivables (cont'd)

15.2 Classification of loans by credit rating

Details of impaired loans as at December 31, 2017 are as follows (Korean won in millions):

Classification	December 31, 2017 Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ 171,628	₩ -	₩ -	₩ 171,628	₩ (32,355)
Rating 7	99,789	-	-	99,789	(4,623)
Rating 8	-	-	-	-	-
Rating 9–10	1,691,958	-	-	1,691,958	(776,378)
	1,963,375	-	-	1,963,375	(813,356)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	208,786	382,202	-	590,988	(255,143)
	208,786	382,202	-	590,988	(255,143)
	₩ 2,172,161	₩ 382,202	₩ -	₩ 2,554,363	₩ (1,068,499)

(*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 is delinquent on payment of the principal and interest on the contractual payment date. Impairment occurs when the impairment event has objective evidence of impairment and affects estimated future cash flow. The Group defines the objective evidence of impairment as follows; Significant financial difficulty of obligor, nonfulfillment of obligation, bankruptcy, financial restructuring, etc.

Details of loans, neither overdue nor impaired, as at December 31, 2017 are as follows (Korean won in millions):

Classification	December 31, 2017 Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 52,267,055	₩ 120,875,248	₩ 34,708,918	₩ 207,851,221	₩ (332,210)
Rating 7	764,097	772,194	151,002	1,687,293	(41,528)
Rating 8	28,331	-	59,910	88,241	(10,179)
Rating 9–10	-	-	-	-	-
Unrated (*3)	40,345	140,256	1,160,893	1,341,494	(1,137)
	₩ 53,099,828	₩ 121,787,698	₩ 36,080,723	₩ 210,968,249	₩ (385,054)

(*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 category.
(*3) Loans made without credit evaluation of 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.

15. Loans and receivables (cont'd)

15.3 Classification of loans by credit rating

Details of loans, overdue but not impaired, as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 159,373	₩ 226,916	₩ 12,668	₩ 398,957	₩ (7,332)
Rating 7	104,966	783,677	-	888,643	(26,711)
Rating 8	8,499	100,292	-	108,791	(23,631)
Rating 9–10	-	-	-	-	-
Unrated (*3)	663	57	51	771	(5)
	₩ 273,501	₩ 1,110,942	₩ 12,719	₩ 1,397,162	₩ (57,679)

(*1) These amounts of loans and total allowance for losses on credit have not reflected in deferred LOF/LOC.
(*2) Receivables are not included in others category.
(*3) Loans made without credit evaluation of 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.

The ageing analysis of loans, overdue but not impaired, as at December 31, 2017 is as follows (Korean won in millions):

	December 31, 2017				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 233,856	₩ 969,868	₩ 12,716	₩1,216,440	₩(34,435)
More than 30 days and less than 60 days	28,310	87,177	-	115,487	(13,482)
More than 60 days and less than 90 days	11,335	53,897	3	65,235	(9,762)
	₩ 273,501	₩1,110,942	₩ 12,719	₩1,397,162	₩(57,679)

(*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.

15.4 Financial impact of collateral on loans

The extent of reducing credit risk due to collateral and other credit enhancements as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Loans	₩ 2,124,094
Receivables	52,056
Acceptances and guarantees	10,941
Loans and credit commitment	10,384
	₩ 2,197,475

15. Loans and receivables (cont'd)

15.5 Financial impact of collateral on loans

Details of assets acquired by exercising security rights as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Property and equipment (*)	₩ 15

(*) They are presented as non-current assets classified as held for sale in the separate statements of financial position.

15.6 Restructured loans

Details of restructured loans as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017	
	Loans	Allowances
Reorganization and composition	₩ 174,484	₩ (59,854)
Work-out	1,250,492	(474,155)
	₩ 1,424,976	₩ (534,009)

15.7 Receivables

Details of receivables as at December 31, 2017 are as follows (Korean won in millions):

	December 31, 2017
Domestic exchange settlement debits	₩ 1,850,621
Accrued income	693,170
Accounts receivable	1,189,941
Suspense payment	9,506
Guarantee deposits paid	498,098
Unsettled credit card receivables	196,687
Intercompany receivables	845,812
Receivables from proxy sale of NACF	1,696
Others	9,103
Total receivables	5,294,634
Allowance for losses on credit	(49,056)
Present value discounts	(15,625)
Total of receivables, net	₩ 5,229,953

15.8 Changes in deferred LOF/LOC

Changes in deferred LOF/LOC for three-month period ended March 31, 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2017			
Classification	January 1, 2017	Increase	Decrease	March 31, 2017
Deferred LOF	₩ (14,193)	₩ (1,200)	₩ (2,529)	₩ (12,864)
Deferred LOC	322,212	38,903	58,754	302,361
Deferred LOC, net	₩ 308,019	₩ 37,703	₩ 56,225	₩ 289,497

15. Loans and receivables (cont'd)

15.9 Changes in allowance for losses on credit

Changes in allowance for losses on credit for three-month period ended March 31, 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Beginning balance	₩	1,477,079
Provision of allowance for losses on credit		165,482
Transactions during the period		(155,876)
Foreign exchange translation		(11,059)
Unwinding effect		(20,313)
Debt-equity swap		(47,444)
Others		354
		(68,856)
Ending balance	₩	1,408,223

16. Investment in associates

Details of investments in associates as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018					
	Main business	Location	Financial statement date	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	Korea	December 31, 2017	180	9.00	₩ 6,981
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	Korea	December 31, 2017	600	9.98	3,357
NH Agri-Best 1st PEF (*2)	Other financial business	Korea	March 31, 2018	6	70.29	1,900
NHQCP SME Global Investment Partnership PEF (*2 and *3)	Other financial business	Korea	March 31, 2018	-	24.95	7,825
IBK-NH Small Giant PEF (*2)	Other financial business	Korea	March 31, 2018	1	44.90	9,130
NH-AJUIB Growth 2013 PEF (*2)	Other financial business	Korea	March 31, 2018	19,557,949	29.95	29,836
Kyunggi-DSC Superman Investment Fund No. 1	Other financial business	Korea	March 31, 2018	4	25.00	3,375
NH Agri-Biz Value Creative 1st PEF (*2)	Other financial business	Korea	March 31, 2018	5,284,870	48.04	5,059
Changmyung Shipping Co., Ltd	Overseas car transportation business	Korea	March 31, 2018	121	21.05	-
STX Offshore & Shipbuilding Co., Ltd	Shipbuilding and repair business	Korea	March 31, 2018	7,500	20.10	-
						₩67,463

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.
(*2) It was excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.
(*3) Although the Group has no interest in the investee due to the return of the investment, the investee was included as an associate since the Group's ownership to the investee's residual properties is effective based on the contract.

16. Investment in associates (cont'd)

	December 31, 2017					
	Main business	Location	Financial statement date	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	Korea	December 31, 2017	180	9.00	₩ 6,886
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	Korea	September 30, 2017	600	9.98	3,355
NH Agri-Best 1st PEF (*2)	Other financial business	Korea	December 31, 2017	6	70.29	1,897
NHQCP SME Global Investment Partnership PEF (*2 and *3)	Other financial business	Korea	December 31, 2017	-	24.95	7,985
IBK-NH Small Giant PEF (*2)	Other financial business	Korea	December 31, 2017	1	44.90	9,099
NH-AJUIB Growth 2013 PEF (*2)	Other financial business	Korea	December 31, 2017	25,547,949	29.95	32,544
Kyunggi-DSC Superman Investment Fund No. 1	Other financial business	Korea	December 31, 2017	5	25.00	4,265
NH Agri-Biz Value Creative 1st PEF (*2)	Other financial business	Korea	December 31, 2017	3,364,870	48.07	3,059
Changmyung Shipping Co., Ltd. (*4)	Overseas car transportation business	Korea	December 31, 2017	121	21.05	-
STX Offshore & Shipbuilding Co., Ltd. (*4)	Shipbuilding and repair business	Korea	December 31, 2017	7,500	20.10	-
						₩ 69,090

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of senior management like directors.
(*2) It was excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.
(*3) Although the Group has no interest in the investee due to the return of the investment, the investee was included as an associate since the Group's ownership to the investee's residual properties is effective based on the contract.
(*4) Changmyung Shipping Co., Ltd. and STX Offshore & Shipbuilding Co., Ltd. were included as associates during the prior reporting period as their workout process had been completed.

16. Investment in associates (cont'd)

Changes in investment in associates for the three-month ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month ended March 31, 2018						
	Beginning	Acquisition	Disposal	Dividend	Gain (loss) on valuation of equity method investments	Share of other comprehensive gain (loss) of associates	Ending
Korea Credit Bureaus Co., Ltd.	₩ 6,886	₩ -	₩ -	₩ -	₩ 95	₩ -	₩ 6,981
Nanumlotto Co., Ltd.	3,355	-	-	-	-	2	3,357
NH Agri-Best 1st PEF	1,897	-	-	-	3	-	1,900
NHQCP SME Global Investment Partnership PEF	7,985	-	-	-	(160)	-	7,825
IBK-NH Smallgiant PEF	9,099	-	-		31	-	9,130
NH-AJUIB Growth 2013 PEF	32,544	-	(5,990)	(1,677)	4,959	-	29,836
Kyunggi-DSC Superman Investment Fund No. 1	4,265	-	(600)	-	(290)	-	3,375
NH Agri-Biz Value Creative 1st PEF	3,059	1,920	-	-	80	-	5,059
Changmyung Shipping Co., Ltd.	-	-	-	-	-	-	-
STX Offshore & Shipbuilding Co., Ltd.	-	-	-	-	-	-	-
	₩ 69,090	₩ 1,920	₩(6,590)	₩(1,677)	₩ 4,718	₩ 2	₩67,463

	Three-month period ended March 31, 2017						
	Beginning	Acquisition	Disposal	Dividend	Gain (loss) on valuation of equity method investments	Share of other comprehensive gain (loss) of associates	Ending
Korea Credit Bureau Co., Ltd.	₩ 6,683	₩ -	₩ -	₩ (135)	₩ 70	₩ -	₩ 6,618
Nanumlotto Co., Ltd.	3,220	-	-	-	-	-	3,220
NH Agri-Best 1st PEF	1,869	-	-	-	7	-	1,876
NH—Kolon Green 1st PEF (*)	1,104	-	(705)	-	(198)	(201)	-
NH-QCP Global Partnership PEF	37,248	-	(18,962)	-	(794)	739	18,231
IBK-NH Smallgiant PEF	-	5,033	-	-	(633)	(256)	4,144
NH-AJUIB Growth 2013 PEF	37,670	-	-	-	(1,559)	(767)	35,344
Kyunggi-DSC Superman Investment Fund No.1	4,828	-	-	-	(31)	(2)	4,795
NH Agri-Biz Value Creative 1st PEF	1,469	481	-	-	(48)	14	1,916
	₩ 94,091	₩ 5,514	₩(19,667)	₩ (135)	₩ (3,186)	₩ (473)	₩76,144

(*) NH - Kolon Green 1st PEF was liquidated during the three-month period ended March 31, 2017.

A summary of financial information of associates as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018					
	Assets	Liability	Equity	Operating income	Net income (loss)	Total comprehensive Income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 75,668	₩ 18,425	₩ 57,243	₩69,568	₩ 1,062	₩ 1,062
Nanumlotto Co., Ltd.	50,088	18,110	31,978	58,202	2,357	2,071
NH Agri-Best 1st PEF	3,188	486	2,702	8	6	6
NHQCP SME Global Investment Partnership PEF	31,394	31	31,363	1	(641)	(641)
IBK-NH Small Giant PEF	20,508	173	20,235	25	70	70
NH-AJUIB Growth 2013 PEF	110,173	10,555	99,618	20,839	16,556	16,566
Kyunggi-DSC Superman Investment Fund No. 1	14,343	842	13,501	491	(1,160)	(1,160)
NH Agri-Biz Value Creative 1st PEF	10,658	128	10,530	337	166	166
Changmyung Shipping Co., Ltd.	260,980	363,838	(102,858)	9,950	(1,340)	(717)
STX Offshore & Shipbuilding (*)	2,363,579	7,003,979	(4,640,400)	58,089	(1,792)	(11,122)

(*) Gain on exemption of accounts payable due to debt equity swap is excluded.

16. Investment in associates (cont'd)

	December 31, 2017					
	Assets	Liability	Equity	Operating income	Net income (loss)	Total comprehensive Income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 75,504	₩ 19,323	₩ 56,181	₩ 68,750	₩ 3,756	₩ 3,756
Nanumlotto Co., Ltd.	51,099	19,147	31,952	43,215	2,018	1,925
NH Agri-Best 1st PEF	3,184	486	2,698	38	38	38
NHQCP SME Global Investment Partnership PEF	32,043	38	32,005	6,204	(4,171)	(1,715)
IBK-NH Small Giant PEF	20,593	328	20,265	26	(674)	(623)
NH-AJUIB Growth 2013 PEF	119,173	10,511	108,662	25,907	11,199	14,386
Kyunggi-DSC Superman Investment Fund No. 1	17,181	120	17,061	397	(1,342)	(2,251)
NH Agri-Biz Value Creative 1st PEF	6,490	126	6,364	156	(378)	312
Changmyung Shipping Co., Ltd.	316,505	406,314	(89,809)	44,634	(33,886)	(26,616)
STX Offshore & Shipbuilding(*)	3,073,470	7,520,862	(4,447,392)	(91,165)	(122,501)	(109,548)

(*) Gain on exemption of accounts payable due to debt equity swap is excluded.

A reconciliation of the financial information presented in the carrying amount of its interest in the associates as at March 31, 2018 and December 31, 2017 is as follows (Korean won in millions):

	March 31, 2018				
	Equity	Percentage of ownership (%)	Interest in associates	Others (*1)	Book value
Korea Credit Bureaus Co., Ltd.	₩ 57,243	9.00	₩ 5,152	₩ 1,830	₩ 6,982
Nanumlotto Co., Ltd.	31,978	9.98	3,190	167	3,357
NH Agri-Best 1st PEF	2,702	70.29	1,900	-	1,900
NHQCP SME Global Investment Partnership PEF (*2)	31,363	24.95	7,825	-	7,825
IBK-NH Small Giant PEF	20,335	44.90	9,130	-	9,130
NH-AJUIB Growth 2013 PEF	99,618	29.95	29,836	-	29,836
Kyunggi-DSC Superman Investment Fund No. 1	13,501	25.00	3,375	-	3,375
NH Agri-Biz Value Creative 1st Private Equity Fund	10,530	48.04	5,059	-	5,059
Changmyung Shipping Co., Ltd.	(102,858)	21.05	(21,652)	21,652	-
STX Offshore & Shipbuilding (*3)	(4,640,400)	20.10	(932,720)	932,720	-

(*1) Others represent the unrecognized amount of accumulated losses incurred from the discontinuance of equity method on interests in the associates. Due to fair value adjustments arising from acquisitions of equity interests and accumulated losses for the three-month period ended March 31, 2018, the Group discontinued recognizing its shares of future losses as its investment amount fell zero.
(*2) The Group applied the equity method in consideration of the ownership percentage of type 1 capital and type 2 capital.
(*3) Gain on exemption of accounts payable due to debt equity swap is excluded.

16. Investment in associates (cont'd)

	December 31, 2017				
	Equity	Percentage of ownership (%)	Interest in associates	Others (*1)	Book value
Korea Credit Bureaus Co., Ltd.	₩ 56,181	9.00	₩ 5,056	₩ -	₩ 6,886
Nanumlotto Co., Ltd.	31,952	9.98	3,188	-	3,355
NH Agri-Best 1st PEF	2,698	70.29	1,897	-	1,897
NHQCP SME Global Investment Partnership PEF (*2)	32,005	24.95	7,985	-	7,985
IBK-NH Small Giant PEF	20,265	44.90	9,099	-	9,099
NH-AJUIB Growth 2013 PEF	108,662	29.95	32,544	-	32,544
Kyunggi-DSC Superman Investment Fund No. 1	17,061	25.00	4,265	-	4,265
NH Agri-Biz Value Creative 1st Private Equity Fund	6,364	48.07	3,059	-	3,059
Changmyung Shipping Co., Ltd.	(89,809)	21.05	(18,905)	18,905	-
STX Offshore & Shipbuilding (*3)	(4,447,392)	20.10	(893,926)	893,926	-

(*1) Others represent the unrecognized amount of accumulated losses incurred from the discontinuance of equity method on interests in the associates. Due to fair value adjustments arising from acquisitions of equity interests and accumulated losses for the three-month period ended March 31, 2018, the Group discontinued recognizing its shares of future losses as its investment amount fell zero.
(*2) The Group applied the equity method in consideration of the ownership percentage of type 1 capital and type 2 capital.
(*3) Gain on exemption of accounts payable due to debt equity swap is excluded.

17. Tangible assets

Changes in acquisition cost of tangible assets for three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018						
Classification	January 1, 2018	Acquisition	Disposal	Depreciation	Transfer (*)	Others	March 31, 2018
Land	₩1,417,970	₩ 4,878	₩ (468)	₩ -	₩ 1,111	₩ -	₩1,423,491
Buildings	927,464	2,433	(23)	(9,026)	2,274	(7)	923,115
Leasehold improvements	45,105	1,613	(12)	(5,115)	-	5	41,596
Movable properties	250,126	3,795	(11)	(28,066)	-	(1)	225,843
Construction in progress	5,755	624	-	-	(2,006)	-	4,373
Subsidy	(1,180)	-	-	52	-	-	(1,128)
	₩2,645,240	₩13,343	₩ (514)	₩(42,155)	₩ 1,379	₩ (3)	₩2,617,290

(*) ₩1,379 million of tangible assets were transferred from investment properties due to changes in ratio of leased area of land and building. ₩2,006 million of construction in progress were transferred to movable properties for business purpose and investment properties, respectively.

	Three-month period ended March 31, 2017						
Classification	January 1, 2017	Acquisition	Disposal	Depreciation	Transfer (*)	Others	March 31, 2017
Land	₩1,429,835	₩ -	₩ (36)	₩ -	₩ (19,910)	₩ -	₩1,409,889
Buildings	824,381	449	(227)	(7,677)	(2,938)	1	813,989
Leasehold improvements	44,941	763	(312)	(4,953)	-	(27)	40,412
Movable properties	295,199	5,390	(193)	(29,517)	-	(20)	270,859
Construction in progress	40,597	2,714	-	-	-	-	43,311
Subsidy	(1,038)	-	-	47	-	-	(991)
	₩2,633,915	₩9,316	₩ (768)	₩(42,100)	₩ (22,848)	₩ (46)	₩2,577,469

(*) Tangible assets amounting to ₩22,848 million were transferred from investment properties due to changes in the ratio of the leased area of land and buildings.

18. Investment properties and non-current assets classified as AFS

Fair values of investment properties amount to ₩697,072 million and ₩708,130 million as at March 31, 2018 and December 31, 2017 respectively. Fair values are measured based on valuation results performed by independent professionals. Rental income from investment properties for the three-month periods ended March 31, 2018 and 2017 amounts to ₩4,049 million and ₩5,097 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 three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018					
Classification	January 1, 2018	Acquisition	Disposal	Depreciation	Transfer (*)	March 31, 2018
Land	₩ 457,319	₩ -	₩ (28)	₩ -	₩ (1,111)	₩ 456,180
Buildings	128,923	50	-	(1,173)	(268)	127,532
	₩ 586,242	₩ 50	₩ (28)	₩ (1,173)	₩ (1,379)	₩ 583,712

(*) ₩1,379 million was transferred to tangible assets due to changes in ratio of leased area of land and buildings.

	Three-month period ended March 31, 2017					
Classification	January 1, 2017	Acquisition	Disposal	Depreciation	Transfer (*)	March 31, 2017
Land	₩ 487,489	₩ -	₩ (1)	₩ -	₩ 19,910	₩ 507,398
Buildings	160,259	21	-	(1,378)	2,938	161,840
	₩ 647,748	₩ 21	₩ (1)	₩ (1,378)	₩ 22,848	₩ 669,238

(*) ₩22,848 million was transferred from tangible assets due to changes in ratio of leased area of land and buildings.

At the end of the reporting period, the book value of assets held for sale is ₩15 million, and there have been no changes for the three-month periods ended March 31, 2018 and 2017.

19. Intangible assets

Changes in the book value of intangible assets for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period March 31, 2018					
	January 1, 2018	Acquisition	Disposal	Amortization	Other	March 31, 2018
Development costs	₩ 161,654	₩ 1,510	₩ -	₩ (10,874)	₩ 4	₩ 152,294
Other intangible assets	210,539	67,911	-	(20,510)	-	257,940
	₩ 372,193	₩ 69,421	₩ -	₩ (31,384)	₩ 4	₩ 410,234

	Three-month period March 31, 2017				
	January 1, 2017	Acquisition	Disposal	Amortization	March 31, 2017
Development costs	₩ 121,134	₩ 31,133	₩ (92)	₩ (8,860)	₩ 143,315
Other intangible assets	189,970	51,353	(680)	(23,106)	217,537
	₩ 311,104	₩ 82,486	₩ (772)	₩ (31,966)	₩ 360,852

20. Other assets

Details of other assets as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Prepaid expenses	₩ 74,440	₩ 68,341
Supplies	4,095	3,734
Guarantee deposits paid	5,394	5,105
Suspense payment	808	493
Guarantees	144	171
Telephone and telex rights	1,389	1,393
Others	1,714	1,110
	₩ 87,984	₩ 80,347

21. Financial liabilities

Details of financial liabilities as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	
	Book value	Fair value
Financial liabilities at FVTPL:		
FVTPL liabilities	₩ 17,831	₩ 17,831
Derivative liabilities:	606,722	606,722
Trading derivative liabilities	49,302	49,302
Hedging derivative liabilities	656,024	656,024
Financial liabilities measured at amortized cost:		
Deposits due to customers (*2)	212,652,282	213,673,118
Borrowings (*2)	10,727,036	10,727,488
Debentures (*2)	16,920,644	17,004,455
Others (*1 and *3)	12,232,552	11,157,740
	252,532,514	252,562,801
	₩ 253,206,369	₩ 253,236,656

(*1) Others consist of domestic exchange settlements credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in fair value.
(*3) Interest payables included in the computation for fair value of deposits due to customers, borrowings and debentures are excluded from fair value of other financial liabilities.

	December 31, 2017	
	Book value	Fair value
Financial liabilities at FVTPL:		
Held-for-trading financial liabilities	₩ 51,737	₩ 51,737
Trading derivative liabilities	967,629	967,629
	1,019,366	1,019,366
Derivative liabilities:		
Hedging derivative liabilities	25,881	25,881
Financial liabilities measured at amortized cost:		
Deposits due to customers (*2)	205,768,316	206,634,371
Borrowings (*2)	12,227,485	12,227,065
Debentures (*2)	18,968,727	19,053,448
Others (*1 and *3)	13,286,057	12,382,275
	250,250,585	250,297,159
	₩ 251,295,832	₩ 251,342,406

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in fair value.
(*3) Interest payables included in the computation for fair value of deposits due to customers, borrowings and debentures are excluded from fair value of other financial liabilities.

There are no financial liabilities designated at FVTPL as at March 31, 2018 and December 31, 2017.

22. Deposits due to customers

Details of deposits due to customers as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Classification		March 31, 2018	December 31, 2017
Demand deposits:			
Korean won	Checking accounts	₩ 93,938	₩ 123,005
	Household checking accounts	168,024	168,683
	Ordinary deposits	19,936,251	20,330,603
	Special deposits	2,007,932	1,876,203
	Official deposits	7,869,596	11,902,502
	Treasury deposits	268,678	50,854
	Other deposits	27,431	27,596
		30,371,850	34,479,446
Foreign currency	Checking accounts	5,780	6,271
	Ordinary deposits	1,873,709	1,897,809
	Special deposits	1,254	2,499
		1,880,743	1,906,579
		32,252,593	36,386,025
Time deposits:			
Saving deposits in Korean won	Fixed deposits	59,114,205	58,303,920
	Installment savings	972,165	1,194,977
	Raising lump sum of savings	1	1
	Saving deposits	35,389,089	35,154,595
	Corporate-free saving deposits	15,144,760	12,486,119
	Long-term deposits for workers	38	40
	Long-term deposits for housing	108,711	123,106
	Household long-term deposits	99	103
	Workers' preferred savings	67	68
	House application deposits	200,935	199,973
	Other saving deposits	64,029,820	57,440,454
		174,959,890	164,903,356
Saving deposits in foreign currency	Fixed deposits	931,803	898,523
	Deposits at call	1,113	2,224
	Other saving deposits	309,126	299,692
		1,242,042	1,200,439
Installment deposits	Mutual installment savings	2,861,967	2,830,737
	New house-free installment	45,405	49,998
	Free installment deposits	68	68
	House application installments	23,323	23,935
		2,930,763	2,904,738
		179,132,695	169,008,533
Certificates of deposit:		1,266,994	373,758
		₩212,652,282	₩ 205,768,316

23. Borrowings

Details of borrowings as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Classification	Provider	Interest rate (%)	March 31, 2018	December 31, 2017
Borrowings in Korean won	The Bank of Korea	0.50~0.75	₩ 888,793	₩ 968,354
	Public sector	(-)1.25~5.15	5,552,320	5,751,162
	Others	0.00~2.00	1,621,557	1,633,961
			8,062,670	8,353,477
Borrowings in foreign currency	Borrowings from banks	2.25~3.79	1,760,078	1,700,298
	Borrowings from government	2.19~2.81	214,430	215,415
			1,974,508	1,915,713
Call money		1.40	100,000	1,615,588
Bonds sold under repurchase agreements		1.68~1.78	585,000	337,800
Bills sold		0.50~1.50	4,858	4,907
			₩ 10,727,036	₩ 12,277,485

24. Debentures

Details of debentures as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

Classification	Interest rate (%)	March 31, 2018	December 31, 2017
Debentures in Korean won:			
General agricultural financial bonds	1.49~3.77	₩ 11,040,000	₩ 13,080,000
Subordinated agricultural financial bonds	2.52~4.61	3,800,000	3,800,000
Present-value discounts	-	(18,380)	(35,240)
		14,821,620	16,844,760
Debentures in foreign currency:			
General financial bonds	1.88~3.16	2,150,892	2,154,590
Accumulated loss on fair value hedges	-	(43,602)	(21,582)
Present-value discounts	-	(8,266)	(9,041)
		2,099,024	2,123,967
		₩ 16,920,644	₩ 18,968,727

25. Provisions

Details of provisions as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Provision for acceptances and guarantees	₩ 173,814	₩ 198,550
Provision for unused credit limit	93,555	103,491
Other provisions	123,649	129,923
	₩ 391,018	₩ 431,964

25. Provisions (cont'd)

Acceptances and guarantees (including endorsed bills) as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Confirmed acceptances and guarantees:		
Acceptances and guarantees in Korean won	₩ 423,104	₩ 470,145
Acceptances and guarantees purchased	142,865	148,177
Acceptances and guarantees for imported goods (letter of guarantees)	20,860	47,615
Acceptances and guarantees in foreign currencies	2,536,969	2,512,116
	3,123,798	3,178,053
Unconfirmed acceptances and guarantees:		
Issuance of local letter of credit	206,914	226,747
Issuance of import letter of credit	1,505,382	1,383,127
Others	497,810	634,844
	2,210,106	2,244,718
Bills endorsed	17,774	5,172
	₩ 5,351,678	₩ 5,427,943

The percentage of provision for acceptances and guarantees to the outstanding balance of acceptances and guarantees as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	Outstanding balance	Provision for acceptances and guarantees	Ratio (%)
March 31, 2018	₩ 5,351,678	₩ 173,814	3.25
December 31, 2017	5,427,943	₩ 198,550	3.66

The percentage of provision for unused credit limit to the outstanding balance of unused credit limit as at March 31, 2018 and December 31, 2017 is as follows (Korean won in millions):

	Outstanding balance	Provision for unused credit limit	Ratio (%)
March 31, 2018	₩ 78,897,539	₩ 93,555	0.12
December 31, 2017	62,752,897	₩ 103,491	0.16

Details of other provisions as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Provision for mileage	₩ 15,786	₩ 16,056
Provision for litigation	9,378	8,433
Provision for donation of public interest	3,762	3,669
Provision for restoration	27,995	28,099
Provision for refund of dormant deposits	292	292
Others	66,436	73,374
	₩ 123,649	₩ 129,923

Changes in provision for acceptances and guarantees and unused credit limits for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Provision for acceptances and guarantees	Provision for unused credit limits
January 1, 2018	₩ 200,908	₩ 106,731
Changes for the period:		
Reversal of provision	(26,801)	(13,114)
Foreign currency translation	(293)	(62)
March 31, 2018	₩ 173,814	₩ 93,555

25. Provisions (cont'd)

	Provision for acceptances and guarantees	Provision for unused credit limits
January 1, 2017	₩ 118,242	₩ 105,405
Changes for the period:		
Provision (reversal)	28,833	(6,963)
Foreign currency translation	(6,901)	(1,184)
March 31, 2017	₩ 140,174	₩ 97,258

26. Other liabilities

Details of other liabilities as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Trust accounts payable	₩ 2,476,206	₩ 2,353,022
Domestic exchange settlement credits	2,401,971	4,319,638
Foreign exchange settlement credits	24,728	31,460
Accounts payable	3,636,833	1,398,560
Accrued expenses	1,536,021	1,313,917
Guarantee deposit received	218,880	206,889
Agency	622,052	1,539,962
Financial guarantee contract	30,297	27,395
Unearned revenue	35,565	28,028
Deferred mileage revenue	80,192	79,545
Suspense receipt	201,498	155,537
Other sundry liabilities	1,436,990	2,267,392
	₩ 12,701,233	₩ 13,721,345

27. Derivatives and hedge accounting

Details of derivatives as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018			
	Derivative assets		Derivative liabilities	
	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 513,140	₩ -	₩ 465,209	₩ -
Currency swap	35,164	-	95,377	-
Currency options purchased	2,164	-	-	-
Currency options sold	-	-	2,172	-
	550,468	-	562,758	-
Interest rate:				
Interest rate swap	42,823	13,243	43,019	49,302
Interest rate options purchased	831	-	-	-
Interest rate options sold	-	-	831	-
	43,654	13,243	43,850	49,302
Stock:				
Stock options purchased	98	-	-	-
Stock options sold	-	-	114	-
	98	-	114	-
	₩ 594,220	₩ 13,243	₩ 606,722	₩ 49,302

27. Derivatives and hedge accounting (cont'd)

	December 31, 2017			
	Derivative assets		Derivative liabilities	
	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 930,419	₩ -	₩ 794,209	₩ -
Currency swap	38,534	-	116,707	-
Currency options purchased	2,629	-	-	-
Currency options sold	-	-	2,629	-
	971,582	-	913,545	-
Interest rate:				
Interest rate swap	51,545	7,575	54,016	25,881
Stock:				
Stock options purchased	610	-	-	-
Stock options sold	-	-	68	-
	610	-	68	-
	₩ 1,023,737	₩ 7,575	₩ 967,629	₩ 25,881

The notional amounts outstanding for derivative contracts as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018		
	Trading	Hedging	Total
Currency:			
Currency forwards	₩ 39,845,088	₩ -	₩ 39,845,088
Currency futures (*)	156,477	-	156,477
Currency swap	3,860,799	-	3,860,799
Currency options purchased	282,729	-	282,729
Currency options sold	282,729	-	282,729
	44,427,822	-	44,427,822
Interest rate:			
Interest futures	87,629	-	87,629
Interest rate swap	6,557,461	2,612,392	9,169,853
Interest options purchased	70,000	-	70,000
Interest options sold	70,000	-	70,000
	6,785,090	2,612,392	9,397,482
Stock:			
Stock options purchased	19,158	-	19,158
Stock options sold	19,196	-	19,196
	38,354	-	38,354
	₩ 51,251,266	₩ 2,612,392	₩ 53,863,658

(*) Futures transactions are settled daily and reflected in deposits.

27. Derivatives and hedge accounting (cont'd)

	December 31, 2017		
	Trading	Hedging	Total
Currency:			
Currency forwards	₩ 45,565,880	₩ -	₩ 45,565,880
Currency futures (*)	144,371	-	144,371
Currency swap	2,937,621	-	2,937,621
Currency options purchased	256,279	-	256,279
Currency options sold	256,279	-	256,279
	49,160,430	-	49,160,430
Interest rate:			
Interest rate swap	6,544,358	2,624,394	9,168,753
Stock:			
Stock options purchased	58,256	-	58,256
Stock options sold	15,115	-	15,115
	73,371	-	73,371
	₩ 55,778,159	₩ 2,624,394	₩ 58,402,554

(*) Futures transactions are settled daily and reflected in deposits.

The timing of hedging instruments contracts outstanding as at March 31, 2018 is as follows (Korean won in millions):

	Less than 1 year	1 years ~ 5 years	More than 5 years
Interest rate:			
Interest rate swap	₩ 2,612,392	₩ 2,187,178	₩ 31,995

Details of derivatives as at March 31, 2018 and December 31, 2017 and gain or loss on valuation of derivatives for the three-month periods ended March 31, 2018 and the year ended December 31, 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018							
	Gain or loss on valuation (statement of comprehensive income)						Accumulated gain or loss on valuation (statement of financial position)	
	Trading		Hedging		Total			
	Gain	Loss	Gain	Loss	Gain	Loss	Assets	Liabilities
Currency:								
Forwards	₩ 134,033	₩ 128,391	₩ -	₩ -	₩ 134,033	₩ 128,391	₩ 513,140	₩ 465,209
Swap	13,632	24,871	-	-	13,632	24,871	35,164	95,377
Options purchased	522	282	-	-	522	282	2,164	-
Options sold	315	325	-	-	315	325	-	2,172
	148,502	153,869	-	-	148,502	153,869	550,468	562,758
Interest rate:								
Swap	13,687	11,145	5,751	21,172	19,438	32,317	56,066	92,321
Options purchased	231	210	-	-	231	210	831	-
Options sold	211	229	-	-	211	229	-	831
	14,129	11,584	5,751	21,172	19,880	32,756	56,897	93,152
Stock:								
Options purchased	24	50	-	-	24	50	98	-
Options sold	94	24	-	-	94	24	-	114
	118	74	-	-	118	74	98	114
	₩ 162,749	₩ 165,527	₩ 5,751	₩ 21,172	₩ 168,500	₩ 186,699	₩ 607,463	₩ 656,024

27. Derivatives and hedge accounting (cont'd)

	Year ended December 31, 2017							
	Gain or loss on valuation (statement of comprehensive income)						Accumulated gain or loss on valuation (statement of financial position)	
	Trading		Hedging		Total			
	Gain	Loss	Gain	Loss	Gain	Loss	Assets	Liabilities
Currency:								
Forwards	₩ 930,585	₩ 794,774	₩ -	₩ -	₩ 930,585	₩ 794,774	₩ 930,419	₩ 794,209
Swap	42,283	126,050	-	-	42,283	126,050	38,534	116,707
Options purchased	2,873	-	-	-	2,873	-	2,629	-
Options sold	-	2,437	-	-	-	2,437	-	2,629
	975,741	923,261	-	-	975,741	923,261	971,582	913,545
Interest rate:								
Swap	48,768	46,088	6,057	9,818	54,825	55,906	59,120	79,897
Stock:								
Options purchased	4,583	7,347	-	-	4,583	7,347	610	-
Options sold	237	-	-	-	237	-	-	68
	4,820	7,347	-	-	4,820	7,347	610	68
	₩ 1,029,329	₩ 976,696	₩ 6,057	₩ 9,818	₩ 1,035,386	₩ 986,514	₩ 1,031,312	₩ 993,510

At the end of the reporting period, hedged items applied with fair value hedge accounting include financial assets at FVOCI (debt securities) and the issuance of financial bonds. Changes in the fair value of derivatives due to fluctuation in interest rate 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 in interest rate.

Details of the Group's hedged item and type of hedge accounting as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018					
Hedged item	Hedged risk	Hedging instrument	Type of hedge accounting	Book value of hedged item	Fair value hedge accumulated adjustment	Fair value of hedging instrument
Financial assets at FVOCI	Interest rate risk	Interest rate swap	Fair value hedge	₩ 578,626	₩(12,396)	₩ 13,241
Debentures	Interest rate risk	Interest rate swap	Fair value hedge	1,982,748	43,602	(49,300)

	December 31, 2017			
Hedged item	Hedged risk	Hedging instrument	Type of hedge accounting	Fair value of hedging instrument
AFS financial assets	Interest rate risk	Interest rate swap	Fair value hedge	₩ 7,511
Debentures	Interest rate risk	Interest rate swap	Fair value hedge	(25,817)

Details of gain (loss) on valuation of hedged items and hedging instruments for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		
	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument	Ineffective amount recognized in profit or loss
Financial assets at FVOCI	₩ (6,058)	₩ 5,681	₩ (377)
Debentures	22,020	(21,102)	918
	₩ 15,962	₩ (15,421)	₩ 541

	Three-month period ended March 31, 2017	
	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument
AFS financial assets	₩ (600)	₩ (785)
Debentures	2,602	3,624
	₩ 2,002	₩ 2,839

28. Net defined benefit liabilities

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 KIFRS. 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 March 31, 2018 and December 31, 2017 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 March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
Discount rate	2.86%	2.86%
Salary increase rate:		
Base-up	2.37%	2.37%
Empirical promotion rate	Empirical promotion rate by age	

Details of net defined benefit liabilities as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Present value of defined benefit obligations	₩ 1,706,128	₩ 1,637,222
Fair value of plan assets	(1,201,030)	(1,325,710)
Net defined benefit liabilities from DB plan	₩ 505,098	₩ 311,512

Changes in net defined benefit liabilities for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		
	Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2018	₩ 1,637,222	₩ (1,325,710)	₩ 311,512
Current service cost	44,259	-	44,259
Interest expenses (income)	11,447	(9,220)	2,227
Remeasurement elements:			
Return on planned assets			
(on the net basis of net interest cost)	-	4,799	4,799
Employer contributions	-	(52,630)	(52,630)
Payments	(39,430)	184,484	145,054
Others	52,630	(2,753)	49,877
Present value as at March 31, 2018	₩ 1,706,128	₩ (1,201,030)	₩ 505,098

28. Net defined benefit liabilities (cont'd)

	Three-month period ended March 31, 2017					
	Present value of defined benefit obligations		Plan assets		Total	
Present value as at January 1, 2017	₩	1,448,520	₩	(1,111,371)	₩	337,149
Current service cost		48,566		-		48,566
Interest expenses (income)		9,083		(6,930)		2,153
Remeasurement elements:						
Return on planned assets						
(on the net basis of net interest cost)		-		3,408		3,408
Payments		(135,688)		126,504		(9,184)
Others		-		429		429
Present value as at March 31, 2017	₩	1,370,481	₩	(987,960)	₩	382,521

Portfolio of plan assets as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018		December 31, 2017	
Fixed deposits	₩	1,201,030	₩	1,325,710

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.

29. Equity

Capital stock as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions, shares in units):

	March 31, 2018		December 31, 2017	
Shares authorized		1,000,000,000		1,000,000,000
Par value (in Korean won)	₩	5,000	₩	5,000
Shares issued		426,555,827		426,555,827
Common stock	₩	2,132,779	₩	2,132,779

Other paid-in capitals as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018		December 31, 2017	
Capital surplus:				
capital in excess of par value	₩	9,295,401	₩	9,295,401
other capital surpluses		35,948		35,948
		9,331,349		9,331,349
Capital adjustments (*1)		(3,019)		(3,019)
Hybrid equity securities (*2)		349,648		349,648
	₩	9,677,978	₩	9,677,978

(*1) Capital adjustment arose from the acquisition of IT department of NACF.
(*2) The Group classifies the hybrid equity securities as capital as the maturity of the hybrid equity securities is over 30 years and the Group holds the right to extend the bond maturity continuously under the same conditions and evade delivering cash or another financial asset to pay the contractual obligation.

29. Equity (cont'd)

There were no changes in capital stock and paid-in capital in excess of par value for the three-month periods ended March 31, 2018 and 2017

Details of other components of equity as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018
Remeasurements of the net defined benefit liabilities	₩ (562,142)
Gain on valuation & foreign currency translation of FVOCI	(99,250)
Exchange differences on translating foreign operations	(5,571)
Gain on valuation of investments in associates	(234)
	₩ (667,197)

	December 31, 2017
Remeasurements of the net defined benefit liabilities	₩ (558,663)
Gain on valuation & foreign currency translation of AFS financial assets	119,823
Exchange differences on translating foreign operations	(5,482)
Gain on valuation of investments in associates	1,144
	₩ (443,178)

Changes in other components of equity for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018			
	January 1, 2018	Changes for the period	Deferred income tax	March 31, 2018
Remeasurements of the net defined benefit liabilities	₩ (558,663)	₩ (4,799)	₩ 1,320	₩ (562,142)
Gain on valuation & foreign currency translation of FVOCI	(112,467)	17,081	(3,864)	(99,250)
Exchange differences on translating foreign operations	(5,483)	(88)	-	(5,571)
Gain on valuation of investments in associates	(236)	2	-	(234)
	₩ (676,849)	₩ 12,196	₩ (2,544)	₩ (667,197)

	Three-month period ended March 31, 2017			
	January 1, 2017	Changes for the period	Deferred income tax	March 31, 2017
Remeasurements of defined benefit liabilities	₩ (504,271)	₩ (3,408)	₩ 824	₩ (506,855)
Gain (loss) on valuation & foreign currency translation of AFS financial assets	196,477	3,841	(1,095)	199,233
Exchange differences on translating foreign operations	1,438	(4,461)	-	(3,023)
Gain on valuation of investments in associates	71	(473)	115	(287)
	₩ (306,285)	₩ (4,501)	₩ (156)	₩ (310,942)

Details of retained earnings as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018	December 31, 2017
Regulatory reserve for bad debt	₩ 1,629,809	₩ 1,486,563
Legal reserve	157,117	91,984
Voluntary reserve for recapitalization	1,000,000	1,000,000
Voluntary reserve	14	14
Unappropriated retained earnings	840,345	705,256
	₩ 3,627,285	₩ 3,283,817

29. Equity (cont'd)

Changes in other components of equity for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		Three-month period ended March 31, 2017	
Balance as at January 1	₩	3,283,817	₩	2,578,561
Changes in accounting standards		218,189		-
Net income		317,565		150,466
Changes in consolidated taxation payment		1,984		27,015
Hybrid equity securities dividends		(4,270)		(4,270)
Cash dividends		(190,000)		-
Balance as at March 31	₩	3,627,285	₩	2,751,772

Reserve for bad debts as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018		December 31, 2017	
Beginning balance	₩	1,629,809	₩	1,486,563
Planned reserve for bad debts		107,613		143,246
Expected balance	₩	1,737,422	₩	1,629,809

Provision of reserve for bad debts and adjusted net income after reflecting reserve for bad debts for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		Three-month period ended March 31, 2017	
Net income	₩	317,565	₩	150,466
Provision of reserve for bad debt		80,416		149
Adjusted net income after reserve for bad debt		237,149		150,317
Adjusted basic and diluted earnings per share after reserve for bad debt (in Korean won) (*)		546		342

(*) Hybrid equity securities dividends ₩4,270 million and ₩4,270 million as at March 31, 2018 and 2017 are deducted from adjusted net income after reserve for bad debt when calculating adjusted basic earnings per share. Adjusted diluted earnings per share is identical to basic earnings per share, as the Group does not retain dilutive common shares.

30. Capital management

30.1 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 common equity tier 1 and additional tier 1 capital. Common equity tier 1 is composed of capital stock, additional paid-in capital, retained earnings (excluding reserve for bad loans), non-controlling interests of bank which is the consolidated subsidiary and accumulated other comprehensive income. Additional tier 1 capital is composed of capital securities (including hybrid bonds) and non-controlling interests of consolidated subsidiaries

- Tier 2 capital (supplementary capital): Supplementary capital is composed of allowance for losses on credit for assets classified as normal or precautionary according to the forward looking criteria, capital securities (such as subordinated bonds) and non-controlling interests of consolidated subsidiaries.

30. Capital management (cont'd)

30.1 Current state of regulatory capital (cont'd)

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 Group sets up internal policies on capital management for the criteria of capital adequacy and soundness of finance. In addition, the Group monitors the soundness of finance by allocating the risk appetite of the available capital to the limit of internal capital (the amount of capital that ensures that the Group 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 Group computes on appropriateness of internal capital under regular inspection.

30.2 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.

31. Income tax expense

The components of income tax expenses for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017
Income tax currently payable (including additional and refunded income tax)	₩ 97,557	₩ 42,644
Adjustments recognized for the current period in relation to the current tax of prior periods	(34,852)	84,955
Change in deferred income tax due to temporary differences (*)	23,173	(68,447)
Total income tax effect	85,878	59,152
Income taxes directly applied to shareholder's equity	(2,544)	(156)
Income tax expense	₩ 83,334	₩ 58,996

(*) Net deferred income tax assets due to temporary differences as at March 31, 2018 and 2017	₩ 707,464	₩ 434,813
Net deferred income tax assets due to temporary differences as at January 1, 2018 and 2017	730,637	366,366
Change in deferred income tax due to temporary differences	₩ (23,173)	₩ 68,447

31. Income tax expense (cont'd)

A reconciliation of income before income tax and income tax expenses for three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions and tax rate in %):

	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017
Net income before income tax	₩ 400,898	₩ 209,462
Income tax expense before adjustments (A) (*)	107,657	50,228
Adjustments (B):		
Non-taxable income	(32,664)	(3,306)
Non-deductible expenses	20,333	12,573
Unrecognized deferred tax assets	345	240
Refund of income tax or Supplementary pay of income tax	3	-
Others	(12,340)	(739)
	(24,323)	8,768
Income tax expense (A-B)	₩ 83,334	₩ 58,996
Effective tax rate	20.79%	28.17%

(*) Tax at the statutory income tax rate is calculated by using the income tax rate (11% on taxable income below ₩200 million, 22% on taxable income exceeding ₩200 million and below ₩20 billion, 24.2% on taxable income exceeding ₩20 billion and below ₩300 billion, 27.5% on taxable income exceeding ₩300 billion).

32. Income and expenses by categories of financial instruments

Interest income and expenses for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018
Interest income:	
Deposits	
Due from banks	₩ 9,982
Due from other financial institutions	3,770
	13,752
Financial assets measured at FVTPL	30,542
Financial assets measured at FVOCI	89,378
Financial assets measured at amortized cost	46,693
Loans and receivables at amortized cost	1,765,896
Others	2,339
	1,948,600
Interest expenses:	
Deposits due to customers	576,335
Debentures	108,344
Borrowings	38,148
Others	14,406
	737,233
Interest income, net	₩ 1,211,367

32. Income and expenses by categories of financial instruments (cont'd)

Net gain or loss on financial assets at FVTPL for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

		Three-month period ended March 31, 2018
Financial assets at FVTPL:		
Gain (loss) on valuation	Gain on valuation of financial assets at FVTPL	₩ 18,542
	Loss on valuation of financial assets at FVTPL	(18,287)
		255
Gain (loss) on disposal	Gain on disposal of financial assets at FVTPL	31,526
	Loss on disposal of financial assets at FVTPL	(19,061)
		12,465
Gain (loss) on redemption	Gain on redemption of financial assets at FVTPL	1,945
	Loss on redemption of financial assets at FVTPL	(2,852)
		(907)
Dividend income	Dividend income of financial assets at FVTPL	1,645
Other income	Other income of financial assets at FVTPL	22,564
		36,022
Trading derivatives:		
Gain (loss) on valuation	Gain on valuation of trading derivatives	162,748
	Loss on valuation of trading derivatives	(165,527)
		(2,779)
Gain (loss) on disposal	Gain on disposal of trading derivatives	268,628
	Loss on disposal of trading derivatives	(175,359)
		93,269
		90,490
		₩ 126,512

Net gain or loss on financial investment assets for the three-month period ended March 31, 2018 is as follows (Korean won in millions):

		Three-month period ended March 31, 2018
Gain (loss) on disposal	Gain on disposal of financial assets at FVOCI	₩ 2,468
	Loss on disposal of financial assets at FVOCI	(10)
		2,458
Dividend income (*)	Dividend income of financial assets at FVOCI	1,386
		₩ 3,844

(*) There is no dividend income arising from disposed financial assets at FVOCI for the three-month period ended March 31, 2018.

The amount reclassified from accumulated other comprehensive income to gain (loss) at the time of removal by financial assets at FVOCI for the three-month period ended March 31, 2018 is ₩434 million.

32. Income and expenses by categories of financial instruments (cont'd)

Net gain or loss on financial assets at amortized cost for the three-month period ended March 31, 2018 are as follows (Korean won in millions):

			Three-month period ended March 31, 2018
Gain (loss) on disposal (*1)			
	Gain on disposal of financial assets at amortized cost	₩	3,143
	Loss on disposal of financial assets at amortized cost		(314)
		₩	2,829

(*) For the purpose of credit risk management, certain financial assets at amortized cost were disposed of.

Provision of allowance for expected credit losses related gain (loss) on financial investment assets and financial assets at amortized cost for the three-month period ended March 31, 2018 is as follows (Korean won in millions):

			Three-month period ended March 31, 2018
Financial investment assets	Reversal of provision of allowance for expected credit losses of FVOCI	₩	101
	Provision of allowance for expected credit losses of FVOCI		(176)
			(75)
Financial assets at amortized cost	Reversal of provision of allowance for expected credit losses of financial assets at amortized cost		27
		₩	(48)

33. Interest income and expenses

Interest income and expenses for the three-month period ended March 31, 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Interest income:		
Deposits		
Due from banks	₩	10,740
Due from other financial institutions		508
		11,248
Loans and other receivables		1,413,669
Financial assets at FVTPL		28,718
AFS financial assets		53,381
HTM financial assets		47,605
Others		177,045
		1,731,666
Interest expenses:		
Deposits due to customers		514,157
Debentures		98,403
Borrowings		32,097
Others		10,906
		655,563
Interest income, net	₩	1,076,103

33. Interest income and expenses (cont'd)

Interest income of impaired financial assets for the three-month period ended March 31, 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Loans	₩	19,724
Credit card		589
	₩	20,313

34. Commission income and expenses

Commission income and expenses for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2018		Three-month period ended March 31, 2017
Commission income:				
Deposits	₩	415	₩	389
Loans and credits		22,682		23,285
Foreign exchange		9,175		9,164
Credit card		85,053		78,346
Asset management		15,507		17,295
Agency business		40,634		42,192
Guarantee service		8,297		8,770
Trust service		34,547		25,169
Others		59,946		53,902
		276,256		258,512
Commission expenses:				
Loans and credits		5,425		5,266
Foreign exchange		2,589		2,322
Credit card		112,564		106,426
Agency business		6,149		6,595
Others		10,948		12,828
		137,675		133,437
Commission income, net	₩	138,581	₩	125,075

35. Gain (loss) on financial investments

Gain (loss) on trading financial assets for the three-month period 31, 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Held-for-trading financial instruments:		
Held-for-trading financial assets:		
Gain (loss) on valuation	Gain on valuation of held-for-trading financial assets	₩ 11,956
	Loss on valuation of held-for- trading financial assets	(2,804)
		9,152
Gain (loss) on disposal	Gain on disposal of held-for-trading financial assets	9,903
	Loss on disposal of held-for-trading financial assets	(5,067)
		4,836
Gain (loss) on redemption	Gain on redemption of held-for-trading financial assets	542
	Loss on redemption of held-for-trading financial assets	(1,447)
		(905)
Dividend income	Dividend income of held-for-trading financial assets	1,329
		14,412
Trading derivatives:		
Gain (loss) on valuation	Gain on valuation of trading derivatives	692,512
	Loss on valuation of trading derivatives	(716,191)
		(23,679)
Gain (loss) on disposal	Gain on disposal of trading derivatives	615,363
	Loss on disposal of trading derivatives	(547,370)
		67,993
		44,314
		₩ 58,726

Gain (loss) on AFS financial assets for the three-month period ended March 31, 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Financial investment assets:		
AFS financial assets		
Gain (loss) on disposal	Gain on disposal of AFS financial assets	₩ 17,618
	Loss on disposal of AFS financial assets	(1,025)
		16,593
Gain (loss) on redemption	Gain on redemption of AFS financial assets	21,539
	Loss on redemption of AFS financial assets	(523)
		21,016
Dividend income	Dividend income of AFS financial assets	14,352
Impairment loss	Impairment loss on AFS financial assets	(15,200)
		₩ 36,761

There was no gain or loss on HTM financial assets for the three-month period ended March 31, 2017.

35. Gain (loss) on financial investments (cont'd)

Dividend income from financial investments for the three-month period ended March 31, 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Held-for-trading financial instruments	₩	1,329
AFS financial assets		14,352
	₩	15,681

36. Impairment loss on financial assets

Impairment losses related to financial assets for the three-month period ended March 31, 2017 is as follows (Korean won in millions):

		Three-month period ended March 31, 2017
Loans and receivables	₩	165,482
AFS financial assets		15,200
	₩	180,682

37. Other operating income and expenses

Other operating income and expenses for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2018		Three-month period ended March 31, 2017
Other operating income:				
Gain on derivatives	₩	5,969	₩	4,054
Gain on fair value hedge		22,055		3,491
Point income		16,130		14,057
Gain from changes in foreign exchange rate		130,507		765,778
Transfer from other provisions		11,048		-
Others		17,276		20,508
		202,985		807,888
Other operating expenses:				
Loss on derivatives		21,174		1,298
Loss on fair value hedge		6,094		1,489
Point expense		17,284		14,967
Loss from changes in foreign exchange rate		205,257		773,573
Fund contribution		117,819		112,544
Transfer to other provisions		7,282		11,036
Others		30,156		34,788
		405,066		949,695
	₩	(202,081)	₩	(141,807)

38. Employee benefits

Details of employee benefits for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		Three-month period ended March 31, 2017	
Employee benefits	₩	362,290	₩	327,875
Fringe benefits		108,246		97,688
Retirement expenses		46,526		50,719
	₩	517,062	₩	476,282

39. Other selling and administrative expenses

Other selling and administrative expenses for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		Three-month period ended March 31, 2017	
Tax and dues	₩	23,995	₩	22,158
Telecommunications and transportation		4,921		5,267
Supplies		4,122		3,594
Advertising		13,633		10,084
Utilities		7,477		7,982
Rental		28,515		27,835
Service contract		26,859		25,258
Others		24,120		25,204
	₩	133,642	₩	127,382

40. Other income and expenses

Other income and expenses for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		Three-month period ended March 31, 2017	
Other income:				
Gain on disposal of assets	₩	96	₩	328
Rent income		4,049		5,097
Miscellaneous		2,605		5,725
Gain on disposal of investments in affiliates		-		14
Others		240		227
		6,990		11,391
Other expense:				
Loss on disposal of assets		23		258
Expense related to collecting receivable		1,508		2,385
Depreciation on investment properties		1,174		1,378
Agricultural support project expenses (formerly known as Brand fee) (*)		72,863		72,379
Expenses on restoration		380		331
Loss on disposal of stocks of affiliated company		-		1,107
Miscellaneous		6,789		10,577
Others		280		104
		83,017		88,519
	₩	(76,027)	₩	(77,128)

(*) Agricultural support project expenses (formerly presented as brand fees), which is annually paid to the NACF in accordance with the Agricultural Cooperative Act, is computed by multiplying the imposed ratio to the average of operating revenue for the recent three years.

41. Earnings per share ("EPS")

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 March 31, 2018		Three-month period ended March 31, 2017	
Net income	₩	317,565	₩	150,466
Dividends on hybrid equity securities		(4,270)		(4,270)
Income attributable to common share		313,295		146,196
Weighted-average number of common shares		426,555,827		426,555,827
Basic and diluted earnings per share (in Korean won)	₩	734	₩	343

Diluted EPS equals the basic EPS as there is no dilution effect for the three-month period March 31, 2018 and 2017.

42. Risk disclosure 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 within ten 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.

42.1 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.

42. Risk disclosure of financial instruments (cont'd)

42.2 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. The Group is exposed to the interest rate risk and liquidity risk.

42.2.1 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 able to 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 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.

42. Risk disclosure of financial instruments (cont'd)

42.2 Market risk (cont'd)

42.2.1 Trading position (cont'd)

The Group calculates VaR using historical simulation model when the Group 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 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 at March 31, 2018 and December 31, 2017. (Total VaR is computed taking into consideration the correlations of the risk factors) (Korean won in millions):

	March 31, 2018			
	Max	Min	Average	March 31, 2018
Interest rate risk	₩ 30,419	₩ 28,442	₩ 29,903	₩ 29,343
Stock price risk	23,875	5,481	14,984	22,059
Foreign currency risk	2,218	473	1,014	1,103
Total risk (*)	₩ 31,153	₩ 22,251	₩ 27,053	₩ 29,350

	December 31, 2017			
	Max	Min	Average	December 31, 2017
Interest rate risk	₩ 40,838	₩ 25,076	₩ 36,945	₩ 26,527
Stock price risk	7,245	3,882	5,136	6,512
Foreign currency risk	4,986	326	1,078	809
Total risk (*)	₩ 42,081	₩ 20,041	₩ 36,073	₩ 20,576

(*) It is not equal to the sum of the individual risks because it is computed taking into consideration the correlations of the risks.

42. Risk disclosure of financial instruments (cont'd)

42.2 Market risk (cont'd)

42.2.2 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, and 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.

Interest rate VaR for non-trading portfolios at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018		December 31, 2017	
Interest rate VaR	₩	125,906	₩	66,266

42.3 Liquidity risk

42.3.1 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.

42.3.2 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.).

42. Risk disclosure of financial instruments (cont'd)

42.3 Liquidity risk (cont'd)

42.3.3 The term structure of financial liabilities

The term structures of liabilities as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018						
Classification (*1 and *2)	Less than 1 month	1 month–3 months	3 month–6 months	6 months–1 year	1 year–5 years	More than 5 years	Total
Deposits due to customers	₩104,635,726	₩30,170,288	₩24,157,948	₩45,664,211	₩ 8,223,086	₩2,040,841	₩214,892,101
Financial liabilities at FVTPL	-	-	-	17,831	-	-	17,831
Trading derivative liabilities	606,722	-	-	-	-	-	606,722
Hedging derivative liabilities	-	78	2,134	9,305	40,536	-	52,053
Borrowings	3,270,046	345,245	712,031	1,014,185	4,238,061	1,421,796	11,001,364
Debentures	879,366	2,232,800	2,267,400	2,841,497	7,083,597	2,775,795	18,080,455
Other financial liabilities	12,283,123	3,540	5,953	62,558	14,335	35	12,369,544
	₩121,674,983	₩32,751,951	₩27,145,466	₩49,609,587	₩19,599,615	₩6,238,467	₩257,020,070

(*1) Cash flows of principal and interest are included.
(*2) Unmatured instruments such as deposits that are contractually repayable on demand or on short notice are classified under the 'Less than 1 month' category.

	December 31, 2017						
Classification (*1 and *2)	Less than 1 month	1 month–3 months	3 month–6 months	6 months–1 year	1 year–5 years	More than 5 years	Total
Deposits due to customers	₩100,830,361	₩22,062,473	₩31,150,320	₩42,377,074	₩ 7,782,430	₩2,188,778	₩206,391,436
Held-for-trading financial liabilities	-	20,269	10,033	21,435	-	-	51,737
Trading derivative liabilities	967,629	-	-	-	-	-	967,629
Hedging derivative liabilities	(2,295)	(538)	99	2,324	27,810	-	27,400
Borrowings	4,227,127	445,487	591,246	1,262,473	4,348,097	1,614,516	12,488,946
Debentures	31,337	2,588,521	3,104,247	4,204,529	7,484,561	2,799,287	20,212,482
Other financial liabilities	12,474,518	5,190	3,638	41,517	18,628	42	12,543,533
	₩118,528,677	₩25,121,402	₩34,859,583	₩47,909,352	₩19,661,526	₩6,602,623	₩252,683,163

(*1) Cash flows of principal and interest are included.
(*2) Unmatured instruments such as deposits that are contractually repayable on demand or on short notice are classified under the 'Less than 1 month' category.

42.3.4 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 at March 31, 2018 and December 31, 2017 are as follows (Korea won in millions):

	March 31, 2018	December 31, 2017
Loan commitment (*)	₩ 78,897,539	₩ 62,752,897
Guarantees and endorsed bills (*)	5,351,678	5,427,943
	₩ 84,249,217	₩ 68,180,840

(*) The amount of financial guarantee contracts is included. The total financial guarantee contracts amounts to ₩3,220,845 million and ₩3,097,933 million as at March 31, 2018 and December 31, 2017, respectively.

42. Risk disclosure of financial instruments (cont'd)

42.4 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 March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018					
	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		Net amounts
				Financial instruments	Cash collateral received	
Derivative assets	₩ 582,785	₩ -	₩ 582,785	₩ 273,780	₩ 51,060	₩ 257,945
Loaned securities	532,494	-	532,494	532,494	-	-
Loans-bonds purchased under resale agreements	8,785,300	-	8,785,300	8,785,300	-	-
Receivables-receivable spot exchange	1,413,811	-	1,413,811	1,413,791	-	20
Receivables-receivable spot exchange in foreign currency	1,708,917	-	1,708,917	1,468,453	-	240,464
Receivables-domestic exchange settlement debits	7,335,297	6,739,906	595,391	-	-	595,391
Receivables-intercompany receivables	745,485	60	745,425	-	-	745,425
	₩ 21,104,089	₩ 6,739,966	₩ 14,364,123	₩ 12,473,818	₩ 51,060	₩ 1,839,245

	December 31, 2017					
	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		Net amounts
				Financial instruments	Cash collateral received	
Derivative assets	₩ 990,145	₩ -	₩ 990,145	₩ 474,430	₩ 124,122	₩ 391,593
Loans-bonds purchased under resale agreements	10,403,500	-	10,403,500	10,403,500	-	-
Receivables-receivable spot exchange	402,941	-	402,941	402,895	-	46
Receivables-receivable spot exchange in foreign currency	550,429	-	550,429	446,149	-	104,280
Receivables-domestic exchange settlement debits	11,484,758	9,634,137	1,850,621	-	-	1,850,621
	₩ 23,831,773	₩ 9,634,137	₩ 14,197,636	₩ 11,726,974	₩ 124,122	₩ 2,346,540

42. Risk disclosure of financial instruments (cont'd)

42.4 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 March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018					
				Non offsetting amount		
	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	₩ 607,482	₩ -	₩ 607,482	₩ 273,780	₩ 2,666	₩ 331,036
Borrowings-bonds sold under repurchase agreements	585,000	-	585,000	585,000	-	-
Other financial liabilities-payable spot exchange	1,468,502	-	1,468,502	1,468,453	-	49
Other financial liabilities-payable spot exchange in foreign currency	1,654,148	-	1,654,148	1,413,791	-	240,357
Other financial liabilities-domestic exchange settlement credits	9,141,877	6,739,906	2,401,971	-	-	2,401,971
Other financial liabilities-intercompany receivables	1,178	60	1,118	-	-	1,118
	₩ 13,458,187	₩ 6,739,966	₩ 6,718,221	₩ 3,741,024	₩ 2,666	₩ 2,974,531

	December 31, 2017					
				Non offsetting amount		
	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	₩ 537,308	₩ -	₩ 537,308	₩ 474,430	₩ 7,393	₩ 55,485
Borrowings-bonds sold under repurchase agreements	337,800	-	337,800	337,800	-	-
Other financial liabilities-payable spot exchange	446,235	-	446,235	446,149	-	86
Other financial liabilities-payable spot exchange in foreign currency	506,628	-	506,628	402,895	-	103,733
Other financial liabilities-domestic exchange settlement credits	13,953,775	9,634,137	4,319,638	-	-	4,319,638
	₩ 15,781,746	₩ 9,634,137	₩ 6,147,609	₩ 1,661,274	₩ 7,393	₩ 4,478,942

43. Fair value hierarchy of financial instruments

Fair value hierarchy of financial instruments as at March 31, 2018 and December 31, 2017 are 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)

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ 2,150,005	₩ 5,645,283	₩ 1,454,055	₩ 9,249,343
Derivative assets	-	603,279	4,184	607,463
Financial assets at FVOCI	3,594,531	17,553,608	201,306	21,349,445
	₩ 5,744,536	₩ 23,802,170	₩ 1,659,545	₩ 31,206,251
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 17,831	₩ -	₩ 17,831
Derivatives liabilities	-	652,485	3,539	656,024
	₩ -	₩ 670,316	₩ 3,539	₩ 673,855

Financial assets and liabilities designated as measured at FVTPL, financial assets and liabilities at FVTPL, FVOCI 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.

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, Korea Asset Pricing, NICE P&I, and FN Pricing.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Held-for-trading financial assets	₩ 1,646,548	₩ 4,318,913	₩ -	₩ 5,965,461
Derivative assets	-	1,026,509	4,803	1,031,312
AFS financial assets	3,136,100	17,249,377	621,335	21,006,812
	₩ 4,782,648	₩ 22,594,799	₩ 626,138	₩ 28,003,585
Financial liabilities:				
Held-for-trading financial liabilities	₩ -	₩ 51,737	₩ -	₩ 51,737
Derivatives liabilities	-	990,077	3,433	993,510
	₩ -	₩ 1,041,814	₩ 3,433	₩ 1,045,247

Financial assets and liabilities designated as measured at FVTPL, held-for-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.

43. 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, Korea Asset Pricing, NICE P&I, and FN Pricing.

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 method, 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 assets at FVTPL	Discounted cash flow and others	Risk-free rate of return,	-
		Forward rate and others	-
Derivatives	Discounted cash flow, Intrinsic forward rate, Option-pricing model, Monte Carlo simulation	Risk-free rate of return,	-
		Forward rate,	-
		Volatility of the underlying assets,	6.0%~30.0%
		Discount curve	(-)1.06%~12.4%
Financial assets at FVOCI	Discounted cash flow, Comparable companies valuation method, FCFE model, Dividend discount model, Net asset value method, etc.	Expected growth rate,	-
		Discount rate	-
Financial assets and financial liabilities that not measured at fair value(but fair value disclosures are required):			
Debt securities at amortized cost	Discounted cash flow	Market yield	-
Loans at amortized cost	Discounted cash flow	Market yield, credit spread, liquidity risk premium and other spread	-
Deposits due to customers and borrowings	Discounted cash flow	Market yield, other spread	-
Debentures	Discounted cash flow	Risk-free rate of return,	-
		Credit spread	-

Financial assets and financial liabilities 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 them as 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 instruments is affected by more than one input variable, the results from assuming the most favorable and the most unfavorable changes are shown in the table below. 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.

43. Fair value hierarchy of financial instruments (cont'd)

Sensitivity analysis by type of financial instruments as a result of changes in input parameters as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018				
		Net income (loss)		Other comprehensive income (loss)	
	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Financial assets at FVTPL(*1)	₩ 1,454,055	₩ 6,209	₩ (4,353)	₩ -	₩ -
Derivative assets (*2)	4,184	3,713	(1,636)	-	-
Financial assets at FVOCI (*1)	201,306	-	-	12,403	(6,108)
	₩ 1,659,545	₩ 9,922	₩ (5,989)	₩ 12,403	₩ (6,108)
Financial liabilities:					
Derivative liabilities (*2)	₩ 3,539	₩ 3,533	₩ (1,400)	₩ -	₩ -

(*1) 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.
(*2) 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%.

	December 31, 2017				
		Net income (loss)		Other comprehensive income (loss)	
	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 4,803	₩ 4,299	₩ (1,922)	₩ -	₩ -
Equity securities (*2)	621,335	-	-	18,142	(10,263)
	₩ 626,138	₩ 4,299	₩ (1,922)	₩ 18,142	₩ (10,263)
Financial liabilities:					
Derivative liabilities (*1)	₩ 3,433	₩ 4,247	₩ (1,936)	₩ -	₩ -

(*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%.
(*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.

Changes in Level 3 financial instruments for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3	Ending
Financial assets:							
Financial assets at FVTPL	₩ 1,457,204	₩ (2,086)	₩ -	₩ 33,830	₩ (34,893)	₩ -	₩ 1,454,055
Net derivative assets	817	(128)	-	-	(44)	-	645
FVOCI	200,194	-	(32)	1,144	-	-	201,306
	₩ 1,658,215	₩ (2,214)	₩ (32)	₩ 34,974	₩ (34,937)	₩ -	₩ 3,109,859

For the three-month period ended March 31, 2018, gain (loss) related to financial assets and liabilities is included in gain (loss) on financial instruments at FVTPL in the consolidated statements of comprehensive income.

43. Fair value hierarchy of financial instruments (cont'd)

Total valuation gains and losses, which are recognized as other comprehensive income (loss), are related to unlisted equity securities for strategic purposes as at March 31, 2018.

	Three-month period ended March 31, 2017						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3 (*)	Ending
Financial assets:							
AFS financial assets	₩ 473,998	₩ 3,394	₩ (7,482)	₩14,959	₩(22,161)	₩ 166,817	₩629,525
Net derivative assets	162	1,036	-	75	1,171	-	2,444
	₩ 474,160	₩ 4,430	₩ (7,482)	₩15,034	₩(20,990)	₩ 166,817	₩631,969

(*) As the variables used for the valuation related to AFS financial assets were not observable in the market, such AFS financial assets were transferred from level 2 to level 3.

For the three-month period ended March 31, 2017, gain (loss) related to financial assets and liabilities is included in gain (loss) on financial instruments at FVTPL, gain (loss) on financial instruments designated as measured 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 March 31, 2017, and are recognized as changes in valuation gain (loss) of AFS financial assets

Gains or losses recognized from financial instruments categorized as Level 3 of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position for the three-month periods ended March 31, 2018 and 2017 and the line items in profit or loss in which those gains or losses are recognized are as follows (Korean won in million):

	Three-month period ended March 31, 2018	
	Income or loss during the reporting period	Income or loss related to financial instruments held at the end of the reporting period
Gain (loss) on financial assets measured at FVTPL	₩ (2,214)	₩ (445)

	Three-month period ended March 31, 2017	
	Income or loss during the reporting period	Income or loss related to financial instruments held at the end of the reporting period
Gain on held-for-trading financial assets	₩ 1,036	₩ 1,036
Other income related to financial instruments	3,394	-
	₩ 4,430	₩ 1,036

The Groups recognize 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 Groups for the three-month period ended March 31, 2018.

43. 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 March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

	March 31, 2018				
	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets:					
Securities at amortized cost	₩523,043	₩ 8,521,853	₩ -	₩ 9,044,896	₩ 9,094,488
Loans at amortized cost	-	-	218,047,456	218,047,456	219,361,283
Other financial assets	-	-	575	575	575
	₩523,043	₩ 8,521,853	₩218,048,031	₩227,092,927	₩228,456,346
Financial liabilities:					
Deposits due to customers	₩ -	₩ -	₩213,673,118	₩213,673,118	₩212,652,282
Borrowings	-	-	10,727,488	10,727,488	10,727,036
Debentures	-	17,004,455	-	17,004,455	16,920,644
Other financial liabilities (*1)	-	-	11,157,740	11,157,740	12,232,552
	₩ -	₩17,004,455	₩235,558,346	₩252,562,801	₩252,532,514

(*1) Interest payables included in the computation for fair value of deposits due to customers, borrowings and debentures are excluded from fair value of other financial liabilities.

	December 31, 2017				
	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets:					
HTM financial assets	₩525,757	₩ 7,651,910	₩ -	₩ 8,177,667	₩ 8,231,407
Loans and receivables	-	-	216,948,455	216,948,455	218,904,533
Other financial assets	-	-	214	214	214
	₩525,757	₩ 7,651,910	₩216,948,669	₩225,126,336	₩227,136,154
Financial liabilities:					
Deposits due to customers	₩ -	₩ -	₩206,634,371	₩206,634,371	₩205,768,316
Borrowings	-	-	12,227,065	12,227,065	12,227,485
Debentures	-	19,053,448	-	19,053,448	18,968,727
Other financial liabilities (*1)	-	-	12,382,275	12,382,275	13,286,057
	₩ -	₩19,053,448	₩231,243,711	₩250,297,159	₩250,250,585

(*1) Interest payables included in the computation for fair value of deposits due to customers, 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 method.

44. Related-party transactions

Details of related-party transactions of the Group as at March 31, 2018 are as follows:

Classification	Company
Ultimate parent company	NACF
Parent company	NH Financial Group Inc.
Associates	Nanumlotto Co., Ltd.; Korea Credit Bureau Co., Ltd.; Chang Myung Shipping Co., Ltd.; NH Agri-Best 1st PEF; NH-QCP Global Partnership PEF; IBK-NH Smallgiant PEF; NH-AJUIB Growth 2013 PEF; Kyunggi-DSC Superman Investment Fund No.1; NH Agri-Biz Value Creative 1st PEF; STX Offshore & Shipbuilding Co., Ltd.
Other related parties	NH Life Insurance Co., Ltd.; NH Property and Casualty Insurance Co., Ltd.; NH Investment & Securities Co., Ltd.; NH Nonghyup Capital Co., Ltd.; NH Savings Bank Co., Ltd.; MMT; Tongyang Global REF Private Mixed Investment Trust; NH-CA (NH Futures) PEF VA10 and 7 others; NH Futures Co., Ltd.; Principal Guaranteed Trust of NH Investment & Securities; NH Investment & Securities (H.K.) Ltd.; NH Absolute Global Opportunity Fund; NH Absolute Return Investment Strategies Fund; NH Securities Vietnam Co., Ltd.; NH Securities America Inc.; NH Absolute Return Partners Pte., Ltd.; PT. NH Korindo Securities Indonesia; Beijing NH Investment Advisory Co., Ltd.; KoFC Woori Growth Champ 2010 No.3; RG HVL overseas resources development Fund No.1; NH Absolute Return PEF No.1; Lyxor Daemunshin Multi-Strategy Fund PC; Alpenrose 2nd SPC Inc.; IBS 11th SPC Inc.; Woori Credit 3rd Co., Ltd.; Woori Credit 6th Co., Ltd.; E-Revolution PEF No.1; New Harmony 2nd Co., Ltd.; New Harmony 4th Co., Ltd.; Precious 6th Co., Ltd.; Spes 6th Co., Ltd.; Spes 9th Co., Ltd.; HI-Yeongjong 1st Co., Ltd.; New start KLI Co., Ltd.; New start JH Co., Ltd.; Ilsan Tanhyun N&D Inc.; MJ-10 the 2nd Co., Ltd.; Biangko 2nd Co., Ltd.; Biangko 3rd Co., Ltd.; Biangko 6th Co., Ltd.; Biangko 7th Co., Ltd.; Biangko 8th Co., Ltd.; New Real Two 1st Co., Ltd.; New Real Two 2nd Co., Ltd.; Green Power 1st Co., Ltd.; Green Power 2nd Co., Ltd.; Green Power 3rd Co., Ltd.; Renewable Energy 9th Co., Ltd.; NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.); Kokam Co., Ltd.; Blue Ocean Corporate's Financial Stabilization PEF No.1; Sandonghansangchieop Co., Ltd.; Seoulseongbochieop Co., Ltd.; Daguang Real Estate Developing Co., Ltd.; Edupalace Inc.; Edupalace Co., Ltd.; Sehan Metro PFV; NH-LB Growth Champ 2011-4 PEF; KDBC-EUM Corporate's Financial Stabilization PEF No.4; Presto PEF No.4; NH-QCP HNC KD-1 PEF; Oracle 1st LP; ACFSMC(Tianjin)International Financial Leasing Co., Ltd.; NH Agribusiness Group Inc.; NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.); NH Information System Co., Ltd.; Agricultural Cooperative Asset Management Co., Ltd.; NH Partners Co., Ltd. (formerly known as NH hyupdong Planning); Nonghyup Hanaro Mart Inc.; Agricultural Corporation Nonghyup Food Grain Inc.; 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.; Nonghyup Chemical Co., Ltd.; NH Trading Co., Ltd.; Nonghyup-Agro Inc.; Nonghyup Red Ginseng Co., Ltd.; Namhae Chemical Corporation; Nonghyup Moguchon Inc.; Nonghyup Feed Inc.; Nongwoo BIO Co., Ltd.; NH-Hay Inc.; NH Heuk Sarang Co., Ltd.; Nonghyup TMR Co., Ltd.; Nisso-namhae Agro Co., Ltd; Kongyoung Homeshopping Co., Ltd.; Home and Shopping Co., Ltd.; NH SL Special Purpose Acquisition Co., Ltd.; NH Special Purpose Acquisition 7 Co., Ltd.; NH Special Purpose Acquisition 10 Co., Ltd.; NH Special Purpose Acquisition 11 Co., Ltd.; NH Special Purpose Acquisition 12 Co., Ltd.; NH Dongtan 1st Co., Ltd.; Daewoo Logistics Corp.; HND Logistics Co., Ltd.; Gwangyang International Container Terminal; MS Dongtan Techno 2nd Co., Ltd.; Lake Baekwoon 2nd Co., Ltd.; Lake Baekwoon 1st Co., Ltd.; Warmachine 1st Co., Ltd.; INIAS NH Private Equity Joint Venture; Synergy-methistone Technology Business Investment Association No. 2; Medical Investment Management Inc.(formerly known as Clover Investment Management Inc.); Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.); Honey Dream 1st Co., Ltd.; New Real Two Namdaemun Co., Ltd.; Warmachine 4th Co., Ltd.; TL Independence Co., Ltd.; Daechi Park 1st Co., Ltd.; Ace Soosung New Technology Investment No. 2; Truben Global Healthcare Private Equity Joint Venture; Dt & Investment NHC-DTNI Agrifood ABC Investment Association No.1; NongHyup Food Inc.; Sanglim Agricultural Co., Ltd.; D Best 1st Co., Ltd.; D Best 2nd Co., Ltd.; Cube 4th Co., Ltd.; Smart Daejang 1st Co., Ltd.; Smart Daejang 2nd Co., Ltd.; Smart Daejang 3rd Co., Ltd.; Hyeonan NH 1st Co., Ltd.; ENF Ember

44. Related-party transactions (cont'd)

Classification	Company
	2nd Private Equity Joint Venture; Hanam A1 Project PFV; PT Nonghyup feed Indonesia.; Agricultural BIO Field Co., Ltd.; Korea Nonghyup International; Nonghyup America Inc.; NH Sanghai Trade Co., Ltd.; Beijing Shinong Seed Co., Ltd.; Nongwoo Seed America Inc.; PT Koreana Seed Indonesia; Nongwoo Seed INDIA PVT. Ltd.; Beijing Shinong International Trading Limited.; Nongwoo Seed Myanmar Co., Ltd.; Tolya Tohum Tarim Sanayi Ticaret Anonim Sirketi
Others (*)	Yoesu Green Energy Co., Ltd.; Resom Resort Co., Ltd.; Resom construction Co., Ltd.; Resom Resort (Hwajinpo) Co., Ltd.; Resom Weihai Golf resort Co., Ltd.; Green Industrial Co., Ltd.; Global Marifin Finance Co., Ltd.; Badaro No.3 Ship Investment Company; Badaro No.4 Ship Investment Company; Badaro No.5 Ship Investment Company; Badaro No.6 Ship Investment Company; Badaro No.7 Ship Investment Company; Badaro No.8 Ship Investment Company; Badaro No.9 Ship Investment Company; Badaro No.10 Ship Investment Company; Badaro No.15 Ship Investment Company; Badaro No.17 Ship Investment Company; Badaro No.18 Ship Investment Company; Badaro No.19 Ship Investment Company; Badaro No.22 Ship Investment Company; Modernize Fund Ship Investment Company; Badaro SG No.1 Co., Ltd.; Badaro SG No.2 Co., Ltd.; Badaro SG No.3 Co., Ltd.; Badaro SG No.4 Co., Ltd.; Badaro DH No.1 Co., Ltd.; Badaro DW No.1 Co., Ltd.; HI DM 1st Co., Ltd.; HI DM 2nd Co., Ltd.; HI DHC NO.1 Co., Ltd.; HI KS Co., Ltd.; KJS Marine Co., Ltd.; HI Marine H No.1 Co., Ltd.; HI Marine H No.2 Co., Ltd.; HI HD Co., Ltd.; Coastal Liner Modernize Fund Co., Ltd.

(*) Companies within the conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

Details of related-party transactions of the Group as at March 31, 2018 and December 31, 2017 are as follows:

Company	March 31, 2018						
	Receivables	Derivative assets	Allowances	Deposits due to customers	Derivative liabilities	Debentures	Other liabilities
Ultimate parent company:							
NACF	₩ 1,543	₩ 764	₩ 1	₩ 69,329	₩160,575	₩ -	₩ 14
Parent company:							
NH Financial Group Inc.	206	-	5	62	-	-	-
Associates:							
Nanumlotto Co., Ltd.	137	-	-	8,710	-	-	3
Korea Credit Bureau Co., Ltd.	-	-	-	3,264	-	-	24
NH Agri-Best 1st PEF	-	-	-	3,170	-	-	10
Kyunggi-DSC Superman Investment Fund No.1	-	-	-	2,155	-	-	1
Chang Myung Shipping Co., Ltd.	68,140	-	21,637	20,125	-	-	66
NH Agri-Biz Value Creative 1st PEF	63	-	-	-	-	-	-
STX Offshore & Shipbuilding Co., Ltd.	-	-	-	7,263	-	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	3,335	12,665	-	520,313	3,929	80,006	13,759
NH Nonghyup Capital Co., Ltd.	1,039	-	1	8,332	-	-	2
NH- Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)	102	-	5	79,746	-	-	700
Nongwoo BIO Co., Ltd.	41,332	-	74	3,716	11	-	-
NH Life Insurance Co., Ltd.	1,330	1,040	-	31,037	115,756	-	9,235
NH Property and Casualty Insurance Co., Ltd.	883	95	1	8,922	16,560	-	2
NH Agribusiness Group Inc.	1,124,541	-	197	52,503	-	-	1,795
Namhae Chemical Corporation	68,956	28	148	45,007	41	-	121
NH Heuk Sarang Co., Ltd.	28	-	-	5	-	-	-

44. Related-party transactions (cont'd)

	March 31, 2018						
Company	Receivables	Derivative assets	Allowances	Deposits due to customers	Derivative liabilities	Debentures	Other liabilities
Other related parties:							
Nisso-namhae Agro Co., Ltd.	₩ 11	₩ -	₩ -	₩ 7,956	₩ -	₩ -	₩ 1
Daejeon Agricultural Products Marketing Co., Ltd.	23	-	1	8	-	-	1
Agricultural Corporation Nonghyup Food Grain Inc.	22,065	-	14	3,035	-	-	-
Nonghyup Moguchon Inc.	50,056	-	16	1,928	-	-	-
Nonghyup Logistics Service Inc.	14,227	-	1	1,345	-	-	3,012
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	25	-	-	2,217	-	-	2,704
Nonghyup Feed Inc.	228,328	263	458	1,514	18	-	-
Nonghyup-Agro Inc.	15	-	-	367	-	-	-
Nonghyup Hanaro Mart Inc.	955	-	1	2,121	-	-	4,578
Korea Agriculture Cooperative Marketing Inc.	169	-	-	9,964	-	-	1,826
NH Information System Co., Ltd.	2,498	-	1	25,536	-	-	3,671
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	1,749	-	-	326	-	-	428
Nonghyup Chemical Co., Ltd.	86,043	-	45	2,452	-	-	-
Nonghyup Red Ginseng. Co., Ltd.	24,706	-	56	970	-	-	15
Nonghyup Partners Co., Ltd. (formerly known as Hyupdong Planning Corp.)	133	-	-	3,039	-	-	1,624
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.).	771	-	2	984	-	-	1,544
NH Trading Co., Ltd.	14,252	19	59	3,596	57	-	-
Nonghyup Foundation	14	-	2	39,414	-	-	445
Agricultural Cooperative Asset Management Co., Ltd.	167,469	-	62	827	-	-	446
NH Futures Co., Ltd.	107	-	-	83,555	-	-	5
NH Savings Bank Co., Ltd.	130	-	6	-	-	-	-
Kongyoung Homeshopping Co., Ltd.	57	-	-	5,132	-	-	69
Home and Shopping Co., Ltd.	-	-	-	289	-	-	-
NH Special Purpose Acquisition 7 Co., Ltd.	-	-	-	1,380	-	-	7
NH Special Purpose Acquisition 10 Co., Ltd.	-	-	-	1,719	-	-	10
NH Special Purpose Acquisition 11 Co., Ltd.	-	-	-	1,723	-	-	10
NH Special Purpose Acquisition 12 Co., Ltd.	-	-	-	1,739	-	-	19
Daewoo Logistics Corp.	-	-	-	54	-	-	-
Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)	9	-	-	113	-	-	-
Nonghyup Food Inc.	17	-	-	2,143	-	-	7
Sanglim Agricultural Co., Ltd.	3,857	-	6	12	-	-	-
Others (*)							
Yoesu Green Energy Co., Ltd.	9	-	-	730	-	-	2
Resom Resort Co., Ltd.	73,949	-	45,668	6,754	-	-	21

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

44. Related-party transactions (cont'd)

	December 31, 2017						
Company	Receivables	Derivative assets	Allowances	Deposits due to customers	Derivative liabilities	Debentures	Other liabilities
Ultimate parent company:							
NACF	₩ 15,001	₩ -	₩ 1	₩1,516,450	₩213,610	₩ -	₩ 147
Parent company:							
NH Financial Group Inc.	284	-	10	153	-	-	207,613
Associates:							
Nanumlotto Co., Ltd.	226	-	-	11,796	-	-	-
Korea Credit Bureau Co., Ltd.	-	-	-	6,904	-	-	21
NH Agri-Best 1st PEF	-	-	-	3,162	-	-	13
Kyunggi-DSC Superman Investment Fund No.1	-	-	-	2,762	-	-	2
Chang Myung Shipping Co., Ltd.	68,453	-	-	18,209	-	-	41
NH Agri-Biz Value Creative 1st PEF	63	-	-	-	-	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	202,912	21,468	-	475,564	17,796	100,006	13,140
NH Nonghyup Capital Co., Ltd.	2,482	-	1	8,810	-	-	-
NH- Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)	129	-	5	91,466	-	-	505
Nongwoo BIO Co., Ltd.	35,353	-	32	4,059	-	-	-
NH Life Insurance Co., Ltd.	2,720	-	1	26,933	162,252	-	7,563
NH Property and Casualty Insurance Co., Ltd.	1,526	-	1	7,285	23,717	-	-
NH Agribusiness Group Inc.	1,183,368	-	170	55,283	-	-	1
Namhae Chemical Corporation	40,796	22	37	31,196	2	-	64
NH Heuk Sarang Co., Ltd.	32	-	-	16	-	-	-
Nisso-namhae Agro Co., Ltd.	13	-	-	6,233	-	-	1
Daejeon Agricultural Products Marketing Co., Ltd.	39	-	-	20	-	-	-
Agricultural Corporation Nonghyup Food Grain Inc.	24,243	-	26	842	-	-	-
Nonghyup Moguchon Inc.	50,629	-	21	1,743	-	-	-
Nonghyup Logistics Service Inc.	15,162	-	2	1,610	-	-	1,526
Agricultural Cooperative Pusan Gyeongnam	86	-	-	1,490	-	-	2,699
Nonghyup Feed Inc.	227,101	3,639	382	35,700	-	-	-
Nonghyup-Agro Inc.	30	-	-	118	-	-	-
Nonghyup Hanaro Mart Inc.	22,984	-	15	954	-	-	6,020
Korea Agriculture Cooperative Marketing Inc.	198	-	-	8,351	-	-	2,538
NH Information System Co., Ltd.	1,459	-	1	33,057	-	-	1,427
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	2,806	-	1	1,964	-	-	712
Nonghyup Chemical Co., Ltd.	28,407	-	16	2	-	-	-
Nonghyup Red Ginseng. Co., Ltd.	28,782	-	156	3,645	-	-	15
NH Hyupdong Planning	186	-	-	2,856	-	-	418
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd).	778	-	3	5,407	-	-	915
NH Trading Co., Ltd.	7,689	338	45	5,042	164	-	-
Nonghyup Foundation	24	-	1	38,845	-	-	292
Agricultural Cooperative Asset Management Co., Ltd.	172,745	-	58	810	-	-	420
NH Futures Co., Ltd.	86	-	-	42,473	-	-	4
NH Savings Bank Co., Ltd.	110	-	-	-	-	-	-
Kongyoung Homeshopping Co., Ltd.	64	-	-	5,509	-	-	48
NH-CA (NH Futures) PEF VA10 and 7 others	-	-	-	-	-	-	-
Home and Shopping Co., Ltd.	-	-	-	763	-	-	-

44. Related-party transactions (cont'd)

Company	December 31, 2017 Receivables	Derivative assets	Allowances	Deposits due to customers	Derivative liabilities	Debentures	Other liabilities
Other related parties:							
NH SL Special Purpose Acquisition Co., Ltd.	₩ -	₩ -	₩ -	₩ 820	₩ -	₩ -	₩ 9
NH Special Purpose Acquisition 7 Co., Ltd.	-	-	-	1,390	-	-	3
NH Special Purpose Acquisition 10 Co., Ltd.	-	-	-	1,727	-	-	4
NH Special Purpose Acquisition 11 Co., Ltd.	-	-	-	1,731	-	-	4
NH Special Purpose Acquisition 12 Co., Ltd.	-	-	-	1,748	-	-	13
Daewoo Logistics Corp.	-	-	-	54	-	-	-
Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)	5	-	-	10	-	-	-
NongHyup Food Inc.	21	-	1	5,155	-	-	31
Sanglim Agricultural Co., Ltd.	2,906	-	4	79	-	-	-
Others (*)							
Yoesu Green Energy Co., Ltd.	7	-	-	301	-	-	-
Resom Resort Co., Ltd.	73,949	-	45,663	9,081	-	-	19
Resom Construction Co., Ltd	-	-	-	-	-	-	-

(*) Companies within the conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

Significant transactions with related parties for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

Company	For the three-month period March 31, 2018 Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Ultimate parent company:							
NACF	₩ 274	₩ 15	₩ 14,314	₩ -	₩ 1,247	₩ -	₩ 116,523
Parent company:							
NH Financial Group Inc.	-	-	205	(5)	-	-	-
Associates:							
Nanumlotto Co., Ltd.	-	-	-	-	2	-	-
Korea Credit Bureau Co., Ltd.	-	-	-	-	18	-	-
Chang Myung Shipping Co., Ltd.	-	3	1	21,637	57	-	-
NH Agri-Best 1st PEF	-	-	-	-	8	-	-
NH Agri-Biz Value Creative 1st PEF	-	63	-	-	-	-	-
Kyunggi-DSC Superman Investment Fund No. 1	-	-	-	-	9	-	-
STX Offshore & Shipbuilding Co., Ltd	-	81	-	-	-	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	-	10	17,263	-	1,966	15	12,875
NH Nonghyup Capital Co., Ltd.	-	49	-	(1)	2	-	702
NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)	-	-	-	-	348	-	158
Nongwoo BIO CO., Ltd	290	-	-	42	2	-	12
NH Life Insurance Co., Ltd.	-	2,384	2,289	-	1	-	22,246
NH Property and Casualty Insurance Co., Ltd.	-	765	356	-	2	-	22,536
NH Agribusiness Group Inc.	7,678	-	187	28	7	-	535

44. Related-party transactions (cont'd)

Company	For the three-month period March 31, 2018						
	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Other related parties:							
Namhae Chemical Corporation	₩ 321	₩ 171	₩ 28	₩ 111	₩ 140	₩ -	₩ 41
Nisso-namhae Agro Co., Ltd.	-	-	-	-	8	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	-	1	-	1	-	2	5
Agricultural Corporation Nonghyup Food Grain Inc.	27	-	33	(12)	-	-	-
Nonghyup Moguchon Inc.	264	4	100	(5)	-	-	71
Nonghyup Logistics Service Inc.	118	-	138	(1)	2	-	6,291
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	-	-	44	-	5	-	8
Nonghyup Feed Inc.	313	258	286	75	1	-	18
Nonghyup-Agro	-	-	-	-	-	-	-
Nonghyup Hanaro Mart Inc.	15	7	91	(14)	1	1	200
Korea Agriculture Cooperative Marketing Inc.	-	-	320	-	13	-	35
NH Information System Co., Ltd.	-	1	619	-	57	-	7,711
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	17	4	-	(1)	-	-	41
Nonghyup Chemical Co., Ltd.	450	45	-	30	1	-	-
Nonghyup Red Ginseng. Co., Ltd.	181	8	4	(100)	-	-	-
Nonghyup Partners Co., Ltd. (formerly known as Hyupdong Planning Corp.)	-	19	37	-	9	-	7,320
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.).	-	-	42	(1)	4	-	2,943
NH Trading Co., Ltd.	98	26	73	14	2	-	56
Nonghyup Foundation	-	-	-	1	154	-	-
Agricultural Cooperative Asset Management Co., Ltd.	1,069	-	43	5	2	1,130	-
NH Futures Co., Ltd.	-	4	-	-	20	-	-
Kongyoung Homeshopping Co., Ltd.	-	-	-	-	21	-	-
NH Savings Bank Co., Ltd.	-	19	24	6	-	-	-
Nonghyup TMR Co., Ltd.	-	1	-	-	-	-	-
NH Special Purpose Acquisition 10 Co., Ltd.	-	-	-	-	5	-	-
NH Special Purpose Acquisition 7 Co., Ltd.	-	-	-	-	4	-	-
NH Special Purpose Acquisition 11 Co., Ltd.	-	-	-	-	6	-	-
NH Special Purpose Acquisition 12 Co., Ltd.	-	-	-	-	6	-	-
Nonghyup Food Inc	-	1	-	(1)	7	-	-
Sanglim Agricultural Co., Ltd.	-	-	-	2	-	-	-
Others (*)							
Yoesu Green Energy Co., Ltd.	-	-	-	-	3	-	-
Resom Resort Co., Ltd.	-	-	-	5	2	-	-

(*) Companies within the conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

44. Related-party transactions (cont'd)

	For the three-month period March 31, 2017						
Company	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Ultimate parent company:							
NACF	₩ 266	₩ 26	₩ 13,846	₩ (304)	₩ 112	₩ -	₩ 142,906
Parent company:							
NH Financial Group Inc.	-	-	138	(13)	-	-	-
Associates:							
Nanumlotto Co., Ltd.	-	-	-	-	2	-	-
Korea Credit Bureau Co., Ltd.	-	-	-	-	13	-	-
Chang Myung Shipping Co., Ltd.	-	2	-	5,330	5	-	-
NH Agri-Best 1st PEF	-	-	-	-	11	-	-
NH Agri-Biz Value Creative 1st PEF	-	62	-	-	-	-	-
Resom Resort Co., Ltd.	-	-	-	21,433	1	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	177	7	15,532	-	2,320	50	3,127
NH Nonghyup Capital Co., Ltd.	-	-	-	(1)	2	-	-
NH-Amundi Asset Management Co., Ltd.	-	-	-	(3)	306	188	-
Nongwoo BIO Co., Ltd.	36	14	-	26	2	-	-
NH Life Insurance Co., Ltd.	4	3,802	10,238	-	2	-	251,313
NH Property and Casualty Insurance Co., Ltd.	1	937	547	-	2	-	29,576
NH Agribusiness Group Inc.	6,178	11	201	357	155	-	391
Namhae Chemical Corporation	21	43	221	7	26	-	-
NH Heuk Sarang Co., Ltd.	2	1	-	-	-	-	-
Nisso-namhae Agro Co., Ltd.	-	-	-	-	7	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	-	-	-	-	21	-	-
Agricultural Corporation Nonghyup Food Grain Inc.	4	2	58	(28)	-	-	4
Nonghyup Moguchon Inc.	249	4	94	13	-	-	57
Nonghyup Logistics Service Inc.	172	-	138	1	6	3,939	2,243
Agricultural Cooperative Pusan Gyeongnam Marketing Inc.	-	7	119	-	10	-	18
Nonghyup Feed Inc.	268	186	1,905	(55)	1	-	16
Nonghyup-Agro Inc.	-	-	-	-	7	-	-
Nonghyup Hanaro Mart Inc.	-	-	65	-	3	-	175
Korea Agriculture Cooperative Marketing Inc.	-	6	323	-	2	-	76
NH Information System Co., Ltd.	-	1	540	-	64	-	8,400
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	15	2	-	-	-	-	56
Nonghyup Chemical Co., Ltd.	227	51	-	47	1	-	-
Nonghyup Red Ginseng Co., Ltd.	92	1	2	(9)	-	-	1
NH Hyupdong Planning	-	-	3	-	9	-	5,842
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)	-	-	59	(1)	4	-	2,570
NH Trading Co., Ltd.	75	8	86	40	1	-	218
Nonghyup Foundation	-	-	-	-	206	-	-
Agricultural Cooperative Asset Management Co., Ltd.	61	1	42	4	2	1,071	-
NH Futures Co., Ltd.	-	5	-	-	3	37	-
Kongyoung Homeshopping Co., Ltd.	-	-	-	(1)	6	-	-
NH Savings Bank Co., Ltd.	-	12	32	-	-	-	-
Nonghyup TMR Co., Ltd.	-	1	-	-	-	-	-
NH Special Purpose Acquisition 5 Co., Ltd.	-	-	-	-	4	-	-
NH Special Purpose Acquisition 7 Co., Ltd.	-	-	-	-	4	-	-

44. Related-party transactions (cont'd)

Company	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
	For the three-month period March 31, 2017						
Other related parties:							
NH Special Purpose Acquisition 8 Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 5	₩ -	₩ -
NH Special Purpose Acquisition 9 Co., Ltd.	-	-	-	-	6	-	-
NH Special Purpose Acquisition 10 Co., Ltd.	-	-	-	-	6	-	-
NH Special Purpose Acquisition 11 Co., Ltd.	-	-	-	-	4	-	-
NH Special Purpose Acquisition 3 Co., Ltd.	-	-	-	-	5	-	-
NH SL Special Purpose Acquisition Co., Ltd.	-	-	-	-	2	-	-
NH-CA (NH Futures) PEF VA10 and 17 others	-	19	-	-	87	-	-
Others (*)							
Yoesu Green Energy Co., Ltd.	-	-	-	-	5	-	-

(*) Companies within the conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

The Group's acceptances, guarantees and unused credit limits with related parties as at March 31, 2018 and December 31, 2017 are summarized as follows (Korean won in millions):

Classification	Credit limit	Counterparty
	March 31, 2018	
Unused credit limit in Korean won	₩ 1,916,123	NACF
Unused credit limit in Korean won	694	NH Financial Group Inc.
Unused credit limit in Korean won	83,930	NH Life Insurance Co., Ltd
Unused credit limit in Korean won	32,617	NH Property and Casualty Insurance Co., Ltd.
Unused credit limit in Korean won	445,507	NH Investment & Securities Co., Ltd.
Unused credit limit in Korean won	8,037	NH Nonghyup Capital Co., Ltd.
Unused credit limit in Korean won	520	NH Savings Bank Co., Ltd.
Unused credit limit in Korean won	898	NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)
Unused credit limit in Korean won	193	NH Futures Co., Ltd.
Unused credit limit in Korean won	363	Nanumlotto Co., Ltd.
Unused credit limit in Korean won	230,000	NH Agribusiness Group Inc.
Acceptances and guarantees in Korean won	729	NH Agribusiness Group Inc.
Unused credit limit in Korean won	177	Daejeon Agricultural Products Marketing Co., Ltd.
Unused credit limit in Korean won	1,105	Nonghyup Red Ginseng. Co., Ltd.
Unused credit limit in Korean won	7,061	NH Trading Co., Ltd.
Unused credit limit in foreign currencies	1,520	NH Trading Co., Ltd.
Acceptances and guarantees in foreign currencies	18,753	NH Trading Co., Ltd.
Unused credit limit in Korean won	65	Nonghyup-Agro Inc.
Unused credit limit in Korean won	21,078	Korea Agriculture Cooperative Marketing Inc.
Unused credit limit in Korean won	161,837	Namhae Chemical Corporation
Unused credit limit in foreign currencies	169,494	Namhae Chemical Corporation
Acceptances and guarantees in Korean won	2,777	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	25,235	Namhae Chemical Corporation
Unused credit limit in Korean won	102,579	Nonghyup Chemical Co., Ltd.
Unused credit limit in foreign currencies	20,133	Nonghyup Chemical Co., Ltd.
Acceptances and guarantees in foreign currencies	1,938	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	470	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won	5,077	Agricultural Cooperative Chungbuk Marketing Co., Ltd.

44. Related-party transactions (cont'd)

Classification	March 31, 2018 Credit limit	Counterparty
Unused credit limit in Korean won	₩ 615	Nonghyup Logistics Service Inc.
Unused credit limit in Korean won	20,820	Nonghyup Moguchon Inc.
Unused credit limit in foreign currencies	327	Nonghyup Moguchon Inc.
Acceptances and guarantees in foreign currencies	205	Nonghyup Moguchon Inc.
Unused credit limit in Korean won	46,125	Nonghyup Feed Inc.
Unused credit limit in foreign currencies	273,652	Nonghyup Feed Inc.
Acceptances and guarantees in foreign currencies	113,961	Nonghyup Feed Inc.
Unused credit limit in Korean won	29,294	NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)
Unused credit limit in Korean won	15,554	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	1,027	NH Information System Co., Ltd.
Unused credit limit in Korean won	332	NH Heuk Sarang Co., Ltd.
Unused credit limit in Korean won	186	Nonghyup Foundation
Unused credit limit in Korean won	3,323	Nonghyup Partners Co., Ltd. (formerly known as Hyupdong Planning Corp.)
Acceptances and guarantees in Korean won	6,943	Nonghyup Partners Co., Ltd. (formerly known as Hyupdong Planning Corp.)
Unused credit limit in Korean won	29	Nisso-namhae Agro Co., Ltd.
Unused credit limit in Korean won	7,864	Nongwoo BIO Co., Ltd.
Unused credit limit in foreign currencies	3,200	Nongwoo BIO Co., Ltd.
Unused credit limit in Korean won	2,181	Agricultural Corporation Nonghyup Food Grain Inc.
Unused credit limit in Korean won	153,898	Nonghyup Hanaro Mart Inc.
Unused credit limit in Korean won	143	Kongyoung Homeshopping Co., Ltd.
Unused credit limit in Korean won	11	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Unused credit limit in foreign currencies	967	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Acceptances and guarantees in foreign currencies	105	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Unused credit limit in Korean won	83	Nonghyup Food Inc.
Unused credit limit in Korean won	39	Sanglim Agricultural Co., Ltd.
Unused credit limit in foreign currencies	137,858	STX Offshore & Shipbuilding Co., Ltd.
Acceptances and guarantees in foreign currencies	61,327	STX Offshore & Shipbuilding Co., Ltd.
Unused credit limit in Korean won	1	Resom Construction Co., Ltd. (*)
Unused credit limit in Korean won	91	Yoesu Green Energy Co., Ltd. (*)
Unused credit limit in Korean won	3	NH Special Purpose Acquisition 12 Co., Ltd.

(*) Companies within the conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

Classification	December 31, 2017 Credit limit	Counterparty
Unused credit limit in Korean won	₩ 1,915,029	NACF
Unused credit limit in Korean won	542	NH Financial Group Inc.
Unused credit limit in Korean won	82,540	NH Life Insurance Co., Ltd.
Unused credit limit in Korean won	31,974	NH Property and Casualty Insurance Co., Ltd.
Unused credit limit in Korean won	445,547	NH Investment & Securities Co., Ltd.
Unused credit limit in Korean won	5,594	NH Nonghyup Capital Co., Ltd.
Unused credit limit in Korean won	540	NH Savings Bank Co., Ltd.
Unused credit limit in Korean won	871	NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)
Unused credit limit in Korean won	214	NH Futures Co., Ltd.
Unused credit limit in Korean won	275	Nanumlotto Co., Ltd.
Unused credit limit in Korean won	194,172	NH Agribusiness Group Inc.
Acceptances and guarantees in Korean won	729	NH Agribusiness Group Inc.

44. Related-party transactions (cont'd)

Classification	December 31, 2017	
	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 161	Daejeon Agricultural Products Marketing Co., Ltd.
Unused credit limit in Korean won	1,104	NongHyup RedGinseng. Co., Ltd.
Unused credit limit in Korean won	17,088	NH Trading Co., Ltd.
Unused credit limit in foreign currencies	377	NH Trading Co., Ltd.
Acceptances and guarantees in foreign currencies	16,297	NH Trading Co., Ltd.
Unused credit limit in Korean won	50	Nonghyup-Agro Inc.
Unused credit limit in Korean won	21,049	Korea Agriculture Cooperative Marketing Inc.
Unused credit limit in Korean won	148,881	Namhae Chemical Corporation
Unused credit limit in foreign currencies	227,103	Namhae Chemical Corporation
Acceptances and guarantees in Korean won	2,884	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	49,699	Namhae Chemical Corporation
Unused credit limit in Korean won	145,869	Nonghyup Chemical Co., Ltd.
Unused credit limit in foreign currencies	29,803	Nonghyup Chemical Co., Ltd.
Acceptances and guarantees in foreign currencies	6,755	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	409	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won	5,259	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	902	Nonghyup Logistics Service Inc.
Unused credit limit in Korean won	20,702	Nonghyup Moguchon Inc.
Unused credit limit in foreign currencies	536	Nonghyup Moguchon Inc.
Unused credit limit in Korean won	45,930	Nonghyup Feed Inc.
Unused credit limit in foreign currencies	330,058	Nonghyup Feed Inc.
Acceptances and guarantees in foreign currencies	65,563	Nonghyup Feed Inc.
Unused credit limit in Korean won	29,288	NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)
Unused credit limit in Korean won	10,317	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	2,041	NH Information System Co., Ltd.
Unused credit limit in Korean won	328	NH Heuk Sarang Co., Ltd.
Unused credit limit in Korean won	177	Nonghyup Foundation
Unused credit limit in Korean won	2,814	NH Hyupdong Planning
Acceptances and guarantees in Korean won	7,400	NH Hyupdong Planning
Unused credit limit in Korean won	27	Nisso-namhae Agro Co., Ltd.
Unused credit limit in Korean won	9,826	Nongwoo BIO Co., Ltd.
Unused credit limit in Korean won	2,180	Agricultural Corporation Nonghyup Food Grain Inc.
Unused credit limit in Korean won	91,932	Nonghyup Hanaro Mart Inc.
Unused credit limit in Korean won	136	Kongyoung Homeshopping Co., Ltd.
Unused credit limit in Korean won	15	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Unused credit limit in foreign currencies	5,178	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Acceptances and guarantees in foreign currencies	1,299	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Unused credit limit in Korean won	79	Nonghyup Food Inc.
Unused credit limit in Korean won	706	Sanglim Agricultural Co., Ltd.
Unused credit limit in foreign currencies	188,281	STX Offshore & Shipbuilding Co., Ltd.
Acceptances and guarantees in foreign currencies	61,609	STX Offshore & Shipbuilding Co., Ltd.
Unused credit limit in Korean won	1	Resom Construction Co., Ltd. (*)
Unused credit limit in Korean won	93	Yoesu Green Energy Co., Ltd. (*)

(*) Companies within the conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

44. Related-party transactions (cont'd)

The key management compensations for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

	Three-month period ended March 31, 2018		Three-month period ended March 31, 2017	
Short-term employee benefits	₩	626	₩	638
Retirement expenses		347		283
	₩	973	₩	921

45. Commitments and contingencies

Details of agreements that the Group has made as at March 31, 2018 and December 31, 2017 are as follows (Korean won in millions):

		March 31, 2018		December 31, 2017	
Loan commitment		₩	76,261,080	₩	60,178,800
Financial guarantee contract	Credit guarantee (*)		1,732,983		1,890,249
	CP purchase agreement (*)		903,476		683,848
			2,636,459		2,574,097
		₩	78,897,539	₩	62,752,897

(*) As at March 31, 2018, the Group provided the credit line with the limit of ₩1,732,983 million and made the commercial paper purchase agreement with the limit of ₩903,476 million as collaterals to repay the principals and interests of debentures and commercial papers issued by the NH HT 2nd SPC and 49 other SPCs.

The Group is involved in various pending legal proceedings arising in the normal course of business. As at March 31, 2018, the Group is named as a plaintiff in 142 cases with related aggregate claims amounting to ₩156,736 million, and as a defendant in 211 cases with related aggregate claims amounting to ₩114,356 million. Accordingly, the Group accrued for a litigation-related liability of ₩9,378 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 ₩4,717,772 million and ₩ 4,714,524 million as at March 31, 2018 and December 31, 2017, respectively.

46. Consolidated statements of cash flows

46.1 Cash and cash equivalents

Cash and cash equivalents in the separate statement of cash flows consist of cash and due from Groups (excluding restricted due from Groups) from the consolidated statement of financial position. Cash and cash equivalents as at March 31, 2018 and December 31, 2017 are adjusted as follows (Korean won in millions):

	March 31, 2018		December 31, 2017	
Cash and due from banks	₩	5,461,014	₩	7,788,698
Less: Restricted due from bank (refer to Note 6)		(2,537,270)		(4,897,504)
Less: Due from banks with a maturity of three months or more at acquisition		(49,444)		(8,782)
	₩	2,874,300	₩	2,882,412

Allowance for expected credit losses is not included.

46. Consolidated statements of cash flows (cont'd)

46.2 Non-cash transactions

Significant non-cash transactions not included in the consolidated statement of cash flows for the three-month periods ended March 31, 2018 and 2017 are as follows (Korean won in millions):

		Three-month period ended March 31, 2018
Decrease in loans due to write off	₩	(130,542)
Increase in gain on valuation and exchange of Financial assets at FVOCI		17,081
Transfer to land of tangible assets from land of investment properties		1,379
Decrease in loans due to debt-equity swap		(1,144)

		Three-month period ended March 31, 2017
Decrease in loans due to write off	₩	(185,648)
Increase in gain on valuation of AFS financial assets		3,841
Transfer to land of investment properties from land of tangible assets		22,848
Decrease in loans due to debt-equity swap		(7,562)

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Independent auditors' report

The Shareholder and Board of Directors
NongHyup Bank

We have audited the accompanying consolidated financial statements of NongHyup Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Ernst & Young Han Young

March 9, 2018

This audit report is effective as at March 9, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

NongHyup Bank and its subsidiaries

Consolidated financial statements

for the years ended December 31, 2017 and 2016

"The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group."

Dae Hoon Lee

Chief Executive Officer
NongHyup Bank

NongHyup Bank and its subsidiaries
Consolidated statements of financial position
as at December 31, 2017 and 2016

(Korean won in millions)

	Notes		December 31, 2017		December 31, 2016
Assets					
Cash and due from banks	5, 6, 35, 39	₩	7,788,698	₩	8,746,222
Held-for-trading financial assets	5, 7, 35, 36		5,965,461		6,008,594
Derivative assets	5, 7, 21, 35, 36		1,031,312		615,298
AFS financial assets	5, 8, 35, 36		21,006,812		15,372,757
HTM financial assets	5, 8, 35, 36		8,231,407		8,166,942
Loans and receivables	5, 9, 35, 36		218,904,533		207,732,171
Investments in associates	10		69,090		94,091
Tangible assets	11		2,645,240		2,633,915
Investment properties	12		586,242		647,748
Intangible assets	13		372,193		311,104
Current income tax assets			-		66,911
Deferred income tax assets	25		651,878		366,366
Other assets	14, 35		80,347		75,203
Non-current assets classified as held for sale	9, 12		15		15
Total assets		₩	267,333,228	₩	250,837,337
Liabilities and equity					
Liabilities					
Deposits	15, 16, 35, 36	₩	205,768,316	₩	194,212,330
Held-for-trading financial liabilities	15, 35, 36		51,737		-
Derivative liabilities	15, 21, 35, 36		993,510		633,754
Borrowings	15, 17, 35, 36		12,227,485		12,185,991
Debentures	15, 18, 35, 36		18,968,727		18,717,527
Provisions	19, 38		431,964		287,946
Current income tax liabilities			207,213		-
Net defined benefit liabilities	22		311,512		337,149
Other liabilities	15, 20, 35, 36		13,721,345		10,379,585
Share capital repayable on demand			23		22
Total liabilities			252,681,832		236,754,304
Equity					
Capital stock	23		2,132,779		2,132,779
Other paid-in capital	23		9,677,978		9,677,978
Retained earnings	23		3,283,817		2,578,561
Other components of equity	23		(443,178)		(306,285)
Non-controlling interests			-		-
Total equity			14,651,396		14,083,033
Total liabilities and equity		₩	267,333,228	₩	250,837,337

The accompanying notes are an integral part of the consolidated financial statements.

NongHyup Bank and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2017 and 2016

(Korean won in millions, except per share amounts)

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
Net interest income	26		
Interest income		₩ 7,255,905	₩ 6,917,614
Interest expenses		2,667,981	2,711,783
		4,587,924	4,205,831
Net commission income	27		
Commission income		1,078,653	1,008,543
Commission expenses		505,169	447,489
		573,484	561,054
Gain (loss) on held-for-trading financial instruments, net	28		
Gain on held-for-trading financial instruments		2,857,802	2,544,663
Loss on held-for-trading financial instruments		2,658,493	2,479,010
		199,309	65,653
Gain (loss) on financial investment assets, net	28		
Gain on financial investment assets		295,692	348,654
Loss on financial investment assets		99,054	76,716
		196,638	271,938
Other operating income (expenses), net	30		
Other operating income		1,349,310	837,863
Other operating expenses		2,072,151	1,374,320
		(722,841)	(536,457)
Operating income before credit losses and general and administrative expenses		4,834,514	4,568,019
Provision of allowances for losses on credit	9, 19	844,474	1,584,539
Operating income before general and administrative expenses		3,990,040	2,983,480
General and administrative expenses			
Employee benefits	31	1,891,133	1,712,236
Depreciation and amortization expenses	11, 13	293,844	273,161
Other selling and administrative expenses	32	613,222	632,311
		2,798,199	2,617,708
Operating income		1,191,841	365,772
Gain (loss) on valuation of equity method investments, net	10	2,015	28,253
Other expenses, net	33	(335,558)	(270,195)
Income before income tax expenses		858,298	123,830
Income tax expenses	25	206,225	12,704
Net income	23		
Controlling interests		652,073	111,126
Non-controlling interests		-	-
		652,073	111,126

(Continued)

NongHyup Bank and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2017 and 2016 (cont'd)

(Korean won in millions, except per share amounts)

	Notes		For the year ended December 31, 2017		For the year ended December 31, 2016
Other comprehensive income (loss)					
Items not subsequently reclassified to profit or loss					
Remeasurements of defined benefit pension plans	22, 23	₩	(54,392)	₩	(116,911)
Items subsequently reclassified to profit or loss					
Loss on valuation & translation of AFS financial assets	23		(76,654)		(66,284)
Exchange differences on translation of foreign operations	23		(6,920)		839
Gain (loss) on valuation of investments in associates	10, 23		1,073		(4,757)
			(82,501)		(70,202)
			(136,893)		(187,113)
Total comprehensive income (loss)					
Controlling interests			515,180		(75,987)
Non-controlling interests			-		-
		₩	515,180	₩	(75,987)
Earnings per share					
Basic earnings and diluted earnings per share	34	₩	1,489	₩	220

The accompanying notes are an integral part of the consolidated financial statements.

NongHyup Bank and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2017 and 2016

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustment	Hybrid equity securities	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance as at January 1, 2016	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,474,505	₩ (119,172)	₩ -	₩ 14,166,090
Changes due to consolidated tax	-	-	-	-	10,010	-	-	10,010
Total comprehensive income								
Net income	-	-	-	-	111,126	-	-	111,126
Other comprehensive income (loss)								
Changes in remeasurements of defined benefit pension plans	-	-	-	-	-	(116,911)	-	(116,911)
Loss on valuation & translation of AFS financial assets	-	-	-	-	-	(66,284)	-	(66,284)
Exchange differences on translation of foreign operations	-	-	-	-	-	839	-	839
Loss on valuation of Investments in associates	-	-	-	-	-	(4,757)	-	(4,757)
Dividends on hybrid equity securities	-	-	-	-	(17,080)	-	-	(17,080)
Balance as at December 31, 2016	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,578,561	₩ (306,285)	₩ -	₩ 14,083,033

	Capital stock	Capital surplus	Capital adjustment	Hybrid equity securities	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance as at January 1, 2017	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,578,561	₩ (306,285)	₩ -	₩ 14,083,033
Changes due to consolidated tax	-	-	-	-	70,263	-	-	70,263
Total comprehensive income								
Net income	-	-	-	-	652,073	-	-	652,073
Other comprehensive income (loss)								
Changes in remeasurements of defined benefit pension plans	-	-	-	-	-	(54,392)	-	(54,392)
Loss on valuation & translation of AFS financial assets	-	-	-	-	-	(76,654)	-	(76,654)
Exchange differences on translation of foreign operations	-	-	-	-	-	(6,920)	-	(6,920)
Gain on valuation of Investments in associates	-	-	-	-	-	1,073	-	1,073
Dividends on hybrid equity securities	-	-	-	-	(17,080)	-	-	(17,080)
Balance as at December 31, 2017	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 3,283,817	₩ (443,178)	₩ -	₩ 14,651,396

The accompanying notes are an integral part of the consolidated financial statements.

NongHyup Bank and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2017 and 2016

(Korean won in millions)

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
Operating activities			
Net income before income tax expenses		₩ 858,298	₩ 123,830
Additions of expenses not involving cash outflows:			
Interest expenses		2,667,981	2,711,783
Loss on valuation of held-for-trading financial assets		12,688	14,870
Loss on disposal and redemption of AFS financial assets		44,387	18,945
Impairment loss of AFS financial assets		54,667	57,765
Loss on disposal and redemption of HTM financial assets		-	6
Loss on valuation of trading derivatives		976,696	508,739
Loss on valuation of hedging derivatives		9,818	29,321
Loss related to fair value hedge		4,345	5,205
Loss on disposal of investments in subsidiaries		-	6
Loss on disposal of investments in associates		1,107	374
Loss on valuation of equity method investments		2,628	372
Depreciation		174,945	161,117
Amortization of intangible assets		123,688	116,716
Impairment loss of intangible assets		-	2,985
Loss on disposal of assets		2,719	3,065
Provision of allowance for losses on credit		754,044	1,556,414
Provision for acceptances and guarantees		90,587	35,010
Transfer in other provisions		78,623	4,102
Loss on transaction of foreign exchange		1,285,844	652,905
Retirement expenses		220,602	187,311
Other losses		82,298	111,947
		₩ 6,587,667	₩ 6,178,958
Deductions of revenues not involving cash inflows:			
Interest income		7,255,905	6,917,614
Dividend income		88,997	117,134
Gain on valuation of held-for-trading financial assets		19,629	13,837
Gain on disposal and redemption of AFS financial assets		209,373	210,877
Gain on disposal and redemption of HTM financial assets		-	14,585
Reversal of impairment loss of HTM financial assets		-	7,771
Gain on valuation of trading derivatives		1,029,329	513,784
Gain on valuation of hedging derivatives		6,057	6,980
Gain related to fair value hedge		11,598	22,022
Gain on disposal of investments in subsidiaries		-	27,925
Gain on disposal of investments in associates		5,652	238
Gain on valuation of equity method investments		4,643	28,624
Gain on disposal of assets		17,309	1,282
Reversal of provision for unused credit limit		157	6,884
Gain on transaction of foreign exchange		1,150,765	632,663
Other gains		8,495	39,143
		₩ (9,807,909)	₩ (8,561,363)

(Continued)

NongHyup Bank and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2017 and 2016 (cont'd)

(Korean won in millions)

	Notes		For the year ended December 31, 2017		For the year ended December 31, 2016
Changes in operating assets and liabilities:					
Decrease (increase) in held-for-trading financial assets		₩	49,839	₩	(433,644)
Decrease in trading derivative assets			619,372		532,900
Increase in loans			(13,044,890)		(22,805,760)
Decrease in due from banks			1,430,248		6,353,966
Decrease in other receivables			516,732		407,127
Increase in other assets			(630)		(4,268)
Increase in plan assets			(199,471)		(285,316)
Increase in deposits			11,492,066		15,499,163
Increase in financial liabilities at FVTPL			51,973		—
Decrease in trading derivative liabilities			(626,758)		(524,680)
Decrease in provisions			(14,819)		(20,940)
Payment of retirement benefits and change resulting from transfer of staff among affiliates			(152,051)		(121,419)
Increase (decrease) in other liabilities			2,742,587		(797,765)
			2,864,198		(2,200,636)
Cash provided by operating activities:					
Net cash received for interest			7,109,655		6,841,867
Net cash received for dividend			88,997		117,118
			7,198,652		6,958,985
Cash used in operating activities:					
Payment of interest expenses			2,843,771		2,471,569
Payment of income tax			79,930		3,489
			(2,923,701)		(2,475,058)
Net cash flows provided by operating activities		₩	4,777,205	₩	24,716
Investing activities					
Cash flows provided by investing activities:					
Disposal of AFS financial assets		₩	42,369,320	₩	59,364,178
Redemption of HTM financial assets			1,404,996		3,408,487
Disposal of tangible assets			43,016		8,832
Disposal of intangible assets			3,566		2,908
Disposal of Investment properties			38,464		67
Disposal of equity method investments in associates			43,264		19,402
Dividend of equity method investments in associates			6,173		13,861
			43,908,799		62,817,735
Cash flows used in investing activities:					
Purchase of AFS financial assets			48,065,140		61,433,360
Purchase of HTM financial assets			1,467,585		4,399,601
Purchase of equity method investments in associates			15,275		27,526
Purchase of investment properties			3,610		3,767
Purchase of tangible assets			189,909		275,498
Purchase of intangible assets			188,348		106,289
			(49,929,867)		(66,246,041)
Net cash flows used in investing activities		₩	(6,021,068)	₩	(3,428,306)

(Continued)

NongHyup Bank and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2017 and 2016 (cont'd)

(Korean won in millions)

	Notes		For the year ended December 31, 2017		For the year ended December 31, 2016
Financing activities					
Cash flows provided by financing activities:					
Increase in borrowings, net		₩	284,899	₩	-
Increase in debentures			8,807,144		12,280,639
Increase in borrowings from trust accounts, net			867,154		-
			9,959,197		12,280,639
Cash flows used in financing activities:					
Decrease in borrowings, net			-		1,966,607
Decrease in debentures			8,093,538		5,961,562
Decrease in borrowings from trust accounts, net			-		574,702
Dividends			17,080		17,080
			(8,110,618)		(8,519,951)
Net cash flows provided by financing activities		₩	1,848,579	₩	3,760,688
Net increase in cash and cash equivalents			604,716		357,098
Cash and cash equivalents at the beginning of the year			2,303,552		1,938,946
Effect of exchange rate changes on cash and cash equivalents			(25,856)		7,508
Cash and cash equivalents at the end of the year	39	₩	2,882,412	₩	2,303,552

The accompanying notes are an integral part of the consolidated financial statements.

1. Group information

1.1 NongHyup Bank as the parent company

NongHyup Bank (the "Bank") was established by the spin-off of the Credit and Banking Business from the National Agricultural Cooperative Federation (the "NACF") on March 2, 2012. The Bank's headquarter is located at 120 Tongil-ro, Joong-gu, Seoul.

As at December 31, 2017, the Bank's capital stock amounts to ₩2,132,779 million with 426,555,827 shares of common stock outstanding, which is wholly owned by NongHyup Financial Group. As at December 31, 2017, the Bank operates 157 regional offices, 692 branches, 301 depositary offices, and 5 overseas branches and offices.

1.2 Scope and principles of consolidation

Consolidated subsidiaries of the Bank as at December 31, 2017 and 2016 are as follows:

	December 31, 2017			
Subsidiaries	Main business	Location	Percentage of ownership (%)	Date of financial statements used
NongHyup Finance Myanmar Co., Ltd.	Small loan business	Myanmar	100.00	December 31, 2017
Personal pension trusts and 10 other trusts (*1)	Trust business	Korea	-	December 31, 2017
KAMCO Value Recreation 4th Securitization Specialty Ltd. (*2)	Asset securitization business and others	Korea	15.00	December 31, 2017
NH-CA(NH Securities) privately placed securities investment trust 12-5th and 30 others (*2)	Beneficiary certificate	Korea	100.00	December 31, 2017
Eugene(NH Securities)zarang private placed securities investment 70th and another (*2)	Beneficiary certificate	Korea	99.98	December 31, 2017

(*1) The Bank controls the trust Through its power over the trust to determine the operation performance and is exposed to variable returns from the trust to absorb losses from the agreement of guarantees of the principal or that of principal and interest.
(*2) The Bank controls these investees as 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.

	December 31, 2016			
Subsidiaries	Main business	Location	Percentage of ownership (%)	Date of financial statements used
NongHyup Finance Myanmar Co., Ltd. (*1)	Small loan business	Myanmar	100.00	December 31, 2016
Personal pension trusts and 10 other trusts (*2)	Trust business	Korea	-	December 31, 2016
KAMCO Value Recreation 4th Securitization Specialty Ltd.	Asset securitization business and others	Korea	15.00	December 31, 2016
NH-CA(NH Securities) privately placed securities investment trust 12-5th and 30 others (*3)	Beneficiary certificate	Korea	100.00	December 31, 2016
Eugene(NH Securities)zarang private placed securities investment 70th and another (*3)	Beneficiary certificate	Korea	99.98	December 31, 2016

(*1) The subsidiary was established in October 28, 2016.
(*2) The Bank controls the trust through its power over the trust to determine the operation performance and is exposed to variable returns from the trust to absorb losses from the agreement of guarantees of the principal or that of principal and interest.
(*3) The Bank controls these investees as 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.

1. Group information (cont'd)

1.2 Scope and principles of consolidation (cont'd)

The Bank and its subsidiaries (Collectively, the "Group") includes the structured entities, to which KIFRS 1110 and KIFRS 1112 are applicable, in the consolidation scope and controls 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.

1.3 Summary of financial information of subsidiaries

Summary of financial information of subsidiaries in consolidation as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017					
Subsidiaries	Asset	Liabilities	Equity	Operating income	Net income	Total comprehensive income
NongHyup Finance Myanmar Co., Ltd.	₩ 7,999	₩ 183	₩ 7,816	₩ 418	₩ (480)	₩ (1,206)
Personal pension trusts and 10 other trusts	3,565,663	3,565,663	-	96,227	-	-
KAMCO Value Recreation 4th Securitization Specialty Ltd.	275	79,363	(79,088)	134	(4,227)	(4,227)
Consolidated beneficiary certificate	2,041,285	395,402	1,645,883	79,261	38,936	38,936

	December 31, 2016					
Subsidiaries	Asset	Liabilities	Equity	Operating income	Net income	Total comprehensive income
NongHyup Finance Myanmar Co., Ltd.	₩ 3,325	₩ -	₩ 3,325	₩ -	₩ (65)	₩ (97)
Personal pension trusts and 10 other trusts	3,427,572	3,427,572	-	100,636	-	-
KAMCO Value Recreation 4th Securitization Specialty Ltd.	174	75,035	(74,861)	-	(4,319)	(4,319)
Consolidated beneficiary certificate	1,929,529	291,305	1,638,224	64,647	25,933	25,933

1.4 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
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
11 trusts including Personal pension trusts	The Group offers principal and interest conservation commitment to trust accounts. The Group is 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

1.5 Changes in subsidiaries

There are no changes in subsidiaries for the year ended December 31, 2017.

1. Group information (cont'd)

1.6 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 project financing, asset-backed securitization, investment fund contracts and others as at December 31, 2017. 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.

1.6.1 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.

1.6.2 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.

1.6.3 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 group 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.

1. Group information (cont'd)

1.6 Unconsolidated structured entities (cont'd)

1.6.3 Investment funds (cont'd)

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 period ended December 31, 2017, 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):

	December 31, 2017			
Classification	Asset-backed securitization	Investment funds	Project financing	Total
Total assets of unconsolidated structured entity	₩ 51,354,698	₩ 29,045,822	₩ 11,402,193	₩ 91,802,713
Recognized assets related to unconsolidated structured entities:	5,371,660	2,484,363	921,901	8,777,924
Loans	36,677	-	910,301	946,978
Securities	5,334,983	2,484,363	11,600	7,830,946
Recognized liabilities related to unconsolidated structured entities	25,235	-	-	25,235
Loss on unconsolidated structured entity	1,206	-	-	1,206
Maximum exposure to loss:	7,956,279	2,484,363	921,901	11,362,543
Commitments and guarantees	2,584,619	-	-	2,584,619
Securities (including derivatives)	5,334,983	2,484,363	11,600	7,830,946
Loans	36,677	-	910,301	946,978

	December 31, 2016			
Classification	Asset-backed securitization	Investment funds	Project financing	Total
Total assets of unconsolidated structured entity	₩ 57,967,906	₩ 37,145,394	₩ 12,635,117	₩ 107,748,417
Recognized assets related to unconsolidated structured entities:	5,575,857	1,988,858	1,233,290	8,798,005
Loans	2,960	-	1,217,804	1,220,764
Securities	5,572,897	1,988,858	15,486	7,577,241
Recognized liabilities related to unconsolidated structured entities	20,900	-	-	20,900
Loss on unconsolidated structured entity	231	-	6,384	6,615
Maximum exposure to loss:	7,667,167	1,988,858	1,233,290	10,889,315
Commitments and guarantees	2,091,310	-	-	2,091,310
Securities (including derivatives)	5,572,897	1,988,858	15,486	7,577,241
Loans	2,960	-	1,217,804	1,220,764

2. Significant basis of preparation and accounting policies

The Group's consolidated financial statements are prepared in accordance with the Korean International Financial Reporting Standards (KIFRS) since the Bank was established on March 2, 2012. The Board of Directors approved the accompanying consolidated financial statements on February 12, 2018.

The significant accounting policies are set out below, and the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016, except for the new and amended standards adopted as explained below.

The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial assets 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 cost of acquiring asset.

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.

Amendments to KIFRS 1007 *Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 39.

Amendments to KIFRS 1012 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. These amendments do not have any impact on the Group since the Group does not have deductible temporary differences or assets in relation to the amendments.

Annual Improvements Cycle – 2014-2016

The main details of the 2014-2016 annual improvements for annual periods beginning on or after January 1, 2017 are as follows. These amendments do not have any impact on the Group's financial statements. The improvements include:

Amendments to KIFRS 1112 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in KIFRS 1112*

The amendments clarify that the disclosure requirements in KIFRS 1112, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

2.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not effective, until the issuance day of the Group's consolidated financial statements are as follows:

KIFRS 1109 *Financial Instruments*

KIFRS 1109, enacted on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with early application permitted. KIFRS 1109 will replace KIFRS 1039 *Financial Instruments: Recognition and Measurement.* The Group plans to apply KIFRS 1109 for annual periods beginning on or after January 1, 2018.

The new KIFRS 1109 is retrospectively applied in principle, but there are some exceptions such as exemption of restatement of comparative information for classification, measurement, impairment of financial instruments. For hedge accounting, the requirements are generally applied prospectively, with some exceptions such as accounting for time value of options.

Major characteristics of KIFRS 1109 are financial assets being classified and measured on the basis of the holder's business model and instrument's contractual cash flow characteristics, impairment model of financial instruments based on expected credit losses (ECL), broader range of hedged items and hedging instruments that qualify for the application of hedge accounting or changes in evaluation of hedging effectiveness etc.

For smooth adoption of KIFRS 1109, financial impact analysis, accounting policies establishment, accounting system establishment and stabilization need to take place. The impact of the standards on the financial statements in the period they are initially adopted may differ depending on the Group's decisions and judgments of accounting policies as well as economic environment and its financial instruments.

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

In connection with the adoption of KIFRS 1109, the Group has completed the process of undertaking accounting policies establishment and accounting system establishment. As a result of an analysis of the financial impact of the standard on the financial statements based on the current status and available information as at December 31, 2017. The details of the expected financial impact to the Bank are as follows:

The results of the assessment may be subject to change due to additional information available to the Group and related decision-makings.

- Financial asset classification and measurement

The new KIFRS 1109 requires a financial instrument to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. The requirements should be applied to an entire financial asset, even if it contains an embedded derivative. That is, in contrast with the requirements of KIFRS 1039, a derivative embedded within a hybrid (combined) contract containing a financial asset host is not accounted for separately.

	Characteristics of contractual cash flows	
Objective of the business model	Composed solely of principal and interest	Others
Collecting contractual cash flows	Subsequently measured at amortized cost (*1)	FVTPL (*2)
Collecting contractual cash flows and selling	FVOCI (*1)	
Selling or other purposes	FVTPL	

(*1) An entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or reduces an accounting mismatch
(*2) An entity may make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading.

The requirements in KIFRS 1109 to classify financial assets measured at amortized costs or at FVOCI are stricter than KIFRS 1039, and thus, the proportion of financial assets measured at FVTPL may increase, which may lead to a rise in profit or loss volatility at the adoption of KIFRS 1109.

As at December 31, 2017, the Group has loans and receivables of ₩218,904,533 million, HTM financial assets of ₩8,231,407 million, AFS financial assets of ₩21,006,812 million and financial assets at FVTPL of ₩5,965,461 million.

In accordance to KIFRS 1109, a debt instrument that meets the following two conditions must be measured at FVTPL: 1) the contractual terms of the financial asset give rise to cash flows which are not solely payments of principal and interest on the principal amount outstanding, and 2) the objective of the entity's business model is to sell and purchase the financial asset. Also, equity instrument not designated as measured at FVOCI must be measured at FVTPL. The Group holds ₩5,642,969 million and ₩322,492 million of debt instruments and equity instruments, respectively, classified as financial assets at FVTPL as at December 31, 2017.

In accordance with KIFRS 1109, a debt instrument that meets the following two conditions must be measured at FVOCI: 1) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and 2) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Group holds ₩17,988,470 million of debt instruments classified as AFS financial assets as at December 31, 2017.

In accordance with KIFRS 1109, an entity can make an irrevocable election at initial recognition to measure an equity instrument, which is not held for trading, at FVOCI, and subsequent recycling from comprehensive income to profit or loss is not permitted. The Group's equity instruments classified as AFS financial assets as at December 31, 2017 are ₩3,018,342 million.

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

In accordance to KIFRS 1109, a debt instrument that meets the following two conditions can be measured at amortized cost: 1) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and 2) the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows. The Group measured ₩218,904,533 million of loans and receivables and ₩8,231,407 million of HTM financial assets at amortized cost as at December 31, 2017.

The impact of the application of KIFRS 1109 estimated by using the financial accounting system established by the Group on the financial assets (except for derivatives for hedging) held by the Group as at December 31, 2017 is as follows.

Account	Classification by KIFRS 1039	Classification by KIFRS 1109	The amounts by KIFRS 1039	The amounts by KIFRS 1109
Cash and due from banks	Loans and receivables	Measured at amortized cost	₩ 7,788,698	₩ 7,781,728
Loans	Loans and receivables	Measured at amortized cost	218,904,533	218,785,235
		Measured at FVTPL		33,565
			226,693,231	226,600,528
Debts	Financial assets at FVTPL	Measured at FVTPL	5,642,969	5,642,969
Equity securities	Financial assets at FVTPL	Measured at FVTPL	322,492	322,492
			5,965,461	5,965,461
Debts	AFS financial assets	Measured at FVOCI	17,988,470	17,988,470
		Measured at FVTPL		-
Equity securities	AFS financial assets	Measured at FVOCI	3,018,342	385,146
		Measured at FVTPL		2,633,196
			21,006,812	21,006,812
Debts	HTM financial assets	Measured at amortized cost	8,231,407	8,230,523
		Measured at FVTPL		-
			8,231,407	8,230,523
Total financial assets excluding derivatives			₩261,896,911	₩261,803,324
Trading derivatives	Financial assets at FVTPL	Measured at FVTPL	1,023,737	1,023,234
Total financial assets including trading derivatives			₩262,920,648	₩262,826,558

In accordance with KIFRS 1109, as at December 31, 2017, ₩33,565 million of loans and receivables and HTM financial assets which are measured at amortized cost and ₩2,633,196 million of AFS financial assets are classified as FVTPL. As a result, the proportion of financial assets measured at FVTPL in the financial assets (excluding derivatives) increased from 2.28% to 3.3%. The volatility of current gain or loss is expected to rise based on the changes in fair value of financial assets.

- Financial liabilities classification and measurement

In KIFRS 1109, fair value changes of financial liabilities at FVTPL attributable to changes in credit risk of the liability shall be presented in other comprehensive income, not in profit or loss. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the new standard allows the recognition of the full amount of change in the fair value in profit or loss only if the presentation of the changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

The Group does not hold financial liabilities measured at FVTPL as at December 31, 2017 and thus, there will not be impact on the financial statements.

- Impairment: financial assets and contract assets

In KIFRS 1039, impairment is recognized only when there is objective evidence of impairment based on incurred loss model. In the new KIFRS 1109, impairment of debt instruments, lease bonds, contract assets, loan commitments and financial guarantee contracts that are measured at amortized costs or at FVOCI is recognized based on the expected credit loss (ECL) impairment model.

KIFRS 1109 outlines a 'three-stage' model for impairment based on changes in credit risk since initial recognition. Loss allowance is measured based on the 12-month ECL or life-time ECL which allows early recognition of credit loss compared to the incurred loss model of KIFRS 1039.

	Classification	Loss allowance
Stage 1	Assets with no significant increase in credit risk since initial recognition (*1)	12-month ECL: Expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Assets with significant increase in credit risk since initial recognition	Lifetime ECL: Expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Credit-impaired assets	

(*1) Low credit risk at the end of reporting period may be considered as no significant increase in credit risk

In KIFRS 1109, accumulated changes in the life-time ECL after initial recognition are taken into account as loss allowance in case credit is impaired at initial recognition of financial assets.

As at December 31, 2017, the Group holds ₩227,135,940 million of debt instruments measured at amortized cost (loans and receivables of ₩218,904,533 million, HTM financial assets of ₩8,231,407 million). And the Group holds ₩17,988,470 million of debt instruments classified as available-for-sale financial assets and measured at FVOCI. The Group has measured loss allowance of ₩1,560,288 million to these assets.

As at December 31, 2017, the impacts on loss allowance (except for provision for acceptances and guarantee and unused credit limit), which are estimated using the financial accounting system established by the Group are shown in the table below (Korean won in millions):

Account	Loss allowance by KIFRS 1039 (A)	Loss allowance by KIFRS 1109 (B)	Increase (B-A)
Cash and due from banks	₩ -	₩ 6,970	₩ 6,970
AFS debt instruments	-	945	945
HTM debt instruments	-	884	884
Loans	1,560,288	1,641,924	81,636
Acceptances and guarantee	198,550	200,908	2,358
Unused credit limit	103,491	106,731	3,240
	₩1,862,329	₩1,958,362	₩96,033

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

As at December 31, 2017, loss allowance of KIFRS 1109 is estimated for each stage as follows (Korean won in millions):

Classification	Balance	Loss allowance by KIFRS 1109
Loans:		
Stage1	₩195,540,504	₩ 296,821
Stage2	18,552,418	333,696
Stage3	2,054,579	1,011,407
	216,147,501	1,641,924
Provision:		
Stage1	62,099,287	59,339
Stage2	20,377,059	120,353
Stage3	617,117	127,947
	83,093,463	307,639
	₩299,240,964	₩ 1,949,563

- Hedge accounting

The new KIFRS 1109 maintains mechanics of hedge accounting (fair value hedge, cash flow hedge and a hedge of a net investment in a foreign operation) as set forth in KIFRS 1039. However, unlike requirements in KIFRS 1039 that are too complex and strict, KIFRS 1109 is more practical, principle based and less strict and focuses on the entity's risk management activities. Also, KIFRS 1109 allows broader range of hedged items and hedging instruments. Under KIFRS 1039, a hedge is assessed to be highly effective only if the offset is in the range of 80-125 percentage by performing numerical test of effectiveness. In KIFRS 1109, such requirements are alleviated.

Transactions not qualifying for hedge accounting requirements of KIFRS 1039 may now qualify for hedge accounting under KIFRS 1109, resulting in less volatility in profit or loss.

As at December 31, 2017, the total assets and liabilities for which the Group has applied hedge accounting are ₩2,601,043 million. As a result of the adoption of the hedge accounting, the fair value change in fair value hedged items was recognized in profit or loss amounting to ₩7,832 million.

The Group plans to apply the hedge accounting requirements of KIFRS 1109, but it will have no significant impact on the consolidated financial statements of the Group as at December 31, 2017.

KIFRS 1115 *Revenue from Contracts with Customers*

KIFRS 1115 *Revenue from Contracts with Customers* enacted on November 6, 2015, is effective for annual periods beginning on January 1, 2018, with early application permitted.

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In KIFRS 1115, the revenue is recognized by applying a five-step model (1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation (or as the obligation is performed over the period of time). The new standard KIFRS 1115 will replace KIFRS 1018 *Revenue,* KIFRS 1011 *Construction Contracts,* KIFRS 2031 Revenue: *Exchange Transaction of Advertising Services,* KIFRS 2113 *Customer Loyalty Programmes,* KIFRS 2115 *Agreements for the Construction of Real Estate,* KIFRS 2118 *Transfer of Assets from Customers.*

The Group plans to apply the KIFRS 1115 for annual periods beginning on or after January 1, 2018 and these amendments are not expected to have significant impact on the Group.

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

Amendments to KIFRS 1110 and KIFRS 1028 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group.

Amendments to KIFRS 1102 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to KIFRS 1102 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. These amendments are not expected to have any impact on the Group.

KIFRS 1116 *Leases*

KIFRS 1116 replaces KIFRS 1017 Leases, IFRIC 2104 *Determining whether an Arrangement contains a Lease,* IFRIC 2015 *Operating Leases-Incentives* and IFRIC 2027 *Evaluating the Substance of Transactions* Involving the Legal Form of a Lease. KIFRS 1116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under KIFRS 1017. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under KIFRS 1116 is substantially unchanged from today's accounting under KIFRS 1017. Lessors will continue to classify all leases using the same classification principle as in KIFRS 1017 and distinguish between two types of leases: operating and finance leases.

KIFRS 1116 also requires lessees and lessors to make more extensive disclosures than under KIFRS 1017.

KIFRS 1116 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies KIFRS 1115. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is assessing the potential effect of the amendments on its consolidated financial statements. The Group will apply these amendments on the required effective date.

Transfers of Investment Property – Amendments to KIFRS 1040

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with KIFRS 1008 is only permitted if it is possible without the use of hindsight. These amendments are effective for annual periods beginning on or after January 1, 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. The Group is assessing the potential effect of the amendments on its consolidated financial statements and will apply these amendments on the required effective date.

Annual Improvements 2014-2016 Cycle

KIFRS 1101 First-time Adoption of International Financial Reporting Standards—Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of KIFRS 1101 were deleted because they have now served their intended purpose. The amendment is effective from January 1, 2018. This amendment is not applicable to the Group.

KIFRS 1028 *Investments in Associates and Joint Ventures* - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:
- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from January 1, 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 2122 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation Or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after January 1, 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies

2.3.1 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 KIFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.3.2 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.2 Business combination (cont'd)

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 KIFRS 1012 *Income Taxes* and KIFRS 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 KIFRS 1102 *Share-Based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with KIFRS 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 KIFRS.

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 KIFRS 1039 or KIFRS 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.3 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 KIFRS 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 KIFRS 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 KIFRS 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 KIFRS 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 KIFRS 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 KIFRS 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.4 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.

2.3.5 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 loyalty 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.

2.3.6 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

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.6 Foreign currencies (cont'd)

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 2.3.17 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).

2.3.7 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, of the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognizes restructuring-related costs. Net interest is calculated by applying the discount rate to the defined benefit pension plans or asset. Defined benefit costs are composed of service cost (including current service cost, 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.

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.

2.3.8 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

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.8 Income tax (cont'd)

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 KIFRS 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) Recognization of 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.

2.3.9 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.9 Tangible assets (cont'd)

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.

2.3.10 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by the government or related institutions, with an interest rate below the current applicable market rate, the effect of this preferential interest is regarded as a government grant.

2.3.11 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.11 Investment properties (cont'd)

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.

2.3.12 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
- 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.

2.3.13 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.13 Impairment of tangible and intangible assets other than goodwill (cont'd)

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.

2.3.14 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.

2.3.15 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. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.15 Financial assets (cont'd)

2) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading (held-for-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 KIFRS 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.15 Financial assets (cont'd)

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:

a. 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.15 Financial assets (cont'd)

b. 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.

c. 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.15 Financial assets (cont'd)

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.

2.3.16 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.

a. 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 KIFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.16 Financial liabilities and equity instruments (cont'd)

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.

b. 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.

c. 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 securities

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 KIFRS 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 KIFRS 1018, *Revenue*

2.3.17 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Derivative financial instruments (cont'd)

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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.18 Fair values

1) Valuation techniques and assumptions applied in 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.
Held-for-trading financial assets/liabilities and AFS financial assets	Government and public bonds and listed stocks in Held-for-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 Group.
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)

3. Significant judgments and estimations

Under KIFRS, 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.

3. Significant judgments and estimations (cont'd)

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.

3.1 Critical judgment in applying accounting policies

3.1.1 Impairment of AFS financial assets

As described in Note 2.3.14, 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."

3.1.2 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.

3.1.3 Effective hedge relationships

As described in Note 2.3.16, 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.

3.2 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.

3.2.1 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.

3.2.2 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.

3.2.3 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. Operating segment information

The Group is organized into four operating segments as follows based on their products and services:

Segment	Main business activities
Personal financing	Personal banking services for general public – lending & borrowing, financial services, and etc.
Corporate financing	Corporate banking services for conglomerates, small & medium-sized companies, institutions – lending & borrowing, import & export supports, financial services, and etc.
Card	Credit card services for credit card holders, and etc.
Others	Activities other than the above

Details of current net profit by operating segment for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017						
	Personal financing	Corporate financing	Card	Others	Subtotal	Adjustments	Total
Operating income							
Net interest income	₩ 2,402,100	₩ 1,409,797	₩ 648,905	₩ 206,016	₩ 4,666,818	₩ (78,894)	₩4,587,924
Net commission income (loss)	256,320	223,587	(70,191)	118,765	528,481	45,003	573,484
Net other operating income (loss)	(261,846)	(118,203)	(15,607)	386,957	(8,699)	(651,738)	(660,437)
	2,396,574	1,515,181	563,107	711,738	5,186,600	(685,629)	4,500,971
Operating loss							
General and administrative expense	1,030,520	379,639	328,109	135,576	1,873,844	924,355	2,798,199
Operating income	1,366,054	1,135,542	234,998	576,162	3,312,756	(1,609,984)	1,702,772
Provision of allowances for losses on credit	-	-	-	-	-	844,474	844,474
Income tax expenses	-	-	-	-	-	206,225	206,225
Net income for the period	₩ 1,366,054	₩ 1,135,542	₩ 234,998	₩ 576,162	₩ 3,312,756	₩(2,660,683)	₩ 652,073

	For the year ended December 31, 2016						
	Personal financing	Corporate financing	Card	Others	Subtotal	Adjustments	Total
Operating income							
Net interest income	₩ 2,021,026	₩ 1,225,120	₩ 594,569	₩ 185,135	₩ 4,025,850	₩ 179,981	₩4,205,831
Net commission income (loss)	267,504	213,562	(36,858)	70,752	514,960	46,094	561,054
Net other operating income (loss)	(272,820)	(118,285)	(17,559)	280,654	(128,010)	(312,798)	(440,808)
	2,015,710	1,320,397	540,152	536,541	4,412,800	(86,723)	4,326,077
Operating loss							
General and administrative expense	894,125	370,184	292,236	188,290	1,744,835	872,873	2,617,708
Operating income	1,121,585	950,213	247,916	348,251	2,667,965	(959,596)	1,708,369
Provision of allowances for losses on credit	-	-	-	-	-	1,584,539	1,584,539
Income tax expenses	-	-	-	-	-	12,704	12,704
Net income for the period	₩ 1,121,585	₩ 950,213	₩ 247,916	₩ 348,251	₩ 2,667,965	₩(2,556,839)	₩ 111,126

4. Operating segment information (cont'd)

Revenue from the external customers for the years ended December 31, 2017 and 2016 and non–current assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	Revenue from external customers		Non–current assets	
	For the year ended December 31, 2017	For the year ended December 31, 2016	December 31,2017	December 31,2016
Domestic	₩ 12,818,756	₩ 11,639,651	₩ 3,672,066	₩ 3,686,632
Foreign	18,606	17,686	699	226
	₩ 12,837,362	₩ 11,657,337	₩ 3,672,765	₩ 3,686,858

Trust accounts' asset and operating incomes of the Bank for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017		For the year ended December 31, 2016	
Classification	Asset	Operating income	Asset	Operating income
Trust-accounts consolidated	₩ 3,565,663	₩ 96,227	₩ 3,427,572	₩ 100,636
Trust-accounts Not consolidated	29,174,257	508,410	30,261,487	388,517
	₩ 32,739,920	₩ 604,637	₩ 33,689,059	₩ 489,153

Receivables and payables between Bank and trust accounts as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		December 31, 2017	December 31, 2016
Receivables	Accrued fee on trust accounts	₩ 15,347	₩ 12,218
Payables	Borrowings from trust accounts	1,191,591	682,947

Transactions between Bank and trust accounts for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		December 31, 2017	December 31, 2016
Profit	Fees on trust accounts	₩ 64,149	₩ 43,494
Loss	Interest expenses	28,202	22,677

5. Financial assets

Details of financial assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		December 31, 2017 Book value	December 31, 2017 Fair value
Financial assets at FVTPL:			
Held-for-trading financial assets		₩ 5,965,461	₩ 5,965,461
Trading derivative assets		1,023,737	1,023,737
		6,989,198	6,989,198
Hedging derivative assets		7,575	7,575
AFS financial assets		21,006,812	21,006,812
HTM financial assets		8,231,407	8,177,667
Loans and receivables:			
Deposits	Deposits in Korean won	4,755,463	4,755,463
	Deposits in foreign currency	1,216,427	1,216,427
		5,971,890	5,971,890
Loans (*1)	Loans in Korean won	190,675,378	188,780,147
	Loans in foreign currency	1,336,101	1,385,424
	Credit card receivables	6,254,341	6,296,457
	Others	15,137,092	15,281,557
		213,402,912	211,743,585
Receivables (*2 and *3)		5,229,953	4,933,202
		224,604,755	222,648,677
		₩ 260,839,747	₩ 258,829,929

Classification		December 31, 2016 Book value	December 31, 2016 Fair value
Financial assets at FVTPL:			
Held-for-trading financial assets		₩ 6,008,594	₩ 6,008,594
Trading derivative assets		606,284	606,284
		6,614,878	6,614,878
Hedging derivative assets		9,014	9,014
AFS financial assets		15,372,757	15,372,757
HTM financial assets		8,166,942	8,213,698
Loans and receivables:			
Deposits	Deposits in Korean won	6,362,128	6,362,128
	Deposits in foreign currency	507,845	507,845
		6,869,973	6,869,973
Loans (*1)	Loans in Korean won	182,160,983	183,137,675
	Loans in foreign currency	1,663,342	1,667,285
	Credit card receivables	5,704,167	5,748,359
	Others	12,243,657	12,367,268
		201,772,149	202,920,587
Receivables (*2 and *3)		5,652,003	5,381,122
		214,294,125	215,171,682
		₩ 244,457,716	₩ 245,382,029

(*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 ₩271,668 million and ₩308,019 million as at December 31, 2017 and 2016, respectively, are excluded.

(*2) Accrued interests included in the computation of loans are excluded in the fair value of receivables.

5. Financial assets (cont'd)

(*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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017						
	Financial assets at FVTPL						
	Held-for-trading	Trading derivatives	Loans and Receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 5,965,461	₩1,023,737	₩ -	₩ -	₩ -	₩ -	₩ 6,989,198
Hedging Derivative assets	-	-	-	-	-	7,575	7,575
AFS financial assets	-	-	-	21,006,812	-	-	21,006,812
HTM financial assets	-	-	-	-	8,231,407	-	8,231,407
Deposits	-	-	5,971,890	-	-	-	5,971,890
Loans	-	-	213,674,580	-	-	-	213,674,580
Receivables	-	-	5,229,953	-	-	-	5,229,953
	₩ 5,965,461	₩1,023,737	₩224,876,423	₩21,006,812	₩ 8,231,407	₩ 7,575	₩261,111,415

	December 31, 2016						
	Financial assets at FVTPL						
	Held-for-trading	Trading derivatives	Loans and Receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 6,008,594	₩ 606,284	₩ -	₩ -	₩ -	₩ -	₩ 6,614,878
Hedging Derivative assets	-	-	-	-	-	9,014	9,014
AFS financial assets	-	-	-	15,372,757	-	-	15,372,757
HTM financial assets	-	-	-	-	8,166,942	-	8,166,942
Deposits	-	-	6,869,973	-	-	-	6,869,973
Loans	-	-	202,080,168	-	-	-	202,080,168
Receivables	-	-	5,652,003	-	-	-	5,652,003
	₩ 6,008,594	₩ 606,284	₩214,602,144	₩15,372,757	₩ 8,166,942	₩ 9,014	₩244,765,735

6. Cash and due from banks

Cash and due from banks as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Details	Interest rate (%)	December 31, 2017	December 31, 2016
Cash in Korean won	Cash on hand	-	₩ 1,491,561	₩ 1,530,343
Cash in foreign currency	Cash on hand	-	325,247	345,906
Due from banks in Korean won	Reserve deposits	-	3,007,635	3,414,300
	Non-monetary financial institution deposits	2.57	501	501
	Bank deposits	1.15	42,829	42,924
	Other deposits	1.53	1,704,498	2,904,403
			4,755,463	6,362,128
Due from banks in foreign currency	Reserve deposits	-	175,543	119,682
	From other banks	(-)0.40~1.47	1,022,867	352,391
	Time deposits	1.23	9,610	6,043
	Other deposits	1.16	8,407	29,729
			1,216,427	507,845
			₩ 7,788,698	₩ 8,746,222

6. Cash and due from banks (cont'd)

Due from banks as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Financial institution	December 31, 2017	December 31, 2016
In Korean won:			
Reserve deposits	The Bank of Korea	₩ 3,007,635	₩ 3,414,300
Non-monetary financial institution deposits	Korea Exchange	501	501
Other deposits	The Bank of Korea	1,700,000	2,900,000
	Other financial institutions	47,327	47,327
		4,755,463	6,362,128
In foreign currency:			
Reserve deposits	The Bank of Korea	175,543	119,682
From other banks	Other financial institutions	1,022,867	352,391
Non-monetary financial institution deposits	Other financial institutions	9,610	29,729
Time deposit	Other financial institutions	8,407	6,043
		1,216,427	507,845
		₩ 5,971,890	₩ 6,869,973

Restricted due from banks in Korean won and in foreign currency as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	Financial institution	December 31, 2017	December 31, 2016	Reason for restriction
Reserve deposits in Korean won	The Bank of Korea	₩ 3,007,635	₩ 3,414,300	Required under the Bank Act and other related regulations
Monetary stabilization account	The Bank of Korea	1,700,000	2,900,000	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	175,543	119,682	Required under the Bank Act and other related regulations
Regular deposits in foreign currency	Other financial Institutions	5,357	6,043	Required under consumption contract of money loan with other foreign exchange banks
Other deposits in foreign currency	Other financial Institutions	8,407	-	Deposits related to derivatives trading
Deposit on securities and futures	Korea Investment & Securities Co., Ltd. and 9 others	61	2,144	Reserve securities and futures
		₩ 4,897,504	₩ 6,442,670	

7. Financial assets at FVTPL

Details of financial assets at FVTPL as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Held-for-trading financial assets:		
Equity securities	₩ 322,492	₩ 224,399
Debt securities	5,642,969	5,784,195
	5,965,461	6,008,594
Trading derivative assets	1,023,737	606,284
	₩ 6,989,198	₩ 6,614,878

Held-for-trading financial assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 168,856	₩ -	₩ 181,072	₩ 181,072
Beneficiary certificates	-	100,000	-	100,454	100,454
Mutual funds	-	37,623	-	40,966	40,966
	-	306,479	-	322,492	322,492
Debt securities:					
Government and public bonds	1,425,356	1,463,777	1,427,565	1,424,510	1,424,510
Financial bonds	3,251,800	3,309,764	3,246,922	3,242,652	3,242,652
Corporate bonds	545,000	546,409	546,103	545,543	545,543
Public bonds	419,800	425,246	420,694	420,390	420,390
Others	10,088	9,921	9,891	9,874	9,874
	5,652,044	5,755,117	5,651,175	5,642,969	5,642,969
	₩ 5,652,044	₩ 6,061,596	₩ 5,651,175	₩ 5,965,461	₩ 5,965,461

	December 31, 2016				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 107,409	₩ -	₩ 112,492	₩ 112,492
Beneficiary certificates	-	100,000	-	100,351	100,351
Mutual funds	-	11,141	-	11,556	11,556
	-	218,550	-	224,399	224,399
Debt securities:					
Government and public bonds	1,675,013	1,699,088	1,691,192	1,687,599	1,687,599
Financial bonds	2,955,700	2,988,686	2,957,485	2,954,475	2,954,475
Corporate bonds	655,000	656,663	657,173	656,001	656,001
Public bonds	484,210	487,137	487,173	486,004	486,004
Others	145	145	116	116	116
	5,770,068	5,831,719	5,793,139	5,784,195	5,784,195
	₩ 5,770,068	₩ 6,050,269	₩ 5,793,139	₩ 6,008,594	₩ 6,008,594

7. Financial assets at FVTPL (cont'd)

Details of held-for-trading financial assets in each major industry as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017 Book value		Ratio (%)
Government and government-sponsored institutions	₩	1,915,485	32.11
Finance and insurance		3,060,590	51.31
Manufacturing		374,091	6.27
Others		615,295	10.31
	₩	5,965,461	100.00

Classification	December 31, 2016 Book value		Ratio (%)
Government and government-sponsored institutions	₩	2,246,953	37.40
Finance and insurance		2,754,602	45.84
Manufacturing		350,692	5.84
Others		656,347	10.92
	₩	6,008,594	100.00

Details of held-for-trading financial assets in each country as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017 Book value		Ratio (%)
Korea	₩	5,965,461	100.00

Classification	December 31, 2016 Book value		Ratio (%)
Korea	₩	6,008,594	100.00

Held-for-trading financial assets provided as collaterals as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Provided to	Remarks	December 31, 2017 Pledged amount		Book value	
Kiwoom Asset Management and 7 others	Inter agency RP (Non-Ind Won)	₩	347,650	₩	344,772
NH Futures and 9 others	Substitute securities for derivative transactions		13,400		13,780
Korea Securities Finance and another	Others		89,000		88,839
		₩	450,050	₩	447,391

Provided to	Remarks	December 31, 2016 Pledged amount		Book value	
Industrial Bank of Korea and 2 others	Substitute securities for derivative transactions	₩	343,260	₩	308,644
IBK Capital Co., Ltd. and 14 others	Credit enhancement for derivative transactions		25,700		23,274
Korea Securities Depository	Others		19,000		18,690
		₩	387,960	₩	350,608

8. AFS and HTM financial assets

AFS and HTM financial assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 350,145	₩ -	₩ 184,881	₩ 184,881
Non-marketable securities	-	267,729	-	270,871	270,871
Beneficiary certificates	-	2,104,711	-	2,096,043	2,096,043
Mutual funds	-	172,507	-	186,782	186,782
Foreign currency	-	98,727	-	52,436	52,436
Others	-	237,091	-	227,329	227,329
	-	3,230,910	-	3,018,342	3,018,342
Debt securities:					
Government and public bonds	3,090,000	3,083,041	3,083,676	3,059,587	3,059,587
Financial bonds	13,110,000	13,096,591	13,095,803	13,063,963	13,063,963
Public bonds	280,000	280,274	280,215	278,624	278,624
Corporate bonds	954,700	954,236	954,249	951,050	951,050
Foreign currency	636,947	671,358	669,149	635,246	635,246
Others	-	-	-	-	-
	18,071,647	18,085,500	18,083,092	17,988,470	17,988,470
Total AFS financial assets	18,071,647	21,316,410	18,083,092	21,006,812	21,006,812
HTM financial assets:					
Debt securities:					
Government and public bonds	2,186,007	2,158,664	2,156,394	2,156,394	2,152,747
Financial bonds	1,110,000	1,109,697	1,109,712	1,109,712	1,107,386
Public bonds	540,000	540,401	540,112	540,112	541,586
Corporate bonds	4,425,340	4,425,130	4,425,189	4,425,189	4,375,948
Others	-	-	-	-	-
Total HTM financial assets	8,261,347	8,233,892	8,231,407	8,231,407	8,177,667
	₩ 26,332,994	₩ 29,550,302	₩ 26,314,499	₩ 29,238,219	₩ 29,184,479

8. AFS and HTM financial assets (cont'd)

Classification	December 31, 2016				
	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 493,211	₩ -	₩ 321,910	₩ 321,910
Non-marketable securities	-	214,089	-	160,515	160,515
Beneficiary certificates	-	1,511,520	-	1,493,973	1,493,973
Mutual funds	-	223,196	-	238,464	238,464
Foreign currency	-	166,651	-	136,134	136,134
Others	-	370,867	-	353,808	353,808
	-	2,979,534	-	2,704,804	2,704,804
Debt securities:					
Government and public bonds	2,990,000	3,010,301	3,007,956	2,997,126	2,997,126
Financial bonds	7,250,000	7,228,621	7,227,517	7,213,959	7,213,959
Public bonds	270,000	272,471	271,857	270,192	270,192
Corporate bonds	1,629,400	1,629,617	1,629,457	1,611,612	1,611,612
Foreign currency	571,741	535,342	531,507	575,064	575,064
Others	56	56	56	-	-
	12,711,197	12,676,408	12,668,350	12,667,953	12,667,953
Total AFS financial assets	12,711,197	15,655,942	12,668,350	15,372,757	15,372,757
HTM financial assets:					
Debt securities:					
Government and public bonds	1,821,059	1,792,092	1,791,575	1,791,575	1,825,636
Financial bonds	970,000	970,000	970,000	970,000	971,147
Public bonds	1,080,000	1,080,478	1,080,217	1,080,217	1,090,993
Corporate bonds	4,325,340	4,325,129	4,325,141	4,325,141	4,325,913
Others	9	9	9	9	9
Total HTM financial assets	8,196,408	8,167,708	8,166,942	8,166,942	8,213,698
	₩ 20,907,605	₩ 23,823,650	₩ 20,835,292	₩ 23,539,699	₩ 23,586,455

Details of AFS financial assets measured at acquisition costs as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Amount (*)	
	December 31, 2017	December 31, 2016
Korea Asset Management Corporation	₩ 6,670	₩ 6,670
Green GunSan GiKiMi Co., Ltd.	1,287	1,287
Others	1,653	1,400
	₩ 9,610	₩ 9,357

(*) 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.

AFS financial assets that should be measured at fair value but could not reliably be measured increased by ₩992 million by acquisition and decreased by ₩669 million from disposal and impairment which totaled in a ₩253 million increase in value.

8. AFS and HTM financial assets (cont'd)

Credit rating of debt securities based on qualified credit rating agencies in Korea as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
Classification	Held-for-trading financial assets	AFS financial assets	HTM financial assets	Total
AAA	₩ 3,160,056	₩ 16,884,282	₩ 8,211,407	₩ 28,255,745
AA+ ~ AA-	2,457,911	992,082	20,000	3,469,993
A+ ~ BBB	25,002	112,106	-	137,108
Under BBB-	-	-	-	-
Less than BB+	-	-	-	-
	₩ 5,642,969	₩ 17,988,470	₩ 8,231,407	₩ 31,862,846

	December 31, 2016			
Classification	Held-for-trading financial assets	AFS financial assets	HTM financial assets	Total
AAA	₩ 3,733,643	₩ 11,475,906	₩ 8,146,942	₩ 23,356,491
AA+ ~ AA-	2,025,504	1,048,374	20,000	3,093,878
A+ ~ BBB	25,048	143,673	-	168,721
Under BBB-	-	-	-	-
Less than BB+	-	-	-	-
	₩ 5,784,195	₩ 12,667,953	₩ 8,166,942	₩ 26,619,090

Portfolio of AFS and HTM financial assets by industry as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017	
Classification	Book value	Ratio (%)
Government and government-sponsored institutions	₩ 6,136,245	20.99
Finance and insurance	13,101,196	44.81
Manufacturing	120,142	0.41
Others	9,880,636	33.79
	₩ 29,238,219	100.00

	December 31, 2016	
Classification	Book value	Ratio (%)
Government and government-sponsored institutions	₩ 15,361,400	65.26
Finance and insurance	7,136,779	30.32
Manufacturing	247,212	1.05
Others	794,308	3.37
	₩ 23,539,699	100.00

8. AFS and HTM financial assets (cont'd)

Portfolio of AFS and HTM financial assets by country as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017		
	Book value		Ratio (%)
Korea	₩	28,956,350	99.04
China		131,851	0.45
USA		87,208	0.30
Japan		16,155	0.06
Others		46,655	0.15
	₩	29,238,219	100.00

Classification	December 31, 2016		
	Book value		Ratio (%)
Korea	₩	23,156,786	98.38
China		137,612	0.58
USA		120,109	0.51
Japan		8,801	0.04
Others		116,391	0.49
	₩	23,539,699	100.00

Details of AFS and HTM financial assets provided as collaterals as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Provided to	Remarks	December 31, 2017			
		Pledged amount		Book value of securities provided as collaterals	
Others					
The Bank of Korea	Payment risk	₩	3,600,300	₩	3,588,276
The Bank of Korea	Daylight overdraft		968,900		961,549
The Bank of Korea	Borrowing		1,243,200		1,240,560
NH Futures Co., Ltd and 4 others	Substituted securities for derivative transaction		77,500		77,504
NH Life Insurance Co., Ltd and 5 others	Credit reinforcements for derivative transaction		187,835		184,877
Korea Exchange and 3 others	Others		21,721		20,735
		₩	6,099,456	₩	6,073,501

8. AFS and HTM financial assets (cont'd)

Provided to	Remarks	December 31, 2016 Pledged amount	December 31, 2016 Book value of securities provided as collaterals
Repo:			
Korea Securities Depository	Customer repurchase sale	₩ 6,700	₩ 6,700
Others:			
The Bank of Korea	Payment risk	2,043,900	2,040,760
The Bank of Korea	Daylight overdraft	522,900	522,567
The Bank of Korea	Borrowing	1,240,896	1,213,821
NH Futures Co., Ltd and 4 others	Substituted securities for derivative transaction	74,500	74,507
NH Capital Co., Ltd and 3 others	Others	59,545	58,456
		₩ 3,948,441	₩ 3,916,811

Transferred financial assets derecognized not in their entirety as at December 31, 2017 and 2016 are as follows.

1) Bonds sold under repurchase agreements

Transferred bonds sold under repurchasable agreements with a condition to repurchase at a firm price derecognized not in their entirety as at December 31, 2017 and 2016 are as follow (Korean won in millions):

Classification	Type	December 31, 2017	December 31, 2016
Transferred assets	Held-for-trading financial assets	₩ 344,772	₩ 288,747
Related liabilities	Bonds sold under repurchase agreements	337,800	289,900

2) Securities for lending

When lending securities held by the Group, the ownership of the securities are transferred. However, securities should be returned upon the maturity of lending period. Therefore, the Group continuously recognizes the entire amount of transferred securities since most of the risks and awards associated with those securities remain with the Group.

The carrying amounts of lending securities for held-for-trading financial assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		December 31, 2017	December 31, 2016	Remarks
Government and public bonds	Held-for-trading financial assets	₩ -	₩ 23,124	The Korea Securities Finance Corporation

Structured securities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Callable bonds	₩ 3,925,200	₩ 3,925,164

9. Loans and receivables

Loans and receivables as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Type	December 31, 2017	December 31, 2016
Loans in Korean won	Corporate	₩ 82,983,921	₩ 78,715,482
	Household	94,189,772	86,669,341
	Public	13,886,365	16,876,438
	Integrated	793,728	945,238
		191,853,786	183,206,499
	Allowance	(1,178,408)	(1,045,516)
	Book value, net	190,675,378	182,160,983
Loans in foreign currency	Loans	1,373,783	1,687,435
	Off-shore	72,193	65,480
		1,445,976	1,752,915
	Allowance	(109,875)	(89,573)
`	Book value, net	1,336,101	1,663,342
Other loans	Credit card receivables	6,398,406	5,836,192
	Bills purchased	710	11,186
	Bills purchased in foreign currency	1,580,829	1,468,036
	Private placement bonds	84,682	83,153
	Payment for acceptances and guarantees	21,122	50,153
	Domestic import usance	1,557,220	1,971,655
	Others	11,977,043	8,852,751
		21,620,012	18,273,126
	Allowance	(222,949)	(315,801)
	Book value, net	21,397,063	17,957,325
Receivables	Receivables	5,294,634	5,693,765
	Allowance	(49,056)	(26,189)
	Book value, net	5,245,578	5,667,576
Total loans and receivables		220,214,408	208,926,305
Total allowance for losses on credit		(1,560,288)	(1,477,079)
Deferred LOF/LOC		271,668	308,019
Present-value discounts	Loans	(5,630)	(9,502)
	Receivables	(15,625)	(15,572)
Total loans and receivables, net		₩ 218,904,533	₩ 207,732,171

9. Loans and receivables (cont'd)

9.1 Classification of loans by industry, country and customer

Loans classified by industry as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Industry	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Manufacturing	₩ 14,789,938	₩ 390,661	₩ 2,675,474	₩ 17,856,073	₩ (411,025)
Construction	3,337,944	6,603	109,349	3,453,896	(115,673)
Retail and wholesale	4,380,515	67,447	675,913	5,123,875	(72,459)
Finance and insurance	3,088,730	-	393,171	3,481,901	(7,573)
Member cooperatives	15,500,464	-	1,472,695	16,973,159	(23,073)
Others	150,756,195	981,265	16,293,410	168,030,870	(881,429)
	₩ 191,853,786	₩ 1,445,976	₩21,620,012	₩214,919,774	₩ (1,511,232)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

	December 31, 2016				
Industry	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Manufacturing	₩ 14,306,929	₩ 521,588	₩ 2,819,764	₩ 17,648,281	₩ (328,787)
Construction	3,435,092	12,879	139,007	3,586,978	(151,114)
Retail and wholesale	4,337,336	112,060	777,355	5,226,751	(159,880)
Finance and insurance	3,900,326	-	2,664,432	6,564,758	(17,091)
Member cooperatives	14,678,915	-	1,347,334	16,026,249	(21,906)
Others	142,547,901	1,106,389	10,525,233	154,179,523	(772,112)
	₩183,206,499	₩1,752,916	₩18,273,125	₩203,232,540	₩(1,450,890)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

Loans classified by country as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Country	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Korea	₩191,853,786	₩ 888,232	₩18,050,281	₩210,792,299	₩(1,431,222)
China	-	20,357	572,581	592,938	(14,625)
Japan	-	-	252,587	252,587	(8,999)
USA	-	56,977	611,261	668,238	(8,406)
Indonesia	-	48,869	31,076	79,945	(854)
Hong Kong	-	35,410	451,822	487,232	(16,125)
Panama	-	114,876	658	115,534	(2,132)
Singapore	-	-	9,327	9,327	(67)
Others	-	281,255	1,640,419	1,921,674	(28,802)
	₩191,853,786	₩1,445,976	₩21,620,012	₩214,919,774	₩(1,511,232)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

9. Loans and receivables (cont'd)

9.1 Classification of loans by industry, country and customer (cont'd)

Country	December 31, 2016				
	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Korea	₩ 183,206,499	₩ 1,193,365	₩ 14,093,548	₩ 198,493,412	₩ (1,286,844)
China	-	25,379	566,282	591,661	(60,911)
Japan	-	-	245,213	245,213	(8,802)
USA	-	53,119	1,012,023	1,065,142	(13,989)
Indonesia	-	62,018	58,741	120,759	(11,402)
Hong Kong	-	28,816	366,137	394,953	(751)
Panama	-	155,488	3,135	158,623	(2,831)
Singapore	-	-	216,826	216,826	(108)
Others	-	234,731	1,711,220	1,945,951	(65,252)
	₩ 183,206,499	₩ 1,752,916	₩ 18,273,125	₩ 203,232,540	₩ (1,450,890)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

Loans classified by customer as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Customer	December 31, 2017				
	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Household	₩ 81,501,216	₩ 14,847	₩ 3,257,582	₩ 84,773,645	₩ (281,743)
Individual business	45,762,357	85,684	1,122,969	46,971,010	(142,550)
Corporate	35,502,208	1,341,466	4,621,538	41,465,212	(1,047,255)
Member cooperatives	15,500,464	-	1,472,695	16,973,159	(23,073)
Financial institution	1,325,675	-	10,985,941	12,311,616	(13,676)
Government and others	12,261,866	3,979	159,287	12,425,132	(2,935)
	₩ 191,853,786	₩ 1,445,976	₩ 21,620,012	₩ 214,919,774	₩ (1,511,232)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

Customer	December 31, 2016				
	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Household	₩ 76,408,724	₩ 8,173	₩ 2,983,027	₩ 79,399,924	₩ (235,654)
Individual business	40,358,985	102,970	1,004,794	41,466,749	(120,178)
Corporate	33,819,560	1,637,116	3,932,775	39,389,451	(1,059,847)
Member cooperatives	14,678,915	-	1,347,334	16,026,249	(21,906)
Financial institution	1,629,594	-	2,631,293	4,260,887	(10,173)
Government and others	16,310,721	4,657	6,373,902	22,689,280	(3,132)
	₩ 183,206,499	₩ 1,752,916	₩ 18,273,125	₩ 203,232,540	₩ (1,450,890)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

9. Loans and receivables (cont'd)

9.2 Percentage of allowance for losses on credit of loans and receivables

As at December 31, 2017 and 2016, 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):

Classification	December 31, 2017	December 31, 2016
Total amount of loans and receivables (*)	₩ 220,486,076	₩ 209,234,324
Allowance for losses on credit	1,560,288	1,477,079
Ratio (%)	0.71	0.71

(*) Receivables and deferred LOF/LOC are included in total amounts of loans and receivables.

9.3 Classification of loans by credit rating

Details of impaired loans as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ 171,628	₩ -	₩ -	₩ 171,628	₩ (32,355)
Rating 7	99,789	-	-	99,789	(4,623)
Rating 8	-	-	-	-	-
Rating 9–10	1,691,958	-	-	1,691,958	(776,378)
	1,963,375	-	-	1,963,375	(813,356)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	208,786	382,202	-	590,988	(255,143)
	208,786	382,202	-	590,988	(255,143)
	₩ 2,172,161	₩ 382,202	₩ -	₩ 2,554,363	₩ (1,068,499)

(*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, 2016				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7	107,028	-	-	107,028	(19,160)
Rating 8	31,213	-	-	31,213	(14,578)
Rating 9–10	2,132,902	-	-	2,132,902	(731,834)
	2,271,143	-	-	2,271,143	(765,572)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	178,644	438,263	241	617,148	(193,667)
	178,644	438,263	241	617,148	(193,667)
	₩ 2,449,787	₩ 438,263	₩ 241	₩ 2,888,291	₩ (959,239)

9. Loans and receivables (cont'd)

9.3 Classification of loans by credit rating (cont'd)

(*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 Group defines the objective evidence of impairment as follows; Significant financial difficulty of obligor, nonfulfillment of obligation, bankruptcy, financial restructuring, etc.

Details of loans, neither overdue nor impaired, as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 52,267,055	₩120,875,248	₩ 34,708,918	₩207,851,221	₩ (332,210)
Rating 7	764,097	772,194	151,002	1,687,293	(41,528)
Rating 8	28,331	-	59,910	88,241	(10,179)
Rating 9–10	-	-	-	-	-
Unrated (*3)	40,345	140,256	1,160,893	1,341,494	(1,137)
	₩ 53,099,828	₩121,787,698	₩ 36,080,723	₩210,968,249	₩ (385,054)

(*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 of 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, 2016				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 51,395,114	₩110,739,465	₩ 33,786,117	₩195,920,696	₩ (344,662)
Rating 7	1,470,605	765,412	6	2,236,023	(96,605)
Rating 8	18,627	-	-	18,627	(2,445)
Rating 9–10	-	-	-	-	-
Unrated (*3)	58,128	105,521	900,144	1,063,793	(1,697)
	₩ 52,942,474	₩111,610,398	₩ 34,686,267	₩199,239,139	₩ (445,409)

(*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 of 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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 159,373	₩ 226,916	₩ 12,668	₩ 398,957	₩ (7,332)
Rating 7	104,966	783,677	-	888,643	(26,711)
Rating 8	8,499	100,292	-	108,791	(23,631)
Rating 9–10	-	-	-	-	-
Unrated (*3)	663	57	51	771	(5)
	₩ 273,501	₩ 1,110,942	₩ 12,719	₩ 1,397,162	₩ (57,679)

(*1) These amounts of loans and total allowance for losses on credit have not reflected in deferred LOF/LOC.

9. Loans and receivables (cont'd)

9.3 Classification of loans by credit rating (cont'd)

(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation of 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.

Classification	December 31, 2016 Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 88,747	₩ 130,998	₩ 59,056	₩ 278,801	₩ (1,686)
Rating 7	79,474	645,956	-	725,430	(23,045)
Rating 8	21,243	79,505	-	100,748	(21,510)
Rating 9–10	-	-	-	-	-
Unrated (*3)	117	-	14	131	(1)
	₩ 189,581	₩ 856,459	₩ 59,070	₩ 1,105,110	₩ (46,242)

(*1) These amounts of loans and total allowance for losses on credit have not reflected in deferred LOF/LOC.
(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation of 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 December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	December 31, 2017 Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 233,856	₩ 969,868	₩ 12,716	₩ 1,216,440	₩ (34,435)
More than 30 days and less than 60 days	28,310	87,177	-	115,487	(13,482)
More than 60 days and less than 90 days	11,335	53,897	3	65,235	(9,762)
	₩ 273,501	₩ 1,110,942	₩ 12,719	₩ 1,397,162	₩ (57,679)

(*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, 2016 Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 124,629	₩ 746,842	₩ 59,070	₩ 930,541	₩ (23,672)
More than 30 days and less than 60 days	50,727	72,346	-	123,073	(13,451)
More than 60 days and less than 90 days	14,225	37,271	-	51,496	(9,119)
	₩ 189,581	₩ 856,459	₩ 59,070	₩ 1,105,110	₩ (46,242)

(*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.

9. Loans and receivables (cont'd)

9.4 Financial impact of collateral on loans

The extent of reducing credit risk due to collateral and other credit enhancement as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Loans	₩	2,124,094	₩	2,319,605
Receivables		52,056		50,762
Acceptances and guarantees		10,941		22,251
Loans and credit commitment		10,384		12,222
	₩	2,197,475	₩	2,404,840

9.5 Assets acquired by exercising security rights

Details of assets acquired by exercising security rights as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Property and equipment (*)	₩	15	₩	15

(*) They are presented as non-current assets classified as held for sale in the consolidated statements of financial position

9.6 Restructured loans

Details of restructured loans as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
Classification	Loans		Allowances	
Reorganization and composition	₩	174,484	₩	(59,854)
Work-out		1,250,492		(474,155)
	₩	1,424,976	₩	(534,009)

	December 31, 2016			
Classification	Loans		Allowances	
Reorganization and composition	₩	412,564	₩	(124,394)
Work-out		1,466,502		(448,211)
	₩	1,879,066	₩	(572,605)

9. Loans and receivables (cont'd)

9.7 Receivables

Details of receivables as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Domestic exchange settlement debits	₩	1,850,621	₩	2,082,430
Accrued income		693,170		618,232
Accounts receivable		1,189,941		1,371,586
Suspense payment		9,506		13,313
Guarantee deposits paid		498,098		513,579
Unsettled credit card receivables		196,687		119,910
Intercompany receivables		845,812		954,795
Receivables from proxy sale of NACF		1,696		2,067
Others		9,103		17,853
Total receivables		5,294,634		5,693,765
Allowance for losses on credit		(49,056)		(26,189)
Present value discounts		(15,625)		(15,572)
Total of receivables, net	₩	5,229,953	₩	5,652,004

9.8 Changes in deferred LOF/LOC

Changes in deferred LOF/LOC for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017							
Classification	January 1, 2017		Increase		Decrease		December 31, 2017	
Deferred LOF	₩	(14,193)	₩	(12,281)	₩	(10,830)	₩	(15,644)
Deferred LOC		322,212		197,300		232,200		287,312
Deferred LOC, net	₩	308,019	₩	185,019	₩	221,370	₩	271,668

	For the year ended December 31, 2016							
Classification	January 1, 2016		Increase		Decrease		December 31, 2016	
Deferred LOF	₩	(12,723)	₩	(9,247)	₩	(7,777)	₩	(14,193)
Deferred LOC		293,541		240,742		212,071		322,212
Deferred LOC, net	₩	280,818	₩	231,495	₩	204,294	₩	308,019

9.9 Changes in allowance for losses on credit

Changes in allowance for losses on credit for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017		For the year ended December 31, 2016	
Beginning balance	₩	1,477,079	₩	2,226,158
Provision of allowance for losses on credit		754,044		1,556,414
Net Charge-offs and sales of loans and receivables		(535,015)		(2,181,230)
Foreign exchange translation		(18,519)		(1,520)
Unwinding effect		(70,234)		(105,411)
Debt-equity swap		(48,082)		(20,066)
Others		1,015		2,734
		83,209		(749,079)
Ending balance	₩	1,560,288	₩	1,477,079

10. Investment in associates

Details of investments in associates as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
	Main business	Date of the financial statements used	Location	Number of shares (in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	December 31, 2017	Korea	180	9.00	₩6,886
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	September 30, 2017	Korea	600	9.98	3,355
NH Agri-Best 1st PEF (*2)	Other financial business	December 31, 2017	Korea	6	70.29	1,897
NHQCP SME Global Investment Partnership PEF (*2 and *3)	Other financial business	December 31, 2017	Korea	-	24.95	7,985
IBK-NH Small Giant PEF (*2)	Other financial business	December 31, 2017	Korea	1	44.90	9,099
NH-AJUIB Growth 2013 PEF (*2)	Other financial business	December 31, 2017	Korea	25,547,949	29.95	32,544
Kyunggi-DSC Superman Investment Fund No. 1	Other financial business	December 31, 2017	Korea	5	25.00	4,265
NH Agri-Biz Value Creative 1st PEF (*2)	Other financial business	December 31, 2017	Korea	3,364,870	48.07	3,059
Changmyung Shipping Co., Ltd (*4)	Overseas car transportation business	December 31, 2017	Korea	121	21.05	-
STX Offshore & Shipbuilding Co., Ltd (*5)	Shipbuilding and repair business	December 31, 2017	Korea	7,500	20.10	-
						₩69,090

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.
(*2) It was excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.
(*3) Although the Group has no interest in the investee due to the return of the investment, the investee was included as an associate since the Group's ownership to the investee's residual properties is effective based on the contract.
(*4) Although the Group had more than 20% ownership in the prior period, the investee was excluded from the associates since the Group had no significant influence over the investee due to the receivership of the investee. However, it was included in the associates in the current period as the corporate rehabilitation procedure came to an end. The accumulated unrecognized changes in share as the Group stopped applying the equity method were ₩18,905 million.
(*5) Although the Group had more than 20% ownership in the prior period, the investee was excluded from the associates since the Group had no significant influence over the investee due to the receivership of the investee. However, it was included in the associates in the current period as the corporate rehabilitation procedure came to an end. The accumulated unrecognized changes in share as the Group stopped applying the equity method were ₩893,926 million.

10. Investment in associates (cont'd)

	December 31, 2016					
	Main business	Date of the financial statements used	Location	Number of shares (in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	December 31, 2016	Korea	180	9.00	₩ 6,683
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	December 31, 2016	Korea	600	9.98	3,220
NH Agri-Best 1st PEF (*2)	Other financial business	December 31, 2016	Korea	6	70.29	1,869
NH - KOLON Green 1st PEF (*2)	Other financial business	December 31, 2016	Korea	1	57.50	1,104
NHQCP SME Global Investment Partnership PEF (*2)	Other financial business	December 31, 2016	Korea	26,571,750	24.95	37,248
IBK-NH Small Giant PEF (*2 and *3)	Other financial business	December 31, 2016	Korea	1	44.90	-
NH-AJUIB Growth 2013 PEF (*2)	Other financial business	December 31, 2016	Korea	31,987,199	29.95	37,670
Kyunggi-DSC Superman Investment Fund No. 1 (*4)	Other financial business	December 31, 2016	Korea	5	25.00	4,828
Resom Resort Co., Ltd. (*5)	Membership resort business	December 31, 2016	Korea	202	67.18	-
NH Agri-Biz Value Creative 1st PEF (*2)	Other financial business	December 31, 2016	Korea	1,924,870	48.12	1,469
						₩ 94,091

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.
(*2) It was excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.
(*3) The unrecognized share of losses of IBK-NH Small Giant PEF Co., Ltd., as the Group stopped applying the equity method was ₩224 million. And the accumulated unrecognized share of IBK-NH Small Giant PEF Co., Ltd. was ₩562 million.
(*4) The Group transferred it from investments in capital to investments in associates as at January 1, 2016.
(*5) Due to debt-equity swap executed during the year ended December 31, 2016, Resom Resort Co., Ltd. was included in investments in associates. Considering the related regulations and general matters related to the company, it was excluded from the consolidation scope since the council of creditor financial institutions has agreed to put the company under business continuity plan. Also, it was concluded that the Group has restricted rights as a shareholder and does not have controlling power. The unrecognized changes in equity and the accumulated unrecognized share of losses as the Group stopped applying the equity method were ₩75,993 million.

10. Investment in associates (cont'd)

Changes in investment in associates for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017							
	Beginning	Acquisition	Transfer	Disposal	Dividend	Gain(loss) on valuation of equity method investments	Share of other comprehensive gain (loss) of associates	Ending
Korea Credit Bureaus Co., Ltd.	₩ 6,683	₩ -	₩ -	₩ -	₩ (149)	₩ 352	₩ -	₩ 6,886
Nanumlotto Co., Ltd.	3,220	-	-	-	(60)	204	(9)	3,355
NH Agri-Best 1st PEF	1,869	-	-	-	-	28	-	1,897
NH - KOLON Green 1st PEF(*1)	1,104	-	-	(705)	-	(197)	(202)	-
NHQCP SME Global investment Partnership PEF	37,248	-	-	(26,572)	(2,969)	(335)	613	7,985
IBK-NH Smallgiant PEF	-	9,941	-	-	-	(865)	23	9,099
NH-AJUIB Growth 2013 PEF	37,670	3,894	-	(10,332)	(2,995)	3,353	954	32,544
Kyunggi-DSC Superman Investment Fund No. 1	4,828	-	-	-	-	(336)	(227)	4,265
NH Agri-Biz Value Creative 1st PEF	1,469	1,440	-	-	-	(182)	332	3,059
Resom Resort Co Ltd., (*2)	-	-	-	-	-	-	-	-
STX Offshore & Shipbuilding (*3)	-	-	7	-	-	(7)	-	-
	₩ 94,091	₩ 15,275	₩ 7	₩ (37,609)	₩ (6,173)	₩ 2,015	₩ 1,484	₩ 69,090

(*1) NH - KOLON Green 1st PEF has been liquidated for the year ended December 31, 2017.
(*2) The Group transferred the investee from investments in associates to AFS financial assets since the Group has lost control over the investee due to a receivership of the investee.
(*3) STX Offshore & Shipbuilding is included in the associates in the current period as the corporate rehabilitation procedure came to an end.

	For the year ended December 31, 2016							
	Beginning	Acquisition	Transfer	Disposal	Dividend	Gain(loss) on valuation of equity method investments	Share of other comprehensive gain (loss) of associates	Ending
Korea Credit Bureaus Co., Ltd.	₩ 6,410	₩ 12	₩ -	₩ -	₩ (135)	₩ 396	₩ -	₩ 6,683
Nanumlotto Co., Ltd.	3,181	-	-	-	(120)	117	42	3,220
NH Agri-Best 1st PEF	1,842	-	-	-	-	27	-	1,869
NH - KOLON Green 1st PEF	201	-	-	(1,725)	-	989	1,639	1,104
NHQCP SME Global investment Partnership PEF	17,361	9,980	-	-	(374)	10,645	(364)	37,248
NH SG PEF No.2(*1)	9,583	-	-	(3,624)	(54)	1,728	(7,633)	-
NH-AJUIB Growth 2013 PEF	36,578	10,632	-	(11,381)	(13,178)	14,722	297	37,670
Kyunggi-DSC Superman Investment Fund No. 1	-	2,000	3,000	-	-	(172)	-	4,828
NH Agri-Biz Value Creative 1st Private Equity Fund	-	1,925	-	-	-	(200)	(256)	1,469
Resom Resort Co., Ltd.	-	-	-	-	-	-	-	-
	₩ 75,156	₩ 24,549	₩ 3,000	₩ (16,730)	₩ (13,861)	₩ 28,252	₩ (6,275)	₩ 94,091

(*1) NH SG PEF No.2 has been liquidated for the year ended December 31, 2016.

10. Investment in associates (cont'd)

Summary of financial information of associates as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017					
	Assets	Liability	Equity	Operating income	Net income (loss)	Total comprehensive income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 75,504	₩ 19,323	₩ 56,181	₩ 68,750	₩ 3,756	₩ 3,756
Nanumlotto Co., Ltd.	51,099	19,147	31,952	43,215	2,018	1,925
NH Agri-Best 1st PEF	3,184	486	2,698	38	38	38
NHQCP SME Global Investment Partnership PEF	32,043	38	32,005	6,204	(4,171)	(1,715)
IBK-NH Small Giant PEF	20,593	328	20,265	26	(674)	(623)
NH-AJUIB Growth 2013 PEF	119,173	10,511	108,662	25,907	11,199	14,386
Kyunggi-DSC Superman Investment Fund No. 1	17,181	120	17,061	397	(1,342)	(2,251)
NH Agri-Biz Value Creative 1st PEF	6,490	126	6,364	156	(378)	312
Changmyung Shipping Co., Ltd.	316,505	406,314	(89,809)	44,634	(33,886)	(26,616)
STX Offshore & Shipbuilding (*)	3,073,470	7,520,862	(4,447,392)	(91,165)	(122,501)	(109,548)

(*) Gain on exemption of accounts payable due to debt equity swap is excluded.

	December 31, 2016					
	Assets	Liability	Equity	Operating income	Net income (loss)	Total comprehensive income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 71,245	₩ 17,322	₩ 53,923	₩ 59,868	₩ 4,401	₩ 4,401
Nanumlotto Co., Ltd.	49,299	18,694	30,605	54,456	1,170	1,593
NH Agri-Best 1st PEF	3,146	487	2,659	43	41	41
NH-KOLON Green 1st PEF	1,919	-	1,919	2,504	1,719	4,569
NHQCP SME Global investment Partnership PEF	77,523	234	77,289	43,921	42,664	41,205
IBK-NH Small Giant PEF	1	1,253	(1,252)	-	(500)	(500)
NH-AJUIB Growth 2013 PEF	136,285	10,509	125,776	56,911	49,155	50,144
Kyunggi-DSC Superman Investment Fund No. 1	19,447	135	19,312	19	(496)	(512)
Resom Resort Co., Ltd	288,281	401,400	(113,119)	31,272	(2,689)	(2,689)
NH Agri-Biz Value Creative 1st Private Equity Fund	3,178	126	3,052	22	(414)	(948)

10. Investment in associates (cont'd)

Reconciliation of the financial information presented to the carrying amount of its interest in the associates as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017					
	Equity	Percentage of ownership (%)	Interest in associates	Goodwill	Others	Book value
Korea Credit Bureaus Co., Ltd.	₩ 56,181	9.00	₩ 5,056	₩ 1,830	₩ -	₩ 6,886
Nanumlotto Co., Ltd.	31,952	9.98	3,188	167	-	3,355
NH Agri-Best 1st PEF	2,698	70.29	1,897	-	-	1,897
NHQCP SME Global Investment Partnership PEF (*1)	32,005	24.95	7,985	-	-	7,985
IBK-NH Small Giant PEF	20,265	44.90	9,099	-	-	9,099
NH-AJUIB Growth 2013 PEF	108,662	29.95	32,544	-	-	32,544
Kyunggi-DSC Superman Investment Fund No. 1	17,061	25.00	4,265	-	-	4,265
NH Agri-Biz Value Creative 1st Private Equity Fund	6,364	48.07	3,059	-	-	3,059
Changmyung Shipping Co., Ltd. (*1)	(89,809)	21.05	(18,905)	-	18,905	-
STX Offshore & Shipbuilding (*2)	(4,447,392)	20.10	(893,926)	-	893,926	-

(*1) Group applied the equity method in consideration of the ownership percentage of type 1 capital and type 2 capital.
(*2) Gain on exemption of accounts payable due to debt equity swap is excluded.

	December 31, 2016					
	Equity	Percentage of ownership (%)	Interest in associates	Goodwill	Others	Book value
Korea Credit Bureaus Co., Ltd.	₩ 53,923	9.00	₩ 4,853	₩ 1,830	₩ -	₩ 6,683
Nanumlotto Co., Ltd.	30,605	9.98	3,053	167	-	3,220
NH Agri-Best 1st PEF	2,659	70.29	1,869	-	-	1,869
NH - KOLON Green 1st PEF	1,919	57.50	1,104	-	-	1,104
NHQCP SME Global Investment Partnership PEF(*)	77,289	24.95	37,248	-	-	37,248
IBK-NH Small Giant PEF	(1,252)	44.90	(562)	-	562	-
NH-AJUIB Growth 2013 PEF	125,776	29.95	37,670	-	-	37,670
Kyunggi-DSC Superman Investment Fund No. 1	19,312	25.00	4,828	-	-	4,828
Resom Resort Co., Ltd.	(113,119)	67.18	(75,993)	-	75,993	-
NH Agri-Biz Value Creative 1st Private Equity Fund	3,052	48.12	1,469	-	-	1,469

(*) Group applied the equity method in consideration of the ownership percentage of type 1 capital and type 2 capital.

11. Tangible assets

Details of tangible assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017 Acquisition cost	Accumulated depreciation	Subsidy	Book value
Land	₩ 1,417,970	₩ -	₩ -	₩ 1,417,970
Buildings	1,088,346	(160,883)	(468)	926,995
Leasehold improvements	247,753	(202,648)	(502)	44,603
Movable properties	860,226	(610,099)	(210)	249,917
Construction in progress	5,755	-	-	5,755
	₩ 3,620,050	₩ (973,630)	₩ (1,180)	₩ 2,645,240

Classification	December 31, 2016 Acquisition cost	Accumulated depreciation	Subsidy	Book value
Land	₩ 1,429,835	₩ -	₩ -	₩ 1,429,835
Buildings	952,938	(128,557)	(184)	824,197
Leasehold improvements	237,139	(192,197)	(627)	44,315
Movable properties	857,864	(562,665)	(227)	294,972
Construction in progress	40,596	-	-	40,596
	₩ 3,518,372	₩ (883,419)	₩ (1,038)	₩ 2,633,915

Changes in acquisition cost of tangible assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017 January 1, 2017	Acquisition	Disposal	Depreciation	Transfer (*)	Others	December 31, 2017
Land	₩ 1,429,835	₩ 17,716	₩ (31,184)	₩ -	₩ 1,979	₩ (376)	₩ 1,417,970
Buildings	824,381	33,354	(3,066)	(33,103)	107,012	(1,114)	927,464
Leasehold improvements	44,941	21,134	(1,054)	(20,098)	209	(27)	45,105
Movable properties	295,199	72,519	(572)	(117,156)	174	(38)	250,126
Construction in progress	40,597	45,529	-	-	(80,349)	(22)	5,755
Subsidy	(1,038)	(343)	-	201	-	-	(1,180)
	₩ 2,633,915	₩ 189,909	₩ (35,876)	₩ (170,156)	₩ 29,025	₩ (1,577)	₩ 2,645,240

(*) ₩35,358 million of tangible assets were transferred from investment properties due to changes in ratio of leased area of land and building. ₩73,633 million and ₩ 209 million and ₩ 174 million and ₩ 6,333 million of construction in progress were transferred to buildings for business purpose, leasehold improvements, movable properties for business purpose and investment properties, respectively.

Classification	For the year ended December 31, 2016 January 1, 2016	Acquisition	Disposal	Depreciation	Transfer (*)	Others	December 31, 2016
Land	₩ 1,487,574	₩ 6,689	₩ (3,656)	₩ -	₩ (60,772)	₩ -	₩ 1,429,835
Buildings	646,665	29,464	(4,717)	(28,971)	181,940	-	824,381
Leasehold improvements	48,848	18,609	(381)	(22,321)	190	(4)	44,941
Movable properties	181,733	135,352	(373)	(105,191)	83,769	(91)	295,199
Construction in progress	285,299	86,625	(2,663)	-	(328,664)	-	40,597
Subsidy	(222)	(854)	-	38	-	-	(1,038)
	₩ 2,649,897	₩ 275,885	₩ (11,790)	₩ (156,445)	₩ (123,537)	₩ (95)	₩ 2,633,915

11. Tangible assets (cont'd)

(*) ₩113,217 million of tangible assets were transferred from investment properties due to changes in ratio of leased area of land and building. ₩2,652 million and ₩231,733 million and ₩190 million and ₩83,769 million and ₩10,320 million of construction in progress were transferred to land for business purpose, buildings for business purpose, leasehold improvements, movable properties for business purpose and investment properties, respectively.

12. Investment properties and non-current assets classified as AFS

Fair values of investment properties amount to ₩708,130 million and ₩739,932 million as at December 31, 2017 and 2016 respectively. Fair values are measured based on valuation results performed by independent professionals. Rental income from investment properties for the years ended December 31, 2017 and 2016 amounts to ₩18,318 million and ₩18,978 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.

Details of investment properties as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017					
	Acquisition cost		Accumulated depreciation		Book value	
Land	₩	457,319	₩	-	₩	457,319
Buildings		152,293		(23,370)		128,923
	₩	609,612	₩	(23,370)	₩	586,242

Classification	December 31, 2016					
	Acquisition cost		Accumulated depreciation		Book value	
Land	₩	487,489	₩	-	₩	487,489
Buildings		180,826		(20,567)		160,259
	₩	668,315	₩	(20,567)	₩	647,748

Changes in investment properties for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017											
	January 1, 2017		Acquisition		Disposal		Depreciation		Transfer (*)		December 31, 2017	
Land	₩	487,489	₩	106	₩	(28,297)	₩	-	₩	(1,979)	₩	457,319
Buildings		160,259		3,504		(3,005)		(4,789)		(27,046)		128,923
	₩	647,748	₩	3,610	₩	(31,302)	₩	(4,789)	₩	(29,025)	₩	586,242

(*) ₩35,358 million were transferred from tangible assets due to changes in ratio of leased area of land and buildings. ₩6,333 million were transferred from construction in progress.

12. Investment properties and non-current assets classified as AFS (cont'd)

Classification	For the year ended December 31, 2016					
	January 1, 2016	Acquisition	Disposal	Depreciation	Transfer (*)	December 31, 2016
Land	₩ 424,124	₩ -	₩ (61)	₩ -	₩ 63,426	₩ 487,489
Buildings	101,053	3,767	-	(4,672)	60,111	160,259
	₩ 525,177	₩ 3,767	₩ (61)	₩ (4,672)	₩ 123,537	₩ 647,748

(*) ₩113,217 million were transferred from tangible assets due to changes in ratio of leased area of land and buildings. ₩10,320 million were transferred from construction in progress.

At the end of reporting period, the book value of assets held for sale is ₩15 million, and there have been no changes for the years ended December 31, 2017 and 2016.

13. Intangible assets

Details of intangible assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Development cost	₩ 371,363	₩ (209,709)	₩ -	₩ 161,654
Other intangible assets	691,924	(478,517)	(2,868)	210,539
	₩ 1,063,287	₩ (688,226)	₩ (2,868)	₩ 372,193

Classification	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Development cost	₩ 290,399	₩ (169,265)	₩ -	₩ 121,134
Other intangible assets	589,325	(395,272)	(4,083)	189,970
	₩ 879,724	₩ (564,537)	₩ (4,083)	₩ 311,104

Changes in book value of intangible assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017					
	January 1, 2017	Acquisition	Disposal	Amortization	Other	December 31, 2017
Development cost	₩ 121,134	₩ 81,628	₩ (665)	₩ (40,443)	₩ -	₩ 161,654
Other intangible assets	189,970	106,720	(2,903)	(83,245)	(3)	210,539
	₩ 311,104	₩ 188,348	₩ (3,568)	(123,688)	₩ (3)	₩ 372,193

Classification	For the year ended December 31, 2016					
	January 1, 2016	Acquisition	Disposal	Amortization	Other	December 31, 2016
Development cost	₩ 116,282	₩ 40,315	₩ -	₩ (35,463)	₩ -	₩ 121,134
Other intangible assets	211,182	65,974	(2,948)	(81,253)	(2,985)	189,970
	₩ 327,464	₩ 106,289	₩ (2,948)	(116,716)	₩(2,985)	₩ 311,104

14. Other assets

Details of other assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Prepaid expenses	₩	68,341	₩	51,751
Supplies		3,734		3,096
Guarantee deposits paid		5,105		6,323
Suspense payment		493		3,799
Guarantees		171		181
Telephone and telex rights		1,393		1,414
Others		1,110		8,639
	₩	80,347	₩	75,203

15. Financial liabilities

Details of financial liabilities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
Classification	Book value		Fair value	
Financial liabilities at FVTPL:				
Held-for-trading financial liabilities	₩	51,737	₩	51,737
Trading derivative liabilities		967,629		967,629
		1,019,366		1,019,366
Derivative liabilities:				
Hedging derivative liabilities		25,881		25,881
Financial liabilities measured at amortized cost:				
Deposits (*2)		205,768,316		206,634,371
Borrowings (*2)		12,227,485		12,227,065
Debentures (*2)		18,968,727		19,053,448
Others (*1 and *3)		13,286,057		12,382,275
		250,250,585		250,297,159
	₩	251,295,832	₩	251,342,406

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in 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.

	December 31, 2016			
Classification	Book value		Fair value	
Financial liabilities at FVTPL:				
Trading derivative liabilities	₩	607,507	₩	607,507
Derivative liabilities:				
Hedging derivative liabilities		26,247		26,247
Financial liabilities measured at amortized cost:				
Deposits (*2)		194,212,330		195,161,638
Borrowings (*2)		12,185,991		12,184,443
Debentures (*2)		18,717,527		18,984,692
Others (*1 and *3)		9,996,525		9,091,918
		235,112,373		235,422,691
	₩	235,746,127	₩	236,056,445

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.

15. Financial liabilities (cont'd)

(*2) Interest payables among financial liabilities are included in 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.

Details of financial liabilities by category as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 30, 2017				
	Financial instruments recognized as profit and loss				
Classification	Held-for-trading	Trading derivative liabilities	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩ 51,737	₩ 967,629	₩ -	₩ -	₩ 1,019,366
Hedging derivative liabilities	-	-	-	25,881	25,881
Deposits	-	-	205,768,316	-	205,768,316
Borrowings	-	-	12,227,485	-	12,227,485
Debentures	-	-	18,968,727	-	18,968,727
Other financial liabilities	-	-	13,286,057	-	13,286,057
	₩ 51,737	₩ 967,629	₩ 250,250,585	₩ 25,881	₩ 251,295,832

	December 31, 2016				
	Financial instruments recognized as profit and loss				
Classification	Held-for-trading	Trading derivative liabilities	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩ -	₩ 607,507	₩ -	₩ -	₩ 607,507
Hedging derivative liabilities	-	-	-	26,247	26,247
Deposits	-	-	194,212,330	-	194,212,330
Borrowings	-	-	12,185,991	-	12,185,991
Debentures	-	-	18,717,527	-	18,717,527
Other financial liabilities	-	-	9,996,525	-	9,996,525
	₩ -	₩ 607,507	₩ 235,112,373	₩ 26,247	₩ 235,746,127

There are no financial liabilities designated at FVTPL as at December 31, 2017 and 2016.

16. Deposits

Details of deposits as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		December 31, 2017	December 31, 2016
Demand deposits:			
In Korean won	Checking accounts	₩ 123,005	₩ 107,476
	Household checking accounts	168,683	164,764
	Ordinary deposits	20,330,603	16,950,826
	Special deposits	1,876,203	1,886,740
	Official deposits	11,902,502	14,305,549
	Treasury deposits	50,854	41,537
	Other deposits	27,596	28,803
		34,479,446	33,485,695
In foreign currency	Checking accounts	6,271	312
	Ordinary deposits	1,897,809	1,380,658
	Special deposits	2,499	175
		1,906,579	1,381,145
		36,386,025	34,866,840
Time deposits:			
Saving deposits in Korean won	Fixed deposits	58,303,920	61,574,732
	Installment savings	1,194,977	1,974,606
	Raising lump sum of savings	1	1
	Saving deposits	35,154,595	32,903,588
	Corporate-free saving deposits	12,486,119	10,937,337
	Long-term deposits for workers	40	40
	Long-term deposits for housing	123,106	206,557
	Household long-term deposits	103	105
	Workers' preferred savings	68	86
	House application deposits	199,973	202,723
	Other saving deposits	57,440,454	45,466,227
		164,903,356	153,266,002
Saving deposits in foreign currency	Fixed deposits	898,523	522,412
	Deposits at call	2,224	1,462
	Other saving deposits	299,692	111,824
		1,200,439	635,698
Installment deposits	Mutual installment savings	2,830,737	4,123,087
	New house-free installment	49,998	39,109
	Free installment deposits	68	69
	House application installments	23,935	26,452
		2,904,738	4,188,717
		169,008,533	158,090,417
Certificates of deposit:		373,758	1,255,073
		₩ 205,768,316	₩ 194,212,330

17. Borrowings

Details of borrowings as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Provider	Interest rate (%)	December 31, 2017		December 31, 2016	
Borrowings in Korean won	The Bank of Korea	0.75~1.00	₩	968,354	₩	1,190,504
	Public sector	(-)1.25~5.15		5,751,162		5,806,541
	Others	0.00~2.90		1,633,961		1,557,280
				8,353,477		8,554,325
Borrowings in foreign currency	Borrowings from banks	1.58~3.79		1,700,298		2,188,534
	Borrowings from government	1.14~2.47		215,415		48,340
				1,915,713		2,236,874
Call money		1.20~1.48		1,615,588		1,097,400
Bonds sold under repurchase agreements		1.33~1.42		337,800		289,900
Bills sold		0.25~1.50		4,907		7,492
			₩	12,227,485	₩	12,185,991

18. Debentures

Details of debentures as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Interest rate (%)	December 31, 2017		December 31, 2016	
Debentures in Korean won:					
General agricultural financial bonds	1.38~3.77	₩	13,080,000	₩	11,910,000
Subordinated agricultural financial bonds	2.52~4.61		3,800,000		3,800,000
Present value discounts	-		(35,240)		(23,645)
			16,844,760		15,686,355
Debentures in foreign currency:					
General agricultural financial bonds	1.17~2.35		2,154,590		3,049,855
Accumulated loss on fair value hedges	-		(21,582)		(10,911)
Present-value premium (discounts)	-		(9,041)		(7,772)
			2,123,967		3,031,172
		₩	18,968,727	₩	18,717,527

19. Provisions

Details of provisions as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Provision for acceptances and guarantees	₩	198,550	₩	118,242
Provision for unused credit limit		103,491		105,405
Other provisions		129,923		64,299
	₩	431,964	₩	287,946

19. Provisions (cont'd)

Acceptances and guarantees (including endorsed bills) as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Confirmed acceptances and guarantees:		
Acceptances and guarantees in Korean won	₩ 470,145	₩ 601,883
Acceptances and guarantees purchased	148,177	124,647
Acceptances and guarantees for imported goods (letter of guarantees)	47,615	29,412
Acceptances and guarantees in foreign currencies	2,512,116	3,599,746
	3,178,053	4,355,688
Unconfirmed acceptances and guarantees:		
Issuance of local letter of credit	226,747	307,077
Issuance of import letter of credit	1,383,127	1,408,062
Others	634,844	721,736
	2,244,718	2,436,875
Bills endorsed	5,172	14,990
	₩ 5,427,943	₩ 6,807,553

Acceptances and guarantees (including endorsed bills) by country as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Korea	₩ 860,178	₩ 381,758	₩ -	₩ 1,241,936	22.88
China	51,243	259,585	4,654	315,482	5.81
Japan	79,935	113,564	-	193,499	3.56
USA	93,449	288,839	-	382,288	7.04
Indonesia	10,568	31,032	-	41,600	0.77
Hong Kong	880	306	-	1,186	0.02
Panama	19,422	19,422	-	38,844	0.72
Singapore	77,398	16,170	-	93,568	1.72
Others	1,984,980	1,134,042	518	3,119,540	57.48
	₩ 3,178,053	₩ 2,244,718	₩ 5,172	₩ 5,427,943	100.00

	December 31, 2016				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Korea	₩ 1,003,892	₩ 368,705	₩ -	₩ 1,372,597	20.16
China	55,937	311,089	12,308	379,334	5.57
Japan	83,611	155,182	-	238,793	3.51
USA	135,976	280,013	-	415,989	6.11
Indonesia	14,064	42,580	-	56,644	0.83
Hong Kong	13,941	3,575	-	17,516	0.26
Panama	119,226	-	-	119,226	1.75
Singapore	114,130	46,118	-	160,248	2.35
Others	2,814,911	1,229,613	2,682	4,047,206	59.46
	₩ 4,355,688	₩ 2,436,875	₩ 14,990	₩ 6,807,553	100.00

19. Provisions (cont'd)

Acceptances and guarantees (including endorsed bills) by industry as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Manufacturing	₩ 2,287,395	₩ 1,356,928	₩ 343	₩ 3,644,666	67.15
Construction	75,314	42,553	-	117,867	2.17
Retail and wholesale	369,949	388,711	4,829	763,489	14.07
Finance and insurance	85,939	9,042	-	94,981	1.75
Others	359,456	447,484	-	806,940	14.86
	₩ 3,178,053	₩ 2,244,718	₩ 5,172	₩ 5,427,943	100.00

	December 31, 2016				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Manufacturing	₩ 3,346,739	₩ 1,511,813	₩ -	₩ 4,858,552	71.37
Construction	152,550	42,883	-	195,433	2.87
Retail and wholesale	383,787	441,792	14,990	840,569	12.35
Finance and insurance	46,460	4,567	-	51,027	0.75
Others	426,152	435,820	-	861,972	12.66
	₩ 4,355,688	₩ 2,436,875	₩ 14,990	₩ 6,807,553	100.00

Acceptances and guarantees (including endorsed bills) by customer as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Corporate	₩ 3,056,160	₩ 1,795,347	₩ 5,172	₩ 4,856,679	89.48
Household	915	-	-	915	0.02
Sole entrepreneur	12,145	12,180	-	24,325	0.45
Member cooperatives	544	8,286	-	8,830	0.16
Financial institutions	34,665	535	-	35,200	0.65
Government and others	73,624	428,370	-	501,994	9.24
	₩ 3,178,053	₩ 2,244,718	₩ 5,172	₩ 5,427,943	100.00

	December 31, 2016				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Corporate	₩ 4,177,978	₩ 2,042,772	₩ 14,990	₩ 6,235,740	91.60
Sole entrepreneur	14,258	11,061	-	25,319	0.37
Member cooperatives	670	11,123	-	11,793	0.17
Financial institutions	45,789	1	-	45,790	0.67
Government and others	116,993	371,918	-	488,911	7.19
	₩ 4,355,688	₩ 2,436,875	₩ 14,990	₩ 6,807,553	100.00

19. Provisions (cont'd)

The percentage of provision for acceptances and guarantees to the outstanding balance of acceptances and guarantees as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Outstanding balance		Provision for acceptances and guarantees		Ratio (%)
December 31, 2017	₩	5,427,943	₩	198,550	3.66
December 31, 2016	₩	6,807,553	₩	118,242	1.74

The percentage of provision for unused credit limit to the outstanding balance of unused credit limit as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	Outstanding balance		Provision for unused credit limit		Ratio (%)
December 31, 2017	₩	62,752,897	₩	103,491	0.16
December 31, 2016	₩	64,479,044	₩	105,405	0.16

Details of other provisions as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Provision for mileage	₩	16,056	₩	15,384
Provision for litigation		8,433		7,916
Provision for donation of public interest		3,669		4,478
Provision for restoration		28,099		27,530
Provision for refund of dormant deposits		292		3,309
Others		73,374		5,682
	₩	129,923	₩	64,299

Changes in provision for acceptances and guarantees and unused credit limits for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	Provision for acceptances and guarantees		Provision for unused credit limits	
January 1, 2017	₩	118,242	₩	105,405
Changes for the period:				
Provision (reversal)		90,587		(157)
Foreign currency translation		(10,279)		(1,757)
December 31, 2017	₩	198,550	₩	103,491

Classification	Provision for acceptances and guarantees		Provision for unused credit limits	
January 1, 2016	₩	81,142	₩	111,966
Changes for the period:				
Provision (reversal)		35,010		(6,884)
Foreign currency translation		2,090		323
December 31, 2016	₩	118,242	₩	105,405

20. Other liabilities

Details of other liabilities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Trust accounts payable	₩ 2,353,022	₩ 1,485,868
Domestic exchange settlement credits	4,319,638	2,554,043
Foreign exchange settlement credits	31,460	28,719
Accounts payable	1,398,560	1,465,147
Accrued expenses	1,313,917	1,324,919
Guarantee deposit received	206,889	195,328
Agency	1,539,962	1,089,248
Financial guarantee contract	27,395	24,787
Unearned revenue	28,028	26,486
Deferred mileage revenue	79,545	72,540
Suspense receipt	155,537	162,240
Other sundry liabilities	2,267,392	1,950,260
	₩ 13,721,345	₩ 10,379,585

21. Derivatives and hedge accounting

Details of derivatives as at December 31 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	Derivative assets		Derivative liabilities	
Classification	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 930,419	₩ -	₩ 794,209	₩ -
Currency swap	38,534	-	116,707	-
Currency options purchased	2,629	-	-	-
Currency options sold	-	-	2,629	-
	971,582	-	913,545	-
Interest rate:				
Interest rate swap	51,545	7,575	54,016	25,881
Stock:				
Stock options purchased	610	-	-	-
Stock options sold	-	-	68	-
	610	-	68	-
	₩ 1,023,737	₩ 7,575	₩ 967,629	₩ 25,881

	December 31, 2016			
	Derivative assets		Derivative liabilities	
Classification	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 389,335	₩ -	₩ 422,404	₩ -
Currency swap	103,256	-	59,497	-
Currency options purchased	2,801	-	-	-
Currency options sold	-	-	2,801	-
	495,392	-	484,702	-
Interest rate:				
Interest rate swap	107,768	9,014	118,906	26,247
Stock:				
Stock options purchased	3,124	-	-	-
Stock options sold	-	-	3,899	-
	3,124	-	3,899	-
	₩ 606,284	₩ 9,014	₩ 607,507	₩ 26,247

21. Derivatives and hedge accounting (cont'd)

The notional amounts outstanding for derivative contracts as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017 Trading	Hedging	Total
Currency:			
Currency forwards	₩ 45,565,880	₩ -	₩ 45,565,880
Currency futures (*)	144,371	-	144,371
Currency swap	2,937,621	-	2,937,621
Currency options purchased	256,279	-	256,279
Currency options sold	256,279	-	256,279
	49,160,430	-	49,160,430
Interest rate:			
Interest rate swaps	6,544,358	2,624,394	9,168,753
Stock:			
Stock options purchased	58,256	-	58,256
Stock options sold	15,115	-	15,115
	73,371	-	73,371
	₩ 55,778,159	₩ 2,624,394	₩ 58,402,554

(*) Futures transactions are settled daily and reflected in deposits.

Classification	December 31, 2016 Trading	Hedging	Total
Currency:			
Currency forwards	₩ 24,384,622	₩ -	₩ 24,384,622
Currency futures (*)	366,538	-	366,538
Currency swap	2,564,290	-	2,564,290
Currency options purchased	224,032	-	224,032
Currency options sold	224,032	-	224,032
	27,763,514	-	27,763,514
Interest rate:			
Interest rate swaps	8,438,476	2,861,849	11,300,325
Stock:			
Stock options purchased	59,952	-	59,952
Stock options sold	61,451	-	61,451
	121,403	-	121,403
	₩ 36,323,393	₩ 2,861,849	₩ 39,185,242

(*) Futures transactions are settled daily and reflected in deposits.

21. Derivatives and hedge accounting (cont'd)

Details of derivatives as at December 31, 2017 and 2016 and gain or loss on valuation of derivatives for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017							
	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	₩ 930,585	₩ 794,774	₩ -	₩ -	₩ 930,585	₩ 794,774	₩ 930,419	₩ 794,209
Swap	42,283	126,050	-	-	42,283	126,050	38,534	116,707
Options purchased	2,873	-	-	-	2,873	-	2,629	-
Options sold	-	2,437	-	-	-	2,437	-	2,629
	975,741	923,261	-	-	975,741	923,261	971,582	913,545
Interest rate:								
Swap	48,768	46,088	6,057	9,818	54,825	55,906	59,120	79,897
Stock:								
Options purchased	4,583	7,347	-	-	4,583	7,347	610	-
Options sold	237	-	-	-	237	-	-	68
	4,820	7,347	-	-	4,820	7,347	610	68
	₩ 1,029,329	₩ 976,696	₩ 6,057	₩ 9,818	₩ 1,035,386	₩ 986,514	₩ 1,031,312	₩ 993,510

	For the year ended December 31, 2016							
	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	₩ 385,781	₩ 422,422	₩ -	₩ -	₩ 385,781	₩ 422,422	₩ 389,335	₩ 422,404
Swap	72,661	26,182	-	-	72,661	26,182	103,256	59,497
Options purchased	2,933	-	-	-	2,933	-	2,801	-
Options sold	-	2,544	-	-	-	2,544	-	2,801
	461,375	451,148	-	-	461,375	451,148	495,392	484,702
Interest rate:								
Swap	51,846	49,006	6,980	29,321	58,826	78,327	116,782	145,153
Stock:								
Options purchased	159	8,119	-	-	159	8,119	3,124	-
Options sold	404	466	-	-	404	466	-	3,899
	563	8,585	-	-	563	8,585	3,124	3,899
	₩ 513,784	₩ 508,739	₩ 6,980	₩ 29,321	₩ 520,764	₩ 538,060	₩ 615,298	₩ 633,754

At the end of the reporting period, hedged items applied with fair value hedge accounting include AFS financial assets (debt securities) and the issuance of financial bonds. Changes in the fair value of derivatives due to fluctuation in interest rate 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 in interest rate.

Details of the Group's hedged items and types of hedge accounting as at December 31, 2017 and 2016 are as follows (Korean won in millions):

				Fair value of hedging instrument	
Hedged item	Hedged risk	Hedging instrument	Type of hedge accounting	December 31, 2017	December 31, 2016
AFS financial assets	Interest risk	Interest rate swaps	Fair value hedge	₩ 7,511	₩ 6,510
Debentures	Interest risk	Interest rate swaps	Fair value hedge	(25,817)	(23,743)

21. Derivatives and hedge accounting (cont'd)

Details of (loss) gain on valuation of hedged items and hedging instruments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017		For the year ended December 31, 2016	
	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	₩ (3,395)	₩ 974	₩ (4,714)	₩ 6,508
Debentures	11,227	(4,735)	20,751	(28,849)
	₩ 7,832	₩ (3,761)	₩ 16,037	₩ (22,341)

22. Net defined benefit liabilities

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 KIFRS. 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 December 31, 2017 and 2016 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 December 31, 2017 and 2016 are as follows:

Classification	December 31, 2017	December 31, 2016
Discount rate	2.86%	2.56%
Salary increase rate:		
Base-up	2.37%	2.26%
Empirical promotion rate	Empirical promotion rate by age	

Details of net defined benefit liabilities as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	₩ 1,637,222	₩ 1,448,520
Fair value of plan assets	(1,325,710)	(1,111,371)
Net liabilities from DB plan	₩ 311,512	₩ 337,149

22. Net defined benefit liabilities (cont'd)

Changes in net defined benefit liabilities for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017		
Classification	Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2017	₩ 1,448,520	₩ (1,111,371)	₩ 337,149
Current service cost	211,968	-	211,968
Interest expenses (income)	36,332	(27,720)	8,612
Remeasurement elements:			
Return on planned assets (on the net basis of net interest cost)	-	12,852	12,852
Actuarial losses incurred due to changes in demographic assumptions	59,733	-	59,733
Actuarial losses incurred due to changes in financial assumptions	(16,003)	-	(16,003)
Actuarial losses incurred due to experience adjustments	48,723	-	48,723
Employer contributions	-	(346,303)	(346,303)
Payment	(149,374)	145,504	(3,870)
Transfer from related-party	12,198	-	12,198
Transfer to related-party	(14,875)	-	(14,875)
Other	-	1,328	1,328
Present value as at December 31, 2017	₩ 1,637,222	₩ (1,325,710)	₩ 311,512

	For the year ended December 31, 2016		
Classification	Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2016	₩ 1,215,777	₩ (813,415)	₩ 402,362
Current service cost	177,748	-	177,748
Interest expenses (income)	30,305	(20,742)	9,563
Remeasurement elements:			
Return on planned assets (on the net basis of net interest cost)	-	8,108	8,108
Actuarial losses incurred due to changes in demographic assumptions	71,809	-	71,809
Actuarial losses incurred due to changes in financial assumptions	45,007	-	45,007
Actuarial losses incurred due to experience adjustments	29,311	-	29,311
Employer contributions	-	(422,369)	(422,369)
Payment	(122,342)	136,147	13,805
Transfer from related-party	12,692	-	12,692
Transfer to related-party	(11,769)	-	(11,769)
Other	(18)	900	882
Present value as at December 31, 2016	₩ 1,448,520	₩ (1,111,371)	₩ 337,149

Portfolio of plan assets as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Fixed deposits	₩ 1,325,710	₩ 1,111,371

22. Net defined benefit liabilities (cont'd)

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 ₩14,867 million and ₩12,634 million for the year ended December 31, 2017 and 2016, respectively.

The effects of reasonable possible changes to significant actuarial assumptions on defined benefit obligation whilst all other assumptions occurring as at December 31, 2017 are held constant are as follows (Korean won in millions):

Classification	Increase		Decrease	
100 basis point (bp) change in discount rate	₩	(153,997)	₩	180,968
1% change in salary increase rate		180,000		(156,085)

The sensitivity analysis presented above may not present 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 the actuarial assumptions are 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.

The Group expects to make a contribution of ₩148,758 million to the defined benefit plans during the next fiscal year.

The weighted average maturity of the defined benefit obligation is 10.00 years.

The amount of retirement benefits paid for the defined contribution plan during for the year ended December 31, 2017 is ₩232 million.

23. Equity

Capital stock as at December 31, 2017 and 2016 is as follows (Korean won in millions, shares in units):

Classification	December 31, 2017		December 31, 2016	
Shares authorized		1,000,000,000		1,000,000,000
Par value (in Korean won)	₩	5,000	₩	5,000
Shares issued		426,555,827		426,555,827
Common stock	₩	2,132,779	₩	2,132,779

Other paid-in capital as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Capital surplus:				
capital in excess of par value	₩	9,295,401	₩	9,295,401
other capital surpluses		35,948		35,948
		9,331,349		9,331,349
Capital adjustments (*1)		(3,019)		(3,019)
Hybrid equity securities (*2)		349,648		349,648
	₩	9,677,978	₩	9,677,978

(*1) Capital adjustment arose from the acquisition of IT department of NACF.
(*2) The Group classifies the hybrid equity securities as capital as the maturity of the hybrid equity securities justify over 30 years and the Group holds the right to extend the bond maturity continuously under the same conditions and evade delivering cash or another financial asset to pay the contractual obligation.

For the year ended December 31, 2017, there were no changes in capital stock and paid-in capital in excess of par value.

23. Equity (cont'd)

Details of other components of equity as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Gain on valuation & foreign currency translation of AFS financial assets	₩ 119,823	₩ 196,477
Exchange differences on translating foreign operations	(5,482)	1,438
Remeasurements of defined benefit pension plans	(558,663)	(504,271)
Loss on valuation of investments in associates	1,144	71
	₩ (443,178)	₩ (306,285)

Changes in other components of equity for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017			
Classification	January 1, 2017	Changes for the period	Deferred income tax	December 31, 2017
Gain (loss) on valuation & foreign currency translation of AFS financial assets	₩ 196,477	₩ (93,573)	₩ 16,919	₩ 119,823
Exchange differences on translating foreign operations	1,438	(6,920)	-	(5,482)
Remeasurements of defined benefit pension plans	(504,271)	(105,305)	50,913	(558,663)
Loss on valuation of investments in associates	71	1,484	(411)	1,144
	₩ (306,285)	₩ (204,314)	₩ 67,421	₩ (443,178)

	For the year ended December 31, 2016			
Classification	January 1, 2016	Changes for the period	Deferred income tax	December 31, 2016
Gain (loss) on valuation & foreign currency translation of AFS financial assets	₩ 262,761	₩ (80,717)	₩ 14,433	₩ 196,477
Exchange differences on translating foreign operations	599	839	-	1,438
Remeasurements of defined benefit pension plans	(387,360)	(154,235)	37,324	(504,271)
Loss on valuation of investments in associates	4,828	(6,275)	1,518	71
	₩ (119,172)	₩ (240,388)	₩ 53,275	₩ (306,285)

Details of retained earnings as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Regulatory reserve for bad debt	₩ 1,486,563	₩ 1,382,507
Allowance for profit	91,984	91,984
Voluntary reserve for recapitalization	1,000,000	1,000,000
Voluntary reserve	14	14
Unappropriated retained earnings	705,256	104,056
	₩ 3,283,817	₩ 2,578,561

23. Equity (cont'd)

Changes in retained earnings for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017		For the year ended December 31, 2016	
Balance as at January 1	₩	2,578,561	₩	2,474,505
Net income		652,073		111,126
Changes in consolidated taxation payment		70,263		10,010
Hybrid equity securities dividends		(17,080)		(17,080)
Balance as at December 31	₩	3,283,817	₩	2,578,561

Reserve for bad debt as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Beginning balance	₩	1,486,563	₩	1,382,507
Planned reserve for bad debt		143,246		104,056
Expected balance	₩	1,629,809	₩	1,486,563

Provision of reserve for bad debt and adjusted net income after reflecting reserve for bad debt for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017		For the year ended December 31, 2016	
Net income	₩	652,073	₩	111,126
Provision of reserve for bad debt		139,891		(115,487)
Adjusted net income after reserve for bad debt		791,964		(4,361)
Adjusted basic and diluted earnings per share after reserve for bad debt (in Korean won) (*)		1,817		(50)

(*) Hybrid equity securities dividends ₩17,080 million and ₩17,080 million as at December 31, 2017 and 2016 are deducted from adjusted net income after reserve for bad debt when calculating adjusted basic earnings per share. Adjusted diluted earnings per share is identical to basic earnings per share, as the Group does not retain dilutive common shares.

24. Capital management

24.1 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 common equity tier 1 and additional tier 1 capital. Common equity tier 1 is composed of capital stock, additional paid-in capital, retained earnings (excluding reserve for bad loans), non-controlling interests of bank which is the consolidated subsidiary and accumulated other comprehensive income. Additional tier 1 capital is composed of capital securities (including hybrid bonds) and non-controlling interests of consolidated subsidiaries

- Tier 2 capital (supplementary capital): Supplementary capital is composed of allowance for losses on credit for assets classified as normal or precautionary according to the forward looking criteria, capital securities (such as subordinated bonds) and non-controlling interests of consolidated subsidiaries.

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.

24. Capital management (cont'd)

24.1 Current state of regulatory capital (cont'd)

Besides the BIS ratios reported to the Financial Supervisory Service, the Group sets up internal policies on capital management for the criteria of capital adequacy and soundness of finance. In addition, the Group monitors the soundness of finance by allocating the risk appetite of the available capital to the limit of internal capital (the amount of capital that ensures that the Group 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 Group computes on appropriateness of internal capital under regular inspection.

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 at December 1, 2013. Details of the Group's BIS capital adequacy ratio as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Basic capital (A)	₩ 12,900,239	₩ 12,647,271
Supplementary capital (B)	3,035,837	3,230,376
Equity capital (C)	15,936,076	15,877,647
Risk-weighted assets (D)	108,240,415	108,610,930
Equity capital ratio (C/D*100)	14.72	14.62
Basic capital ratio (A/D*100)	11.92	11.64

24.2 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.

25. Income tax expense

The components of income tax expense for years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017	For the year ended December 31, 2016
Income tax currently payable (including additional and refunded income tax)	₩ 336,743	₩ 41,267
Adjustments recognized for the current period in relation to the current tax of prior periods	87,573	(22,389)
Change in deferred income tax due to temporary differences (*)	(285,512)	(59,449)
Total income tax effect	138,804	(40,571)
Income taxes directly applied to shareholder's equity	67,421	53,275
Income tax expense	₩ 206,225	₩ 12,704
(*) Net deferred income tax assets due to temporary differences as at December 31, 2017 and 2016	₩ 651,878	₩ 366,366
Net deferred income tax assets due to temporary differences as at January 1, 2017 and 2016	366,366	306,917
Change in deferred income tax due to temporary differences	₩ 285,512	₩ 59,449

25. Income tax expense (cont'd)

A reconciliation of income before income tax and income tax expenses for the years ended December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Net income before income tax	₩	858,298	₩	123,830
Income tax expense before adjustments (A) (*)		207,246		29,505
Adjustments (B):				
Non-taxable income		(5,180)		(19,926)
Non-deductible expenses		9,027		9,769
Unrecognized deferred tax assets		1,139		1,045
Refund of income tax or Supplementary pay of income tax		(287)		(1,952)
Others		(5,720)		(5,737)
		(1,021)		(16,801)
Income tax expense (A-B)	₩	206,225	₩	12,704
Effective tax rate		24.03%		10.26%

(*) Tax at the statutory income tax rate is calculated by using the income tax rate (11% on taxable income below ₩200 million, 22% on taxable income exceeding ₩200 million and below ₩200 billion, 24.2% on taxable income exceeding ₩200 billion).

The deferred income tax recognized as other comprehensive income for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Gain on valuation & foreign currency translation of AFS financial assets	₩	16,919	₩	14,433
Remeasurements of defined benefit pension plans		50,913		37,324
Gain (Loss) on valuation of investments in associates		(411)		1,518
	₩	67,421	₩	53,275

25. Income tax expense (cont'd)

The deferred income tax assets (liabilities) of the Bank as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017			
	Beginning	Increase	Decrease	Ending
(Temporary differences):				
Gain(loss) on valuation of Treasury	₩ 17,463	₩ 367	₩ 17,463	₩ 367
Investments in associates and subsidiaries (*2)	34,840	36,866	44,775	26,931
Gain(loss) on valuation of derivatives	17,778	(25,486)	18,234	(25,942)
Gain(loss) on valuation of AFS securities	263,332	60,829	28,721	295,440
Uncollected income	(106,187)	(52,626)	(106,187)	(52,626)
Deferred LOF/LOC	(308,019)	(271,668)	(308,019)	(271,668)
Defined benefit obligations	1,383,266	340,753	204,362	1,519,657
Accrued charges	76,681	87,111	76,959	86,833
Payment guarantee provisions liabilities	115,503	81,863	-	197,366
Other provisions	90,888	91,350	51,099	131,139
Special deposits	(82,600)	(4,603)	(220)	(86,983)
Retirement insurance and assets for DB plan operation	(743,373)	(385,216)	(180,504)	(948,085)
Others	754,338	802,088	58,390	1,498,036
	1,513,910	761,628	(94,927)	2,370,465
Unrealizable temporary differences	-	-	-	-
Realizable temporary differences	1,513,910	761,628	(94,927)	2,370,465
Tax rate (*1)	24.20%			27.50%
Net deferred income tax asset	366,366			651,878

(*1) The tax rate of 27.5% was used for deferred income tax assets and liabilities over the period in which all the related temporary differences are expected to be reversed.
(*2) The income tax effect of equity method is reasonably estimated by considering the applicability and realizability of deferred income tax by each investee.

Classification	December 31, 2016			
	Beginning	Increase	Decrease	Ending
(Temporary differences):				
Gain(loss) on valuation of Treasury	₩ 77,889	₩ (48,013)	₩ 12,413	₩ 17,463
Investments in associates and subsidiaries (*2)	39,659	42,557	47,376	34,840
Gain(loss) on valuation of derivatives	44,135	18,419	44,776	17,778
Gain(loss) on valuation of AFS securities	189,079	263,479	189,226	263,332
Uncollected income	(198,010)	(107,025)	(198,848)	(106,187)
Deferred LOF/LOC	(223,507)	(365,329)	(280,817)	(308,019)
Defined benefit obligations	1,141,392	340,861	98,987	1,383,266
Accrued charges	74,233	76,406	73,958	76,681
Payment guarantee provisions liabilities	81,141	34,362	-	115,503
Other provisions	67,164	38,246	14,522	90,888
Special deposits	(78,789)	(4,347)	(536)	(82,600)
Retirement insurance and assets for DB plan operation	(699,871)	(142,489)	(98,987)	(743,373)
Others	753,735	48,747	48,144	754,338
	1,268,250	195,874	(49,786)	1,513,910
Unrealizable temporary differences	-	-	-	-
Realizable temporary differences	1,268,250	195,874	(49,786)	1,513,910
Tax rate (*1)	24.20%			24.20%
Net deferred income tax asset	306,917			366,366

(*1) The tax rate of 24.2% was used for deferred income tax assets and liabilities over the period in which all the related temporary differences are expected to be reversed.
(*2) The income tax effect of equity method is reasonably estimated by considering the applicability and realizability of deferred income tax by each investee.

26. Interest income and expenses

(1) The interest income and expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Interest income:				
Deposits				
Due from banks	₩	40,305	₩	26,123
Due from other financial institutions		5,635		1,844
Loans and other receivables		5,907,997		5,623,562
Financial assets at FVTPL		115,466		120,919
AFS financial assets		267,954		256,349
HTM financial assets		170,803		201,366
Others (*)		747,745		687,451
		7,255,905		6,917,614
Interest expenses:				
Deposits		2,094,607		2,151,095
Debentures		385,722		386,537
Borrowings		140,982		133,181
Others		46,670		40,970
		2,667,981		2,711,783
Interest income, net	₩	4,587,924	₩	4,205,831

(*) Interest income of ₩176,258 million for the previous period is reclassified as commission income.

(2) Interest income of impaired financial assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Loans	₩	67,733	₩	102,986
Credit card		2,501		1,933
	₩	70,234	₩	104,919

27. Commission income and expenses

Commission income and expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Commission income:				
Deposits	₩	1,295	₩	1,296
Loans and credits		103,458		90,553
Foreign exchange		36,241		35,174
Credit card (*)		328,535		311,849
Asset management		70,684		58,362
Agency business		173,073		184,081
Guarantee service		33,904		39,273
Trust service		103,177		76,974
Others		228,286		210,981
		1,078,653		1,008,543
Commission expenses:				
Loans and credits		22,850		18,190
Foreign exchange		9,059		8,167
Agency business		25,792		23,823
Credit card		398,726		348,707
Others		48,742		48,602
		505,169		447,489
Commission income, net	₩	573,484	₩	561,054

(*) Interest income of ₩176,258 million for the previous period is reclassified as commission income.

28. Gain (loss) on financial investments

Gain (loss) on held-for-trading financial assets for the years ended December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2017	For the year ended December 31, 2016
Held-for-trading financial instruments:			
Held-for-trading financial assets:			
Gain (loss) on valuation	Gain on valuation of held-for-trading financial assets	₩ 19,629	₩ 13,837
	Loss on valuation of held-for-trading financial asset	(12,688)	(14,870)
		6,941	(1,033)
Gain (loss) on disposal	Gain on disposal of held-for-trading financial assets	53,545	40,728
	Loss on disposal of held-for-trading financial assets	(31,260)	(26,387)
		22,285	14,341
Gain (loss) on redemption	Gain on redemption of held-for-trading financial assets	2,506	1,033
	Loss on redemption of held-for-trading financial assets	(4,826)	(8,541)
		(2,320)	(7,508)
Dividend income	Dividend income of held-for-trading financial assets	2,678	1,713
		29,584	7,513
Trading derivatives:			
Gain (loss) on valuation	Gain on valuation of held-for-trading financial assets	1,029,329	513,784
	Loss on valuation of held-for-trading financial assets	(976,696)	(508,739)
		52,633	5,045
Gain (loss) on disposal	Gain on disposal of trading derivatives	1,750,115	1,973,568
	Loss on disposal of trading derivatives	(1,633,023)	(1,920,473)
		117,092	53,095
		169,725	58,140
		₩ 199,309	₩ 65,653

28. Gain (loss) on financial investments (cont'd)

Gain (loss) on financial investment assets for the years ended December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2017	For the year ended December 31, 2016
Financial investment assets:			
AFS financial assets:			
Gain (loss) on disposal	Gain on disposal of AFS financial assets	₩ 132,332	₩ 151,527
	Loss on disposal of AFS financial assets	(38,942)	(10,944)
		93,390	140,583
Gain (loss) on redemption	Gain on redemption of AFS financial assets	77,041	59,350
	Loss on redemption of AFS financial assets	(5,445)	(8,001)
		71,596	51,349
Dividend income	Dividend income of AFS financial assets	86,319	115,421
Impairment loss	Impairment loss on AFS financial assets	(54,667)	(57,765)
		196,638	249,588
HTM financial assets:			
Gain on redemption	Gain on redemption of HTM financial assets	-	6,940
Gain (loss) on disposal	Gain on disposal of HTM financial assets	-	7,645
	Loss on disposal of HTM financial assets	-	(6)
Reversal of impairment loss	Reversal of impairment loss of HTM financial assets	-	7,771
		-	22,350
		₩ 196,638	₩ 271,938

Dividend income from financial investments for the years ended December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	For the year ended December 31, 2017	For the year ended December 31, 2016
Held-for-trading financial assets	₩ 2,678	₩ 1,713
AFS financial assets	86,319	115,421
	₩ 88,997	₩ 117,134

29. Impairment loss on financial assets

Impairment loss related to financial assets for the years ended December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	For the year ended December 31, 2017	For the year ended December 31, 2016
Loans and receivables	₩ 754,044	₩ 1,556,414
AFS financial assets	54,667	57,765
	₩ 808,711	₩ 1,614,179

30. Other operating income and expenses

Other operating income and expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Other operating income:				
Gain on derivatives	₩	8,528	₩	6,980
Gain on fair value hedge		11,598		22,022
Point income		56,560		49,223
Gain from changes in foreign exchange rate		1,200,266		679,582
Transfer from other provisions		13,416		13,022
Others		58,942		67,034
		1,349,310		837,863
Other operating expenses:				
Loss on derivatives		10,172		30,291
Loss on fair value hedge		4,345		5,205
Point expense		60,427		54,687
Loss from changes in foreign exchange rate		1,286,420		659,678
Fund contribution		460,369		443,896
Transfer to other provisions		92,039		17,124
Others		158,379		163,439
		2,072,151		1,374,320
	₩	(722,841)	₩	(536,457)

31. Employee benefits

Details of employee benefits for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Employee benefits	₩	1,231,716	₩	1,136,115
Fringe benefits		389,882		368,257
Retirement benefits		220,834		187,311
Termination benefits		48,701		20,553
	₩	1,891,133	₩	1,712,236

32. Other selling and administrative expenses

Other selling and administrative expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2017		For the year ended December 31, 2016
Tax and dues	₩	101,099	₩	95,132
Telecommunications and transportation		28,500		28,451
Supplies		19,965		22,003
Advertising		86,733		79,289
Utilities		27,134		26,960
Rental		120,361		131,216
Service contract		127,836		147,239
Others		101,594		102,021
	₩	613,222	₩	632,311

33. Other income and expenses

Other income and expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017	For the year ended December 31, 2016
Other income:		
Gain on disposal of assets	₩ 17,309	₩ 1,282
Rent income	18,313	18,978
Gain on subsidy	1	17
Income from unused gift card	1	203
Miscellaneous	31,114	59,405
Gain on disposal of investments in subsidiaries	-	27,925
Gain on disposal of investments in affiliates	5,652	238
Others	747	3,617
	73,137	111,665
Other expense:		
Loss on disposal of assets	2,719	3,065
Agricultural support project expenses (formerly presented as brand fees) (*)	289,516	315,471
Expenses on restoration	974	750
Miscellaneous	96,463	45,521
Depreciation on investment properties	4,789	4,672
Expense related to collecting receivable	7,053	7,272
Loss on disposal of investments in affiliates	1,107	380
Others	6,074	4,729
	408,695	381,860
	₩ (335,558)	₩ (270,195)

(*) Agricultural support project expenses (formerly presented as brand fees), which are annually paid to the NACF in accordance with the *Agricultural Cooperative Act*, are computed by multiplying the imposed ratio to the average of operating revenue for the recent three years.

34. 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):

	For the year ended December 31, 2017	For the year ended December 31, 2016
Net income	₩ 652,073	₩ 111,126
Dividends on hybrid equity securities	(17,080)	(17,080)
Income attributable to common share	634,993	94,046
Weighted-average number of common shares	426,555,827	426,555,827
Basic and diluted earnings per share (in Korean won)	₩ 1,489	₩ 220

35. Risk disclosure 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.

35. Risk disclosure of financial instruments (cont'd)

The risk management committee consists of within ten 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.

35.1 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 December 31, 2017 and 2016 is summarized as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Deposits	₩ 5,971,890	₩ 6,869,973
Loans	213,674,580	202,080,167
Receivables	5,229,953	5,652,004
Debt securities	31,862,846	26,619,090
Derivative assets	1,031,312	615,298
Loans and credit commitments (*)	62,752,897	64,479,044
Guarantees and endorsed bills (*)	5,427,943	6,807,553
	₩ 325,951,421	₩ 313,123,129

(*) The amount of financial guarantee contracts is included. The total financial guarantee contracts amount to ₩3,097,933 million and ₩2,713,033 million as at December 31, 2017 and 2016, respectively.

35.2 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. The Group is exposed to the interest rate risk and liquidity risk.

35. Risk disclosure of financial instruments (cont'd)

35.2 Market risk (cont'd)

35.2.1 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 able to 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 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 when the Group 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 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.

35. Risk disclosure of financial instruments (cont'd)

35.2 Market risk (cont'd)

35.2.1 Trading position (cont'd)

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 at December 31, 2017 and 2016 (total VaR is computed by considering the correlations of the risk factors):

	December 31, 2017			
Classification	Max	Min	Average	December 31, 2017
Interest rate risk	₩ 40,838	₩ 25,076	₩ 36,945	₩ 26,527
Stock price risk	7,245	3,882	5,136	6,512
Foreign currency risk	4,986	326	1,078	809
Total risk (*)	₩ 42,081	₩ 20,041	₩ 36,073	₩ 20,576

	December 31, 2016			
Classification	Max	Min	Average	December 31, 2016
Interest rate risk	₩ 37,452	₩ 16,848	₩ 25,632	₩ 37,284
Stock price risk	10,131	4,868	7,165	4,962
Foreign currency risk	5,366	301	1,290	912
Total risk (*)	₩ 38,224	₩ 17,897	₩ 27,096	₩ 37,819

(*) It is not equal to the sum of the individual risks because it is computed taking into consideration the correlations of the risks.

35.2.2 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, and 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.

35. Risk disclosure of financial instruments (cont'd)

35.2 Market risk (cont'd)

35.2.2 Non-trading positions (cont'd)

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 as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Interest rate VaR	₩ 66,266	₩ 314,430

35.3.1 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.

35.3.2 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.).

The term structure of liabilities as at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017						
Classification (*1 and *2)	Less than 1 month	1 month–3 months	3 month–6 months	6 months–1 year	1 year–5 years	More than 5 years	Total
Deposits	₩100,830,361	₩22,062,473	₩31,150,320	₩42,377,074	₩ 7,782,430	₩2,188,778	₩206,391,436
Held-for-trading financial liabilities	-	20,269	10,033	21,435	-	-	51,737
Trading derivative liabilities	967,629	-	-	-	-	-	967,629
Hedging derivative liabilities	(2,295)	(538)	99	2,324	27,810	-	27,400
Borrowings	4,227,127	445,487	591,246	1,262,473	4,348,097	1,614,516	12,488,946
Debentures	31,337	2,588,521	3,104,247	4,204,529	7,484,561	2,799,287	20,212,482
Other financial liabilities	12,474,518	5,190	3,638	41,517	18,628	42	12,543,533
	₩118,528,677	₩25,121,402	₩34,859,583	₩47,909,352	₩19,661,526	₩6,602,623	₩252,683,163

(*1) Cash flows of principal and interest are included.
(*2) Unmatured instruments such as deposits that are contractually repayable on demand or on short notice are classified under the 'Less than 1 month' category.

35. Risk disclosure of financial instruments (cont'd)

35.3.2 Liquidity risk management (cont'd)

	December 31, 2016						
Classification (*1 and *2)	Less than 1 month	1 month– 3 months	3 month– 6 months	6 months– 1 year	1 year– 5 years	More than 5 years	Total
Deposits	₩ 95,417,815	₩22,368,578	₩29,003,343	₩40,780,954	₩ 6,167,893	₩2,491,510	₩196,230,093
Trading derivative liabilities	607,507	-	-	-	-	-	607,507
Hedging derivative liabilities	(1,430)	659	(288)	1,951	26,874	-	27,766
Borrowings	4,159,885	472,061	697,208	875,459	4,221,681	1,832,633	12,258,927
Debentures	677,811	3,392,407	2,607,341	2,027,139	8,139,736	3,286,702	20,131,136
Other financial liabilities	8,914,099	5,311	3,561	52,683	17,977	525	8,994,156
	₩109,775,687	₩26,239,016	₩32,311,165	₩43,738,186	₩18,574,161	₩7,611,370	₩238,249,585

(*1) Cash flows of principal and interest are included.
(*2) Unmatured instruments such as deposits that are contractually repayable on demand or on short notice are classified under the 'Less than 1 month' category.

35.3.3 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 December 31, 2017 and 2016 are as follows (Korea won in millions):

Classification	December 31, 2017	December 31, 2016
Loan commitment (*)	₩ 62,752,897	₩ 64,479,044
Guarantees and endorsed bills (*)	5,427,943	6,807,553
	₩ 68,180,840	₩ 71,286,597

(*) The amount of financial guarantee contracts is included. The total financial guarantee contracts amount to ₩3,097,933 million and ₩2,713,033 million as at December 31, 2017 and 2016, respectively.

35.3.4 Currency risk

Currency risk is a risk incurred when the fair value of a financial instrument or value of future cash flows fluctuates due to the changes in foreign exchange rates. Currency risk does not arise from the financial instruments expressed in the functional currency or in non–monetary items measured by using the historical foreign exchange rates. In order to establish the stop loss and limits, the Group manages the foreign exchange net exposure amount of the trading and non–trading portfolios by each currency.

35. Risk disclosure of financial instruments (cont'd)

35.3.4 Currency risk (cont'd)

Significant assets and liabilities denominated in foreign currencies as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
Classification	USD	JPY	EUR	CNY	Others	Total
Assets:						
Cash and due from banks	₩1,030,771	₩ 126,744	₩ 120,148	₩ 23,775	₩ 240,235	₩1,541,673
Derivative assets	18,693	-	-	-	-	18,693
Available-for-sale financial assets	687,410	-	272	-	-	687,682
Loan	5,095,435	231,537	119,503	3,193	20,082	5,469,750
Receivables	589,182	8,618	10,373	-	13,311	621,484
	₩7,421,491	₩ 366,899	₩ 250,296	₩ 26,968	₩ 273,628	₩8,339,282
Liabilities:						
Deposits	₩2,795,357	₩ 152,346	₩ 153,714	₩ 18,251	₩ 73,062	₩3,192,730
Derivative liabilities	36,796	-	-	-	-	36,796
Borrowings	1,769,276	68,815	65,854	2,244	11,412	1,917,601
Debentures	2,005,037	94,911	-	-	24,019	2,123,967
Other financial liabilities	693,150	16,447	35,876	161	70,060	815,694
	₩7,299,616	₩ 332,519	₩ 255,444	₩ 20,656	₩ 178,553	₩8,086,788

	December 31, 2016					
Classification	USD	JPY	EUR	CNY	Others	Total
Assets:						
Cash and due from banks	₩ 422,133	₩ 106,015	₩ 112,455	₩ 59,794	₩ 153,354	₩ 853,751
Derivative assets	37,454	-	-	-	-	37,454
Available-for-sale financial assets	702,124	-	9,074	-	-	711,198
Loan	5,797,608	238,196	151,857	11,096	194,445	6,393,202
Receivables	578,257	8,159	6,584	-	13,726	606,726
	₩7,537,576	₩ 352,370	₩ 279,970	₩ 70,890	₩ 361,525	₩8,602,331
Liabilities:						
Deposits	₩1,799,916	₩ 105,011	₩ 113,282	₩ 50,211	₩ 75,317	₩2,143,737
Derivative liabilities	62,377	-	1,342	-	-	63,719
Borrowings	2,101,432	65,247	54,358	10,191	5,645	2,236,873
Debentures	2,890,354	124,417	-	-	16,400	3,031,171
Other financial liabilities	917,191	8,227	65,492	189	7,674	998,773
	₩7,771,270	₩ 302,902	₩ 234,474	₩ 60,591	₩ 105,036	₩8,474,273

35. Risk disclosure of financial instruments (cont'd)

35.3.5 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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
				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	₩ 990,145	₩ -	₩ 990,145	₩ 474,430	₩ 124,122	₩ 391,593
Loans-bonds purchased under resale agreements	10,403,500	-	10,403,500	10,403,500	-	-
Receivables-receivable spot exchange	402,941	-	402,941	402,895	-	46
Receivables-receivable spot exchange in foreign currency	550,429	-	550,429	446,149	-	104,280
Receivables-domestic exchange settlement debits	11,484,758	9,634,137	1,850,621	-	-	1,850,621
	₩ 23,831,773	₩ 9,634,137	₩ 14,197,636	₩11,726,974	₩ 124,122	₩ 2,346,540

	December 31, 2016					
				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	₩ 552,471	₩ -	₩ 552,471	₩ 253,096	₩ 2,948	₩ 296,427
Loans-bonds purchased under resale agreements	7,248,200	-	7,248,200	7,248,200	-	-
Receivables-receivable spot exchange	616,080	-	616,080	616,032	-	48
Receivables-receivable spot exchange in foreign currency	572,497	-	572,497	516,506	-	55,991
Receivables-domestic exchange settlement debits	10,119,374	8,036,944	2,082,430	-	-	2,082,430
	₩ 19,108,622	₩ 8,036,944	₩ 11,071,678	₩ 8,633,834	₩ 2,948	₩ 2,434,896

Details of financial liabilities that are set off and subject to an enforceable master netting arrangement or similar agreement as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017					
				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	₩ 537,308	₩ -	₩ 537,308	₩ 474,430	₩ 7,393	₩ 55,485
Borrowings-bonds sold under repurchase agreements	337,800	-	337,800	337,800	-	-
Other financial liabilities-payable spot exchange	446,235	-	446,235	446,149	-	86
Other financial liabilities-payable spot exchange in foreign currency	506,628	-	506,628	402,895	-	103,733
Other financial liabilities-domestic exchange settlement credits	13,953,775	9,634,137	4,319,638	-	-	4,319,638
	₩ 15,781,746	₩ 9,634,137	₩ 6,147,609	₩ 1,661,274	₩ 7,393	₩ 4,478,942

35. Risk disclosure of financial instruments (cont'd)

35.3.5 Offsetting financial assets and liabilities (cont'd)

	December 31, 2016					
				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	₩ 568,585	₩ -	₩ 568,585	₩ 253,096	₩ 35,614	₩ 279,875
Borrowings-bonds sold under repurchase agreements	289,900	-	289,900	289,900	-	-
Other financial liabilities-payable spot exchange	516,521	-	516,521	516,506	-	15
Other financial liabilities-payable spot exchange in foreign currency	672,130	-	672,130	616,032	-	56,098
Other financial liabilities-domestic exchange settlement credits	10,590,987	8,036,944	2,554,043	-	-	2,554,043
	₩ 12,638,123	₩ 8,036,944	₩ 4,601,179	₩ 1,675,534	₩ 35,614	₩ 2,890,031

36. Fair value hierarchy of financial instruments

Fair value hierarchy of financial instruments as at December 31, 2017 and 2016 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)

	December 31, 2017			
Classification	Level 1	Level 2	Level 3	Total
Financial assets:				
Held-for-trading financial assets	₩ 1,646,548	₩ 4,318,913	₩ -	₩ 5,965,461
Derivative assets	-	1,026,509	4,803	1,031,312
AFS financial assets	3,136,100	17,249,377	621,335	21,006,812
	₩ 4,782,648	₩ 22,594,799	₩ 626,138	₩ 28,003,585
Financial liabilities:				
Held-for-trading financial liabilities	₩ -	₩ 51,737	₩ -	₩ 51,737
Derivative liabilities	-	990,077	3,433	993,510
	₩ -	₩ 1,041,814	₩ 3,433	₩ 1,045,247

	December 31, 2016			
Classification	Level 1	Level 2	Level 3	Total
Financial assets:				
Held-for-trading financial assets	₩ 3,189,901	₩ 2,818,693	₩ -	₩ 6,008,594
Derivative assets	-	606,780	8,518	615,298
AFS financial assets	3,244,236	11,654,523	473,998	15,372,757
	₩ 6,434,137	₩ 15,079,996	₩ 482,516	₩ 21,996,649
Financial liabilities:				
Derivative liabilities	₩ -	₩ 625,398	₩ 8,356	₩ 633,754

36. Fair value hierarchy of financial instruments (cont'd)

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 ₩9,610 million and ₩9,357 million as at December 31, 2017 and 2016, 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, held-for-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.

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, NICE P&I, and FN Pricing.

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 at FVTPL	Discounted cash flow and others	Risk-free rate of return,	-
		Forward rate and others	-
Derivatives	Discounted cash flow, intrinsic forward rate, Option-pricing model, Monte-Carlo Simulation	Risk-free rate of return,	-
		Forward rate	-
		Volatility of the underlying assets	4.0% - 50.0%
		Discount curve	(-)0.09% - 0.05%
AFS financial assets	Discounted cash flow, comparable companies valuation method, FCFE model, dividend discount model and net asset value method, etc.	Expected growth rate	
		Discount rate	-
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 assets and financial liabilities 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.

36. Fair value hierarchy of financial instruments (cont'd)

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 at December 31, 2017 and 2016 is as follows (Korean won in millions):

	December 31, 2017				
		Net income (loss)		Other comprehensive income (loss)	
Classification	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 4,803	₩ 4,299	₩ (1,922)	₩ -	₩ -
Equity securities (*2)	621,335	-	-	18,142	(10,263)
	₩ 626,138	₩ 4,299	₩ (1,922)	₩ 18,142	₩ (10,263)
Financial liabilities:					
Derivative liabilities (*1)	₩ 3,433	₩ 4,247	₩ (1,936)	₩ -	₩ -

(*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%.
(*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.

	December 31, 2016				
		Net income (loss)		Other comprehensive income (loss)	
Classification	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 8,518	₩ 7,745	₩ (3,576)	₩ -	₩ -
Equity securities (*2)	473,998	-	-	13,940	(20,394)
	₩ 482,516	₩ 7,745	₩ (3,576)	₩ 13,940	₩ (20,394)
Financial liabilities:					
Derivative liabilities (*1)	₩ 8,356	₩ 6,968	₩ (2,861)	₩ -	₩ -

(*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%.
(*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.

36. Fair value hierarchy of financial instruments (cont'd)

Changes in Level 3 financial instruments for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3(*)	Ending
Financial assets and liabilities							
AFS financial assets	₩ 473,998	₩ (8,361)	₩ 3,896	₩ 78,781	₩(93,788)	₩166,809	₩621,335
Net derivative instruments	162	(2,511)	-	301	3,418	-	1,370
	₩ 474,160	₩ (10,872)	₩ 3,896	₩ 79,082	₩(90,370)	₩166,809	₩622,705

(*) As the variables used for the valuation related to AFS financial assets were not observable in the market, such AFS financial assets were transferred from level 2 to level 3.

	For the year ended December 31, 2016						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3(*)	Ending
Financial assets and liabilities							
AFS financial assets	₩ 566,272	₩ (8,848)	₩ 9,193	₩ 19,757	₩(112,383)	₩ 7	₩473,998
Net derivative instruments	(14,693)	912	-	10,812	3,131	-	162
	₩ 551,579	₩ (7,936)	₩ 9,193	₩ 30,569	₩(109,252)	₩ 7	₩474,160

(*) As the variables used for the valuation related to AFS financial assets were not observable in the market, such AFS financial assets were transferred from level 2 to level 3.

For the years ended December 31, 2017 and 2016, 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 December 31, 2017 are recognized as changes in valuation gain (loss) of AFS financial assets.

Gains or losses recognized from financial instruments categorized as Level 3 of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position for the years ended December 31, 2017 and 2016 and the line items in profit or loss in which those gains or losses are recognized are as follows (Korean won in million):

	For the year ended December 31, 2017	
	Income or loss during the reporting period	Income or loss related to financial instruments held at the end of the reporting period
Gain (loss) on held-for-trading financial assets	₩ (2,511)	₩ 137
Other income related to financial instruments	4,734	-
Impairment related to financial assets	(13,095)	(13,095)
	₩ (10,872)	₩ (12,958)

36. Fair value hierarchy of financial instruments (cont'd)

Classification	For the year ended December 31, 2016	
	Income or loss during the reporting period	Income or loss related to financial instruments held at the end of the reporting period
Gain (loss) on held-for-trading financial assets	₩ 912	₩ (177)
Other income related to financial instruments	528	-
Impairment related to financial assets	(9,376)	(7,076)
	₩ (7,936)	₩ (7,253)

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 year ended December 31, 2017.

Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost as at December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	December 31, 2017				
	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets:					
HTM financial assets	₩ 525,757	₩ 7,651,910	₩ -	₩ 8,177,667	₩ 8,231,407
Loans and receivables	-	-	216,948,455	216,948,455	218,904,533
Other financial assets	-	-	214	214	214
	₩ 525,757	₩ 7,651,910	₩ 216,948,669	₩ 225,126,336	₩ 227,136,154
Financial liabilities:					
Deposits	₩ -	₩ -	₩ 206,634,371	₩ 206,634,371	₩ 205,768,316
Borrowings	-	-	12,227,065	12,227,065	12,227,485
Debentures	-	19,053,448	-	19,053,448	18,968,727
Other financial liabilities (*)	-	-	12,382,275	12,382,275	13,286,057
	₩ -	₩ 19,053,448	₩ 231,243,711	₩ 250,297,159	₩ 250,250,585

(*) 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, 2016				
	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets:					
HTM financial assets	₩ 665,232	₩ 7,548,466	₩ -	₩ 8,213,698	₩ 8,166,942
Loans and receivables	-	-	208,609,731	208,609,731	207,732,171
Other financial assets	-	-	198	198	198
	₩ 665,232	₩ 7,548,466	₩ 208,609,929	₩ 216,823,627	₩ 215,899,311
Financial liabilities:					
Deposits	₩ -	₩ -	₩ 195,161,638	₩ 195,161,638	₩ 194,212,330
Borrowings	-	-	12,184,443	12,184,443	12,185,991
Debentures	-	18,984,692	-	18,984,692	18,717,527
Other financial liabilities (*)	-	-	9,091,918	9,091,918	9,996,525
	₩ -	₩ 18,984,692	₩ 216,437,999	₩ 235,422,691	₩ 235,112,373

(*) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

36. 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 technique.

37. Related-party transactions

Details of related-party transactions of the Group as at December 31, 2017 are as follows:

Classification	Company
Ultimate parent company	NACF
Parent company	NH Financial Group Inc.
Associates	Nanumlotto Co., Ltd.; Korea Credit Bureau Co., Ltd.; Chang Myung Shipping Co., Ltd.; NH Agri-Best 1st PEF; NH-QCP Global Partnership PEF; IBK-NH Smallgiant PEF; NH-AJUIB Growth 2013 PEF; Kyunggi-DSC Superman Investment Fund No.1; NH Agri-Biz Value Creative 1st PEF; STX Offshore & Shipbuilding Co., Ltd
Other related-parties	NH Life Insurance Co., Ltd.; NH Property and Casualty Insurance Co., Ltd.; NH Investment & Securities Co., Ltd.; NH NongHyup Capital Co., Ltd.; NH Savings Bank Co., Ltd.; MMT.; Tongyang Global REF private mixed investment trust; NH-CA (NH Futures) PEF VA10 and 7 others; NH Futures Co., Ltd.; Principal Guaranteed Trust of NH Investment & Securities; NH Investment & Securities (H.K.) Ltd.; NH Absolute Global Opportunity Fund; NH Absolute Return Investment Strategies Fund; NH Securities Vietnam Co., Ltd.; NH Securities America Inc.; NH Absolute Return Partners Pte., Ltd.; PT. NH Korindo Securities Indonesia; Beijing NH Investment Advisory Co., Ltd.; KoFC Woori Growth Champ 2010 No.3; RG HVL overseas resources development Fund No.1; NH Absolute Return PEF No.1; Lyxor Daemunshin Multi-Strategy Fund PC; Alpenrose 2nd SPC Inc.; IBS 11th SPC Inc.; Woori Credit 3rd Co., Ltd.; Woori Credit 6th Co., Ltd.; E-Revolution PEF No.1; New Harmony 2nd Co., Ltd.; New Harmony 4th Co., Ltd.; Precious 6th Co., Ltd.; Spes 6th Co., Ltd.; Spes 9th Co., Ltd.; HI-Yeongjong 1st Co., Ltd.; New start KLI Co., Ltd.; New start JH Co., Ltd.; ILsantanhyun N&D Inc.; MJ-10 the 2nd Co., Ltd.; Biangko 2nd Co., Ltd.; Biangko 3rd Co., Ltd.; Biangko 6th Co., Ltd.; Biangko 7th Co., Ltd.; Biangko 8th Co., Ltd.; New real two 1st Co., Ltd.; New real two 2nd Co., Ltd.; Green Power 1st Co., Ltd.; Green Power 2nd Co., Ltd.; Green Power 3rd Co., Ltd.; Renewable Energy 9th Co., Ltd.; NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.); Kokam Co., Ltd.; Blue ocean Corporate's Financial Stabilization PEF No.1; Sandonghansangchieop Co., Ltd.; Seoul Seongbo Chieop Co., Ltd.; Daguang real estate developing Co., Ltd.; Edupalace Inc.; Edupalace Co., Ltd.; Sehanmetro PFV; NH-LB Growth Champ 2011-4 PEF; KDBC-EUM Corporate's Financial Stabilization PEF No.4; Presto PEF No.4; NH-QCP HNC KD-1 PEF; Oracle 1st LP; ACFSMC(Tianjin)International Financial Leasing Co., Ltd.; NH Agribusiness Group Inc.; NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.); NH Information System Co., Ltd.; Agricultural Cooperative Asset Management Co., Ltd.; NH Hyupdong Planning; Nonghyup Hanaro Mart Inc.; Agricultural Corporation Nonghyup Food Grain Inc.; 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.; Nonghyup Chemical Co., Ltd.; NH Trading Co., Ltd.; Nonghyup-Agro Inc.; Nonghyup RedGinseng Co., Ltd.; Namhae Chemical Corporation; Nonghyup Moguchon Inc.; Nonghyup Feed Inc.; Nongwoo BIO Co., Ltd.; NH-Hay Inc.; NH Heuk Sarang Co., Ltd.; Nonghyup TMR Co., Ltd.; Nisso-namhae Agro Co., Ltd; Kongyoung Homeshopping Co., Ltd.; Home and Shopping Co., Ltd.; NH SL Special Purpose Acquisition Co., Ltd.; NH Special Purpose Acquisition 7 Co., Ltd.; NH Special Purpose Acquisition 10 Co., Ltd.; NH Special Purpose Acquisition 11 Co., Ltd.; NH Special Purpose Acquisition 12 Co., Ltd.; NH Dongtan 1st Co., Ltd.; Daewoo Logistics Corp.; HND Logistics Co., Ltd.; Gwangyang International Container Terminal; MS Dongtantechno 2nd Co., Ltd.; LakeBaekwoon 2nd Co., Ltd.; LakeBaekwoon 1st Co., Ltd.; WO MACHINE 1st Co., Ltd.; INIAS NH Private Equity Investment; Synergy-methistone Technology Business Investment Association No.2 Co.; Medical Investment Management Inc. (formerly known as Clover Investment Management Inc.); Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.); Honey Dream 1st Co., Ltd.; New Real Two Namdaemun Co., Ltd.; WO Machine 4th Co., Ltd.; TL Independence Co., Ltd.; Daechi Park 1st Co., Ltd.; Ace soosung new technology investment 2nd ; Teuruben Global Helseukaeeosamo Investment Limited Partnership; Dt & Investment NHC-DTNI Agrifood ABC Investment Association No.1; NongHyup Food Inc.; Sanglim Agricultural Co., LTD.; D Best 1st Co., Ltd.; D Best 2nd Co., Ltd.; Cube 4th Co., Ltd;

37. Related-party transactions (cont'd)

Classification	Company
Others (*)	Smartdaejang 1st, Ltd.; Smartdaejang 2nd, Ltd.; Smartdaejang 3rd, Ltd.; Hyeonan NH 1ST Co., Ltd.; Leeaenepeuaembeojeleehosamo Investment Limited Partnership.; Hanameleewon Pro Jekteu Co., Ltd.; PT Nonghyup feed Indonesia.; Agricultural BIO Field Co., Ltd.; Korea Nonghyup International.; Nonghyup America. Inc.; NH Sanghai Trade co., Ltd.; Beijing Shinong Seed co., ltd.; Nongwoo Seed America INC.; PT. Koreana Seed Indonesia.; Nongwooseed India Pvt. Ltd; Beijing Shinong International Trading Limited.; Nongwooseed Myanmar Co., Ltd.; Tolya Tohum Tarim Sanayi Ticaret Anonim Sirketi Yoesu Green Energy Co., Ltd.; Resom Resort Co., Ltd.; Resom construction Co., Ltd.; Resom Resort (Hwajinpo) Co., Ltd.; Resom Weihai Golf resort Co., Ltd.; Green Industrial Co., Ltd.; Global Marifin Finance Co., Ltd.; Badaro No.3 Ship Investment Company; Badaro No.4 Ship Investment Company; Badaro No.5 Ship Investment Company; Badaro No.6 Ship Investment Company; Badaro No.7 Ship Investment Company; Badaro No.8 Ship Investment Company; Badaro No.9 Ship Investment Company; Badaro No.10 Ship Investment Company; Badaro No.15 Ship Investment Company; Badaro No.17 Ship Investment Company; Badaro No.18 Ship Investment Company; Badaro No.19 Ship Investment Company; Badaro No.22 Ship Investment Company; Hyeondaehwa Fund Marine Investment Company; Badaro SG No.1 Co., Ltd.; Badaro SG No.2 Co., Ltd.; Badaro SG No.3 Co., Ltd.; Badaro SG No.4 Co., Ltd.; Badaro DH No.1 Co., Ltd.; Badaro DW No.1 Co., Ltd.; HI DM 1st Co., Ltd.; HI DM 2nd Co., Ltd.; HI DHC No.1 Co., Ltd.; HI KS Co., Ltd.; KJS Marine Co., Ltd.; HI Marine H No.1 Co., Ltd.; HI Marine H No.2 Co., Ltd.; HI HD Co., Ltd.; Yeonan Passenger Transport Hyeondaehwa Fund Co., Ltd.

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

Details of related-party transactions of the Group as at December 31, 2017 and 2016 are as follows:

	December 31, 2017						
Company	Receivables	Derivative assets	Allowances	Deposits	Derivative liabilities	Debentures	Other liabilities
Ultimate parent company:							
NACF	₩ 15,001	₩ -	₩ 1	₩ 1,516,450	₩ 213,610	₩ -	₩ 147
Parent company:							
NH Financial Group Inc.	284	-	10	153	-	-	207,613
Associates:							
Nanumlotto	226	-	-	11,796	-	-	-
Korea Credit Bureau	-	-	-	6,904	-	-	21
NH Agri-Best 1st PEF	-	-	-	3,162	-	-	13
Kyunggi-DSC Superman Investment Fund No.1	-	-	-	2,762	-	-	2
CHANGMYUNG SHIPPING Co., Ltd	68,453	-	-	18,209	-	-	41
NH Agri-Biz Value Creative 1st PEF	63	-	-	-	-	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	202,912	21,468	-	475,564	17,796	100,006	13,140
NH NongHyup Capital Co., Ltd.	2,482	-	1	8,810	-	-	-
NH- Amundi Asset Management Co., Ltd. (formerly known as NH- CA Asset Management Co., Ltd.)	129	-	5	91,466	-	-	505
Nongwoo BIO Co., Ltd.	35,353	-	32	4,059	-	-	-
NH Life Insurance Co., Ltd.	2,720	-	1	26,933	162,252	-	7,563
NH Property and Casualty Insurance Co., Ltd.	1,526	-	1	7,285	23,717	-	-
NH Agribusiness Group Inc.	1,183,368	-	170	55,283	-	-	1
Namhae Chemical Corporation	40,796	22	37	31,196	2	-	64
NH Heuk Sarang Co., Ltd.	32	-	-	16	-	-	-
Nisso-namhae Agro Co., Ltd.	13	-	-	6,233	-	-	1
Daejeon Agricultural Products Marketing Co., Ltd.	39	-	-	20	-	-	-
Agricultural Corporation Nonghyup Food Grain Inc.	24,243	-	26	842	-	-	-
Nonghyup Moguchon Inc.	50,629	-	21	1,743	-	-	-
Nonghyup Logistics Service Inc.	15,162	-	2	1,610	-	-	1,526

37. Related-party transactions (cont'd)

Company	December 31, 2017 Receivables	Derivative assets	Allowances	Deposits	Derivative liabilities	Debentures	Other liabilities
Other related parties:							
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	₩ 86	₩ -	₩ -	₩ 1,490	₩ -	₩ -	₩ 2,699
Nonghyup Feed Inc.	227,101	3,639	382	35,700	-	-	-
Nonghyup-Agro	30	-	-	118	-	-	-
Nonghyup Hanaro Mart Inc.	22,984	-	15	954	-	-	6,020
Korea Agriculture Cooperative Marketing Inc.	198	-	-	8,351	-	-	2,538
NH Information System Co., Ltd.	1,459	-	1	33,057	-	-	1,427
Agricultural cooperative Chungbuk Marketing Co., Ltd.	2,806	-	1	1,964	-	-	712
NongHyup Chemical Co., Ltd.	28,407	-	16	2	-	-	-
NongHyup RedGinseng. Co., Ltd.	28,782	-	156	3,645	-	-	15
NH Hyupdong Planning	186	-	-	2,856	-	-	418
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.).	778	-	3	5,407	-	-	915
NH Trading Co., Ltd.	7,689	338	45	5,042	164	-	-
Nonghyup foundation	24	-	1	38,845	-	-	292
Agricultural Cooperative Asset Management Co., Ltd.	172,745	-	58	810	-	-	420
NH Futures	86	-	-	42,473	-	-	4
NH Savings Bank	110	-	-	-	-	-	-
Kongyoung Homeshopping Co., Ltd.	64	-	-	5,509	-	-	48
NH-CA (NH Futures) PEF VA10 and 7 others	-	-	-	-	-	-	-
Homeshopping Co., Ltd.	-	-	-	763	-	-	-
NH SL Special Purpose Acquisition Co., Ltd.	-	-	-	820	-	-	9
NH Special Purpose Acquisition 7 Co., Ltd.	-	-	-	1,390	-	-	3
NH Special Purpose Acquisition 10 Co., Ltd.	-	-	-	1,727	-	-	4
NH Special Purpose Acquisition 11 Co., Ltd.	-	-	-	1,731	-	-	4
NH Special Purpose Acquisition 12 Co., Ltd	-	-	-	1,748	-	-	13
Daewoo Logistics Corp	-	-	-	54	-	-	-
Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)	5	-	-	10	-	-	-
NongHyup Food Inc	21	-	1	5,155	-	-	31
Sanglim Agricultural Co., Ltd	2,906	-	4	79	-	-	-
Others (*)							
Yoesu Green Energy Co., Ltd.	7	-	-	301	-	-	-
Resom Resort Co., Ltd.	73,949	-	45,663	9,081	-	-	19
Resom construction Co., Ltd	-	-	-	-	-	-	-

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

Company	December 31, 2016 Receivables	Derivative assets	Allowances	Deposits	Derivative liabilities	Debentures	Other liabilities
Ultimate parent company:							
NACF	₩ 1,817,955	₩ 103,593	₩ 305	₩ 52,669	₩2,156	₩ -	₩ 752
Parent company:							
NH Financial Group Inc.	67,208	-	17	400	-	-	-
Associates:							
Nanumlotto	196	-	-	9,897	-	-	-
Korea Credit Bureau	-	-	-	5,162	-	-	40
NH Agri-Best 1st PEF	-	-	-	3,126	-	-	14
NH - KOLON Green 1st PEF	-	-	-	318	-	-	1
Kyunggi-DSC Superman Investment Fund No. 1	-	-	-	1,881	-	-	-
Resom Resort	140,711	-	-	1,676	-	-	18
NH Agri-Biz Value Creative 1st Private Equity Fund	63	-	-	-	-	-	-

37. Related-party transactions (cont'd)

	December 31, 2016						
Company	Receivables	Derivative assets	Allowances	Deposits	Derivative liabilities	Debentures	Other liabilities
Other related parties:							
NH Investment & Securities Co., Ltd.	₩ 2,289	₩ 1,894	₩ 1	₩ 812,143	₩ 4,001	₩ 150,003	₩ 13,539
NH NongHyup Capital Co., Ltd.	2,010	-	1	12,854	-	-	-
NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)	164	-	7	91,940	-	-	710
Nongwoo BIO CO., Ltd	7,549	-	8	1,639	-	-	-
NH Life Insurance Co., Ltd.	2,873	102,652	1	33,782	2,535	-	4,136
NH Property and Casualty Insurance Co., Ltd.	1,427	6,733	1	9,916	-	-	-
NH Agribusiness Group Inc.	62,134	-	15	215,582	-	-	3,430
Namhae Chemical Corporation	19,306	-	16	23,027	48	-	21
NH heuk sarang Co., Ltd.	303	-	-	508	-	-	-
Nisso-namhae Agro Co., Ltd.	14	-	-	13,941	-	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	43	-	-	5,102	-	-	102
Agricultural Corporation Nonghyup Food Grain Inc.	9,813	-	32	100	-	-	-
Nonghyup Moguchon Inc.	36,787	-	27	1,324	-	-	-
Nonghyup Logistics Service Inc.	18,497	-	4	1,478	-	-	1,490
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	93	-	-	3,039	-	-	17
Nonghyup Feed Inc.	279,022	-	484	8,449	3,344	-	-
Nonghyup-Agro	10	-	-	69	-	-	-
Nonghyup Hanaro Mart Inc.	399	-	-	8,408	-	-	7,548
Korea Agriculture Cooperative Marketing Inc.	201	-	-	6,184	-	-	2,044
NH Information System Co., Ltd.	1,895	-	1	39,040	-	-	155
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	2,297	-	2	259	-	-	474
NongHyup Chemical Co., Ltd.	30,589	-	29	411	-	-	-
NongHyup RedGinseng. Co., Ltd.	33,691	-	188	2,178	-	-	75
NH Hyupdong Planning	154	-	-	3,276	-	-	424
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)	868	-	3	17,033	-	-	748
NH Trading Co., Ltd.	5,168	344	30	2,336	13	-	-
Nonghyup foundation	3,495	-	1	62,919	-	-	380
Agricultural Cooperative Asset Management Co., Ltd.	158,436	-	53	1,014	-	-	936
Kongyoung Homeshopping Co., Ltd.	63	-	2	-	-	-	-
NH Futures	105	-	-	9,619	-	-	37
NH Savings Bank	203	-	-	-	-	-	-
Magic Holdings Ltd.	-	-	-	15	-	-	-
Tongyang Magic Inc.	50,510	-	11	-	-	-	-
Tongyang Magic Service Co, Ltd.	69	-	-	1	-	-	-
Resom construction Co, Ltd.	3	-	-	-	-	-	-
NH-CA (NH Futures) PEF Best 30 12-6th and 21 others	4	-	-	-	-	-	25,195
Others (*):							
Tapex Inc.,	3,654	-	-	554	-	-	-
Yoesu Green Energy Co., Ltd.	22	-	-	2,401	-	-	1
Changmyung Shipping Co., Ltd.	77,213	-	12,044	9,321	-	-	-

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

Significant transactions with related parties for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Company	For the year ended December 31, 2017						
	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Ultimate parent company:							
NACF	₩ 707	₩ 43	₩ 65,988	₩ (304)	₩ 525	₩ -	₩ 618,639
Parent company:							
NH Financial Group Inc.	-	-	610	(7)	-	-	-
Associates:							
Nanumlotto	-	1	-	-	12	-	-
Korea Credit Bureau	-	-	-	-	62	-	-
NH Agri-Best 1st PEF	-	1	-	-	38	-	-
NH Agri-Biz Value Creative 1st PEF	-	250	-	-	-	-	-
CHANGMYUNG SHIPPING CO., LTD.	-	11	1	(12,044)	157	-	-
Kyunggi-DSC Superman Investment Fund No. 1	-	-	-	-	15	-	-
Other related parties:							
NH NongHyup Securities Co., Ltd.	48	37	37,824	(1)	12,105	168	33,762
NH NongHyup Capital Co., Ltd.	-	112	-	-	8	-	2,069
NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)	-	16	-	(2)	1,208	-	850
Nongwoo BIO CO., Ltd	690	15	-	24	7	-	2
NH Life Insurance Co., Ltd.	8	12,315	18,113	-	12	-	402,081
NH Property and Casualty Insurance Co., Ltd.	2	3,682	1,880	-	8	-	48,560
NH Agribusiness Group Inc.	27,571	19	945	155	174	-	1,702
Namhae Chemical Corporation	129	405	30	21	195	-	2
NH heuk sarang Co., Ltd.	5	2	-	-	-	-	4
Nisso-namhae Agro Co., Ltd.	-	1	1	-	47	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	-	-	-	-	61	2	38
Agricultural Corporation Nonghyup Food Grain Inc.	80	2	206	(6)	-	-	428
Nonghyup Moguchon Inc.	898	5	373	(6)	1	-	122
Nonghyup Logistics Service Inc.	523	2	554	(2)	13	7,501	16,434
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	-	13	312	-	31	-	66
Nonghyup Feed Inc.	1,108	870	3,896	(102)	4	-	-
Nonghyup-Agro	2	-	-	-	15	-	-
Nonghyup Hanaro Mart Inc.	15	26	349	15	8	8	934
Korea Agriculture Cooperative Marketing Inc.	-	26	1,272	-	10	-	246
NH Information System Co., Ltd.	-	1	2,333	-	216	-	32,847
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	53	13	-	(1)	1	-	301
NongHyup Chemical Co., Ltd.	1,400	161	-	(13)	4	-	-
NongHyup RedGinseng. Co., Ltd.	625	1	14	(32)	1	-	47
NH Hyupdong Planning	-	27	91	-	39	-	24,851
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)	47	-	180	-	18	17	11,618
Other related parties:							
NH Trading Co., Ltd.	215	80	418	14	4	-	165
Nonghyup foundation	-	-	-	-	292	-	-
Agricultural Cooperative Asset Management Co., Ltd.	2,757	1	171	5	8	4,608	-
NH Futures	215	14	-	-	50	627	-
NH Savings Bank	-	95	119	-	-	-	-
Kongyoung Homeshopping Co., Ltd.	-	-	-	(2)	120	-	-
NH-CA (NH Futures) PEF VA10 and 7 others	-	51	-	-	224	-	-
Home and Shopping Co., Ltd.	-	-	-	-	1	-	-
NH SL Special Purpose Acquisition Co., Ltd.	-	-	-	-	20	-	-
NH Special Purpose Acquisition 7 Co., Ltd.	-	-	-	-	39	-	-
NH Special Purpose Acquisition 10 Co., Ltd.	-	-	-	-	65	-	-
NH Special Purpose Acquisition 11 Co., Ltd.	-	-	-	-	50	-	-
NH Special Purpose Acquisition 12 Co., Ltd.	-	-	-	-	20	-	-
Daewoo Logistics Corp.	-	-	-	-	-	-	-
Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)	-	8	-	-	-	-	-
NongHyup Food Inc	-	1	-	1	33	-	8
Sanglim Agricultural Co., Ltd	-	-	-	4	-	-	-
Tongyang Global REF private mixed investment trust	-	-	-	-	-	-	-
Nonghyup TMR Co.	-	1	-	-	-	-	-
Others (*)							
Yoesu Green Energy Co., Ltd.	-	-	-	-	9	-	-
Resom Resort	-	-	-	57,688	44	-	-
Resom construction Co., Ltd	-	-	-	-	-	-	-

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

Company	For the year ended December 31, 2016						
	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Ultimate parent company:							
NACF	₩ 25,450	₩ 228	₩ 179,248	₩ 127	₩ 1,893	₩ -	₩ 275,864
Parent company:							
NH Financial Group Inc.	-	-	550	2	41	-	-
Associates:							
Nanumlotto	-	1	-	(1)	15	-	-
Korea Credit Bureau	-	-	-	-	114	-	-
NH Agri-Best 1st PEF	-	-	-	-	43	-	-
NH - KOLON Green 1st PEF	-	-	-	-	2	-	-
NH Agri-Biz Value Creative 1st PEF	-	140	-	-	-	-	-
Kyunggi-DSC Superman Investment Fund No. 1	-	2	-	-	20	-	-
Resom Resort	592	-	-	52,867	36	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	27	15	4,959	-	20,763	168	5,753
NH NongHyup Capital Co., Ltd.	-	16	-	-	7	-	2,460
NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)	-	14	-	-	1,243	478	-
Nongwoo BIO CO., Ltd.	300	2	-	1	4	-	-
NH Life Insurance Co., Ltd.	32	16,297	125,552	(1)	6	7	25,239
NH Property and Casualty Insurance Co., Ltd.	4	4,188	8,374	-	7	-	21,807
NH Agribusiness Group Inc.	640	16	-	13	3,428	-	118
Namhae Chemical Corporation	98	377	-	(24)	247	-	48
NH heuk sarang Co., Ltd.	18	1	-	(2)	-	-	19
Nisso-namhae Agro Co., Ltd.	-	1	-	-	11	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	-	-	-	-	92	1	31
Agricultural Corporation Nonghyup Food Grain Inc.	39	6	100	31	-	-	168
Nonghyup Moguchon Inc.	919	5	282	17	1	-	381
Nonghyup Logistics Service Inc.	281	3	554	4	19	4,381	16,920
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	-	27	471	-	37	-	155
Nonghyup Feed Inc.	142	1,136	254	(294)	1	-	3,344
Nonghyup-Agro	13	-	-	-	16	-	-
Nonghyup Hanaro Mart Inc.	-	1	315	-	6	-	2,728
Korea Agriculture Cooperative Marketing Inc.	1	24	1,284	-	196	-	286
NH Information System Co., Ltd.	-	-	1,323	1	289	-	45,354
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	61	2	-	1	1	-	208
NongHyup Chemical Co., Ltd.	1,153	133	-	12	1	-	-
NongHyup RedGinseng. Co., Ltd.	578	2	12	122	1	-	20
NH Hyupdong Planning	-	34	-	(6)	47	-	26,331
NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)	8	6	305	(1)	20	-	10,563
NH Trading Co., Ltd.	141	64	399	19	3	-	14
Nonghyup foundation	-	-	-	(1)	3,045	-	214
Agricultural Cooperative Asset Management Co., Ltd.	4,160	10	157	(2)	7	5,458	782
Maps NH private placed real estate investment trust 1-2th	-	-	-	-	-	-	896
NH-Glenwood 1st PEF	-	22	-	-	-	-	-
NH Futures	-	5	-	-	45	542	-
NH Savings Bank	-	207	111	-	-	-	-
Nonghyup TMR Co., Ltd.	-	1	-	-	-	-	-
Magic Holdings Ltd.	-	1	-	-	-	-	-
Tongyang Magic Inc.	468	8	-	(48)	-	-	-
Tongyang Magic Service. Co, Ltd.	15	-	-	(8)	-	-	1
NH-CA(NH Futures) PEF Best 30 12-6th and 21 others	-	15	-	-	57	-	-
NH-CA(NH Futures) Maestro PEF and 3 others	-	30	-	-	237	-	-
Others (*) :							
Tapex Inc.,	2	-	-	-	-	-	-
Yoesu Green Energy Co., Ltd.	-	-	-	-	18	-	-
Changmyung Shipping Co., Ltd.	-	5	-	268,218	3	-	-

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

The Group's acceptances, guarantees and unused credit limits with related parties as at December 31, 2017 and 2016 are summarized as follows (Korean won in millions):

	December 31, 2017		
Classification	Credit limit		Counterparty
Unused credit limit in Korean won	₩	1,915,029	NACF
Unused credit limit in Korean won		542	NH Financial Group Inc.
Unused credit limit in Korean won		82,540	NH Life Insurance
Unused credit limit in Korean won		31,974	NH Property and Casualty Insurance
Unused credit limit in Korean won		445,547	NH Investment & Securities Co., Ltd.
Unused credit limit in Korean won		5,594	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won		540	NH Savings Bank
Unused credit limit in Korean won		871	NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)
Unused credit limit in Korean won		214	NH Futures
Unused credit limit in Korean won		275	Nanumlotto
Unused credit limit in Korean won		194,172	NH Agribusiness Group Inc.
Acceptances and guarantees in Korean won		729	NH Agribusiness Group Inc.
Unused credit limit in Korean won		161	Daejeon Agricultural Products Marketing Co., Ltd.
Unused credit limit in Korean won		1,104	NongHyup RedGinseng. Co., Ltd.
Unused credit limit in Korean won		17,088	NH Trading Co., Ltd.
Unused credit limit in foreign currencies		377	NH Trading Co., Ltd.
Acceptances and guarantees in foreign currencies		16,297	NH Trading Co., Ltd.
Unused credit limit in Korean won		50	Nonghyup-Agro
Unused credit limit in Korean won		21,049	Korea Agriculture Cooperative Marketing Inc.
Unused credit limit in Korean won		148,881	Namhae Chemical Corporation
Unused credit limit in foreign currencies		227,103	Namhae Chemical Corporation
Acceptances and guarantees in Korean won		2,884	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies		49,699	Namhae Chemical Corporation
Unused credit limit in Korean won		145,869	Nonghyup Chemical Co., Ltd.
Unused credit limit in foreign currencies		29,803	Nonghyup Chemical Co., Ltd
Acceptances and guarantees in foreign currencies		6,755	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won		409	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won		5,259	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won		902	Nonghyup Logistics Service Inc.
Unused credit limit in Korean won		20,702	Nonghyup Moguchon
Unused credit limit in foreign currencies		536	Nonghyup Moguchon
Unused credit limit in Korean won		45,930	Nonghyup Feed Inc.
Unused credit limit in foreign currencies		330,058	Nonghyup Feed Inc.
Acceptances and guarantees in foreign currencies		65,563	Nonghyup Feed Inc.
Unused credit limit in Korean won		29,288	NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.)
Unused credit limit in Korean won		10,317	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won		2,041	NH Information System Co., Ltd.
Unused credit limit in Korean won		328	NH heuk sarang Co., Ltd.
Unused credit limit in Korean won		177	Nonghyup foundation
Unused credit limit in Korean won		2,814	NH Hyupdong Planning
Acceptances and guarantees in Korean won		7,400	NH Hyupdong Planning
Unused credit limit in Korean won		27	Nisso-namhae Agro Co., Ltd.
Unused credit limit in Korean won		9,826	Nongwoo Bio Co., Ltd.
Unused credit limit in Korean won		2,180	Agricultural Corporation Nonghyup Food Grain Inc.
Unused credit limit in Korean won		91,932	Nonghyup Hanaro Mart Inc.
Unused credit limit in Korean won		136	Kongyoung Homeshopping Co., Ltd.
Unused credit limit in Korean won		15	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Unused credit limit in foreign currencies		5,178	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Acceptances and guarantees in foreign currencies		1,299	Agricultural Corporation Orion Nonghyup Inc. (formerly known as Agricultural Corporation K-Food Inc.)
Unused credit limit in Korean won		79	NongHyup Food Inc.
Unused credit limit in Korean won		706	Sanglim Agricultural Co., Ltd.
Unused credit limit in foreign currencies		188,281	STX Offshore & Shipbuilding Co., Ltd
Acceptances and guarantees in foreign currencies		61,609	STX Offshore & Shipbuilding Co., Ltd
Unused credit limit in Korean won		1	Resom construction Co., Ltd. (*)
Unused credit limit in Korean won		93	Yoesu Green Energy Co., Ltd. (*)

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

Classification	December 31, 2016	
	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 3,013,542	NACF
Unused credit limit in Korean won	283	NH Financial Group Inc.
Unused credit limit in Korean won	82,396	NH Life Insurance
Unused credit limit in Korean won	32,073	NH Property and Casualty Insurance
Unused credit limit in Korean won	526,297	NH Investment & Securities Co., Ltd.
Unused credit limit in Korean won	1,490	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won	447	NH Savings Bank
Unused credit limit in Korean won	836	NH-Amundi Asset Management Co., Ltd. (formerly known as NH-CA Asset Management Co., Ltd.)
Unused credit limit in Korean won	195	NH Futures
Unused credit limit in Korean won	304	Nanumlotto
Unused credit limit in Korean won	83,701	NH Agribusiness Group Inc.
Unused credit limit in Korean won	97	Daejeon Agricultural Products Marketing Co., Ltd
Unused credit limit in Korean won	3,094	NongHyup RedGinseng. Co., Ltd.
Unused credit limit in Korean won	11,140	NH Trading Co., Ltd.
Acceptances and guarantees in foreign currencies	21,782	NH Trading Co., Ltd.
Unused credit limit in Korean won	70	Nonghyup-Agro
Unused credit limit in Korean won	51,017	Korea Agriculture Cooperative Marketing Inc.
Unused credit limit in Korean won	464,868	Namhae Chemical Corporation
Acceptances and guarantees in Korean won	3,643	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	28,517	Namhae Chemical Corporation
Unused credit limit in Korean won	165,355	Nonghyup Chemical Co., Ltd.
Acceptances and guarantees in foreign currencies	9,012	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	402	Agricultural Cooperative Pusan Gyeongnam Marketing Inc.
Unused credit limit in Korean won	5,256	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	906	Nonghyup Logistics Service Inc.
Unused credit limit in Korean won	362,023	Nonghyup Feed Inc.
Acceptances and guarantees in foreign currencies	95,964	Nonghyup Feed Inc.
Unused credit limit in Korean won	89,197	NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.).
Acceptances and guarantees in Korean won	1,000	NH Networks Co., Ltd. (formerly known as NH Development Co., Ltd.).
Unused credit limit in Korean won	25,040	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	1,605	NH Information System Co., Ltd.
Unused credit limit in Korean won	1,038	NH heuk sarang Co., Ltd.
Unused credit limit in Korean won	182	Nonghyup foundation
Unused credit limit in Korean won	7,463	NH Hyupdong Planning
Acceptances and guarantees in Korean won	2,683	NH Hyupdong Planning
Unused credit limit in Korean won	26	Nisso-namhae Agro Co., Ltd
Unused credit limit in Korean won	8,964	Nongwoo BIO CO., Ltd
Unused credit limit in Korean won	25	Agricultural Corporation Nonghyup Food Grain Inc.
Unused credit limit in Korean won	113,514	Nonghyup Hanaro Mart Inc.
Unused credit limit in Korean won	1,075	Resom Resort Co., Ltd.
Acceptances and guarantees in Korean won	305	Resom Resort Co., Ltd.
Unused credit limit in Korean won	4	Resom construction Co., Ltd.;
Unused credit limit in Korean won	101	Kongyoung Homeshopping Co., Ltd.
Unused credit limit in Korean won	81	Yoesu Green Energy (*)
Unused credit limit in Korean won	10,100	Tapex Inc., (*)

(*) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

The key management compensations for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017		For the year ended December 31, 2016	
Short-term employee benefits	₩	2,475	₩	2,209
Retirement expenses		569		599
	₩	3,044	₩	2,808

38. Commitments and contingencies

Details of agreements that the Group has made as at December 31, 2017 and 2016 as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Loan commitment	₩	59,448,772	₩	61,491,294
Credit guarantee (*)		1,890,249		1,575,236
CP purchase agreement (*)		683,848		516,074
Treasury purchase agreement		730,028		896,440
	₩	62,752,897	₩	64,479,044

(*) As at December 31, 2017, the Group provided the credit line with the limit of ₩1,890,249 million and made the commercial paper purchase agreement with the limit of ₩683,848 million as collaterals to repay the principals and interests of debentures and commercial papers issued by the JB Woori Capital Auto 6th SPC and 48 other SPCs.

The Group is involved in various pending legal proceedings arising in the normal course of business. As at December 31, 2017, the Group is named as a plaintiff in 124 cases with related aggregate claims amounting to ₩169,509 million, and as a defendant in 220 cases with related aggregate claims amounting to ₩123,954 million. Accordingly, the Group accrued for a litigation-related liability of ₩8,433 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 ₩4,714,524 million and ₩5,524,203 million as at December 31, 2017 and 2016 respectively.

39. Consolidated statements of cash flows

39.1 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 December 31, 2017 and 2016, are adjusted as follows (Korean won in millions):

Classification	December 31, 2017		December 31, 2016	
Cash and due from banks	₩	7,788,698	₩	8,746,222
Less: Restricted due from bank (refer to Note 6)		(4,897,504)		(6,442,670)
Less: Due from banks with a maturity of three months or more at acquisition		(8,782)		-
	₩	2,882,412	₩	2,303,552

39. Consolidated statements of cash flows (cont'd)

39.2 Non-cash transactions

Significant non-cash transactions not included in the consolidated statement of cash flows for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017	For the year ended December 31, 2016
Increase (decrease) in loans due to write off	₩ (761,610)	₩ (2,338,079)
Decrease in gain on valuation of AFS financial assets	(93,573)	(83,495)
Transfer to land of investment properties from land of tangible assets	6,333	123,537
Transfer to land of tangible assets from land of investment properties	35,358	-
Increase in investment in associates due to debt-equity swap	8	2,825
Decrease in loans due to debt-equity swap	(9,611)	(89,342)
Gain on exemption of accounts payable due to liquidation of subsidiaries	-	27,925

39.3 Changes in liabilities arising from financing activities

Changes in liabilities arising financing activities for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017					
Classification	January 1, 2017	Cash flows in financing activities	Exchange rate changes	Fair value changes	Others	December 31, 2017
Borrowings	₩ 12,185,991	₩ 284,899	₩ (243,405)	₩ -	₩ -	₩ 12,227,485
Debentures	18,717,527	713,606	(498,558)	-	36,152	18,968,727
Borrowings from trust accounts	1,485,868	867,154	-	-	-	2,353,022
	₩ 32,389,386	₩1,865,659	₩ (741,963)	₩ -	₩ 36,152	₩ 33,549,234

	For the year ended December 31, 2016					
Classification	January 1, 2016	Cash flows in financing activities	Exchange rate changes	Fair value changes	Others	December 31, 2016
Borrowings	₩ 14,080,620	₩ (1,966,607)	₩ 71,978	₩ -	₩ -	₩ 12,185,991
Debentures	12,200,984	6,319,077	149,238	-	48,228	18,717,527
Borrowings from trust accounts	2,060,570	(574,702)	-	-	-	1,485,868
	₩ 28,342,174	₩ 3,777,768	₩221,216	₩ -	₩ 48,228	₩ 32,389,386

40. Operating lease

The Group uses Automatic Teller's Machines through operating lease. The lease term ranges from 12 to 33 months.

Lease expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2017	For the year ended December 31, 2016
Minimum lease payment	₩ 7,895	₩ 16,080

Expected schedule of lease payment as at December 31, 2017 and 2016 is as follows (Korean won in millions):

Classification	December 31, 2017	December 31, 2016
Less than one year	₩ 3,819	₩ 14,137
1–5 years	2,092	8,652
	₩ 5,911	₩ 22,789

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Independent auditors' report

The Shareholder and Board of Directors
NongHyup Bank

We have audited the accompanying consolidated financial statements of NongHyup Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016 and 2015, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Ernst & Young Han Young

March 6, 2017

This audit report is effective as at March 6, 2017, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

NongHyup Bank and its subsidiaries

Consolidated financial statements

for the years ended December 31, 2016 and 2015

"The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group."

Kyung Seop Lee

Chief Executive Officer
NongHyup Bank

NongHyup Bank and its subsidiaries
Consolidated statements of financial position
as at December 31, 2016 and December 31, 2015

(Korean won in millions)

	Notes		2016		2015
Assets					
Cash and due from banks	5, 6, 35, 39	₩	8,746,222	₩	14,704,759
Held-for-trading financial assets	5, 7, 35, 36		6,008,594		5,575,984
Derivative assets	5, 7, 21, 35, 36		615,298		627,434
AFS financial assets	5, 8, 35, 36		15,372,757		13,169,340
HTM financial assets	5, 8, 35, 36		8,166,942		7,152,723
Loans and receivables	5, 9, 35, 36		207,732,171		186,665,875
Investments in associates	10		94,091		75,156
Tangible assets	11		2,633,915		2,649,897
Investment properties	12		647,748		525,177
Intangible assets	13		311,104		327,464
Current income tax assets			66,911		72,291
Deferred income tax assets	25		366,366		306,917
Other assets	14, 35		75,203		67,150
Non-current assets classified as held for sale	9, 12		15		15
Total assets		₩	250,837,337	₩	231,920,182
Liabilities and equity					
Liabilities					
Deposits	15, 16, 35, 36	₩	194,212,330	₩	178,583,501
Derivative liabilities	15, 21, 35, 36		633,754		620,408
Borrowings	15, 17, 35, 36		12,185,991		14,080,620
Debentures	15, 18, 35, 36		18,717,527		12,200,984
Provisions	19, 38		287,946		273,584
Net defined benefit liabilities	22		337,149		402,362
Other liabilities	15, 20, 35, 36		10,379,585		11,592,618
Share capital repayable on demand			22		15
Total liabilities			236,754,304		217,754,092
Equity					
Capital stock	23		2,132,779		2,132,779
Other paid-in capital	23		9,677,978		9,677,978
Retained earnings	23		2,578,561		2,474,505
Other components of equity	23		(306,285)		(119,172)
Total equity			14,083,033		14,166,090
Total liabilities and equity		₩	250,837,337	₩	231,920,182

The accompanying notes are an integral part of the consolidated financial statements.

NongHyup Bank and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2016 and 2015

(Korean won in millions, except per share amounts)

	Notes	2016	2015
Net interest income	26		
Interest income		₩ 7,093,872	₩ 7,177,758
Interest expenses		2,711,783	2,953,473
		4,382,089	4,224,285
Net commission income	27		
Commission income		832,285	787,970
Commission expenses		447,489	393,430
		384,796	394,540
Gain (loss) on held-for-trading financial assets, net	28		
Gain on held-for-trading financial assets		2,544,663	2,526,164
Loss on held-for-trading financial assets		2,479,010	2,675,053
		65,653	(148,889)
Gain (loss) on financial investment assets, net	28		
Gain on financial investment assets		348,654	309,783
Loss on financial investment assets		76,716	77,839
		271,938	231,944
Other operating expenses, net	30		
Other operating revenues		837,863	1,073,612
Other operating expenses		1,374,320	1,423,260
		(536,457)	(349,648)
Operating income before credit losses and general and administrative expenses		4,568,019	4,352,232
Provision of allowances for losses on credit	9, 19	1,584,539	1,263,408
Operating income before general administrative expenses		2,983,480	3,088,824
General administrative expenses			
Employee benefits	31	1,712,236	1,687,248
Depreciation and amortization expenses	11, 13	273,161	244,298
Other selling and administrative expenses	32	632,311	661,063
		2,617,708	2,592,609
Operating income		365,772	496,215
Gain on valuation of equity method investments, net	10	28,253	15,544
Other expenses, net	33	(270,195)	(284,206)
Income before income tax expense		123,830	227,553
Income tax expense	25	12,704	51,260
Net income	23	111,126	176,293

(Continued)

NongHyup Bank and its subsidiaries
Separate statements of comprehensive income
for the years ended December 31, 2016 and 2015 (cont'd)

(Korean won in millions, except per share amounts)

	Notes		2016		2015
Other comprehensive income					
Items not subsequently reclassified to profit or loss					
Remeasurements of defined benefit pension plans	22, 23	₩	(116,911)	₩	(155,636)
Items subsequently reclassified to profit or loss					
Loss on valuation & translation of AFS financial assets	23		(66,284)		(29,787)
Exchange differences on translation of foreign operations	23		839		763
Equity adjustments in equity method	10, 23		(4,757)		6,216
			(70,202)		(22,808)
			(187,113)		(178,444)
Total comprehensive loss		₩	(75,987)	₩	(2,151)
Earnings per share	34				
Basic earnings and diluted earnings per share		₩	220	₩	376

The accompanying notes are an integral part of the consolidated financial statements.

NongHyup Bank and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2016 and 2015

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustment	Hybrid equity securities	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance as at January 1, 2015	₩ 2,073,956	₩ 8,990,456	₩ (3,019)	₩ 349,648	₩ 2,493,214	₩ 59,272	₩ -	₩ 13,963,527
Capital increase	58,823	340,893	-	-	-	-	-	399,716
Changes due to consolidated tax	-	-	-	-	28,229	-	-	28,229
Total comprehensive income								
Net income	-	-	-	-	176,293	-	-	176,293
Other comprehensive income								
Changes in remeasurements of the net defined benefit liability	-	-	-	-	-	(155,636)	-	(155,636)
Loss on valuation & translation of AFS financial assets	-	-	-	-	-	(29,787)	-	(29,787)
Gain on overseas business translation	-	-	-	-	-	763	-	763
Gain on valuation of Investments in associates	-	-	-	-	-	6,216	-	6,216
Cash dividends	-	-	-	-	(206,151)	-	-	(206,151)
Dividends on hybrid equity securities	-	-	-	-	(17,080)	-	-	(17,080)
Balance as at December 31, 2015	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,474,505	₩ (119,172)	₩ -	₩ 14,166,090

	Capital stock	Capital surplus	Capital adjustment	Hybrid equity securities	Retained earnings	Other components of equity	Non-Controlling interests	Total
Balance as at January 1, 2016	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,474,505	₩ (119,172)	₩ -	₩ 14,166,090
Capital increase	-	-	-	-	-	-	-	-
Changes due to consolidated tax	-	-	-	-	10,010	-	-	10,010
Total comprehensive income								
Net income	-	-	-	-	111,126	-	-	111,126
Other comprehensive income								
Changes in remeasurements of the net defined benefit liability	-	-	-	-	-	(116,911)	-	(116,911)
Loss on valuation & translation of AFS financial assets	-	-	-	-	-	(66,284)	-	(66,284)
Gain on overseas business translation	-	-	-	-	-	839	-	839
Loss on valuation of Investments in associates	-	-	-	-	-	(4,757)	-	(4,757)
Cash dividends	-	-	-	-	-	-	-	-
Dividends on hybrid equity securities	-	-	-	-	(17,080)	-	-	(17,080)
Balance as at December 31, 2016	₩ 2,132,779	₩ 9,331,349	₩ (3,019)	₩ 349,648	₩ 2,578,561	₩ (306,285)	₩ -	₩ 14,083,033

The accompanying notes are an integral part of the consolidated financial statements.

NongHyup Bank and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015

(Korean won in millions)

	Notes	2016	2015
Operating activities			
Net income before income tax expense		₩ 123,830	₩ 227,553
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Interest expense		2,711,783	2,953,473
Loss on valuation of held-for-trading financial assets		14,870	9,610
Loss on disposal and redemption of AFS financial assets		18,944	24,285
Impairment loss of AFS financial assets		57,765	53,554
Loss on disposal and redemption of HTM financial assets		6	-
Loss on valuation of trading derivatives		508,739	440,795
Loss on valuation of hedging derivatives		29,321	9,760
Loss related to fair value hedge		5,205	10,240
Loss on disposal of investments in subsidiaries		6	-
Loss on disposal of equity method investments		374	737
Loss on valuation of equity method investments		372	30
Depreciation		161,117	135,988
Amortization of intangible assets		116,716	112,021
Impairment loss of intangible assets		2,985	-
Loss on disposal of assets		3,065	10,319
Provision of allowance for losses on credit		1,556,414	1,281,311
Provision for acceptances and guarantees		35,010	-
Transfer in other provisions		4,102	35,743
Loss on transaction of foreign exchange		652,905	675,996
Retirement expense		187,311	157,738
Other losses		111,947	82,504
		6,178,957	5,994,104
Adjustments to reconcile net income to net cash flows used in operating activities:			
Interest income		7,093,872	7,177,758
Dividend income		117,134	78,429
Gain on valuation of held-for-trading financial assets		13,837	9,342
Gain on disposal and redemption of AFS financial assets		210,876	225,830
Gain on disposal and redemption of HTM financial assets		14,585	4,579
Gain on redemption of debentures		-	2,541
Reversal of impairment loss of HTM financial assets		7,771	3,166
Gain on valuation of trading derivatives		513,784	442,736
Gain on valuation of hedging derivatives		6,980	6,564
Gain related to fair value hedge		22,022	11,064
Gain on disposal of investments in subsidiaries		27,925	-
Gain on disposal of equity method investments		238	5,901
Gain on valuation of equity method investments		28,624	15,574
Gain on disposal of assets		1,282	16,144
Reversal of provision for unused credit limit		6,884	12,919
Reversal of provision for acceptances and guarantees		-	4,984
Gain on transaction of foreign exchange		632,663	837,612
Other gains		39,143	7,332
		(8,737,620)	(8,862,475)

(Continued)

NongHyup Bank and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015 (cont'd)

(Korean won in millions)

	Notes	2016	2015
Changes in operating assets and liabilities:			
Increase in held-for-trading financial assets		₩ (433,644)	₩ (2,381)
Decrease in trading derivative assets		532,900	406,375
Increase in loans		(22,805,760)	(13,264,259)
Decrease (increase) in due from banks		6,353,966	(4,668,990)
Decrease (increase) in other receivables		407,127	(963,101)
Decrease (increase) in other assets		(4,268)	18,920
Increase in plan assets		(285,316)	(138,003)
Increase in deposits		15,499,163	17,212,221
Decrease in financial liabilities at FVTPL		-	(52,541)
Decrease in trading derivative liabilities		(524,680)	(418,836)
Decrease in provisions		(20,940)	(21,531)
Payment of retirement benefits and change resulting from transfer of staff among affiliates		(121,419)	(176,107)
Increase (decrease) in other liabilities		(797,765)	888,992
		(2,200,636)	(1,179,241)
Cash provided by operating activities:			
Net cash received for interest		7,018,125	7,155,935
Net cash received for dividend		117,118	78,429
		7,135,243	7,234,364
Cash used in operating activities:			
Payment of interest expense		2,471,569	3,402,410
Payment of income tax		3,489	260,507
		(2,475,058)	(3,662,917)
Net cash flows provided by (used in) operating activities		24,716	(248,612)
Investing activities			
Cash flows provided by investing activities:			
Disposal of AFS financial assets		59,364,178	34,300,527
Redemption of HTM financial assets		3,408,487	2,072,931
Disposal of tangible assets		8,832	45,682
Disposal of intangible assets		2,908	2,737
Disposal of Investment properties		67	2,659
Disposal of equity method investments		19,402	12,866
Dividend of equity method investments		13,861	11,236
		62,817,735	36,448,638
Cash flows used in investing activities:			
Purchase of AFS financial assets		61,433,360	35,137,538
Purchase of HTM financial assets		4,399,601	3,013,790
Purchase of equity method investments		27,526	9,240
Purchase of investment properties		3,767	9,133
Purchase of tangible assets		275,498	420,024
Purchase of intangible assets		106,289	146,397
		(66,246,041)	(38,736,122)
Net cash flows used in investing activities		(3,428,306)	(2,287,484)

(Continued)

NongHyup Bank and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015 (cont'd)

(Korean won in millions)

	Notes		2016		2015
Financing activities					
Cash flows provided by financing activities:					
Increase in debentures		₩	12,280,639	₩	4,897,418
Increase in borrowings from trust accounts, net			-		486,882
Increase in capital			-		399,716
			12,280,639		5,784,016
Cash flows used in financing activities:					
Decrease in borrowings, net			1,966,607		295,312
Decrease in debentures			5,961,562		2,854,996
Decrease in borrowings from trust accounts, net			574,702		-
Dividends			17,080		223,231
			(8,519,951)		(3,373,539)
Net cash flows provided by financing activities			3,760,688		2,410,477
Net increase (decrease) in cash and cash equivalents			357,098		(125,619)
Cash and cash equivalents at the beginning of the year			1,938,946		2,058,334
Effect of exchange rate changes on cash and cash equivalents			7,508		6,231
Cash and cash equivalents at the end of the year	39	₩	2,303,552	₩	1,938,946

The accompanying notes are an integral part of the consolidated financial statements.

1. Group information

1.1 NongHyup Bank as the parent company

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 December 31, 2016, the Bank's capital stock amounts to ₩2,132,779 million with 426,555,827 shares of common stock outstanding, which are 100% owned by NongHyup Financial Group. As at December 31, 2016, the Bank operates 157 regional offices, 704 branches, 299 depositary offices, and 5 overseas branches and offices.

1.2 Scope and principles of consolidation

Subsidiaries in consolidation as at December 31, 2016 and 2015 are as follows:

	December 31, 2016			
Subsidiaries	Main business	Location	Percentage of ownership (%)	Using financial statement date
NongHyup Finance Myanmar Co., Ltd. (*1)	Small loan business	Myanmar	100.00	December 31, 2016
Personal pension trusts and 10 other trusts (*2)	Trust business	Korea	-	December 31, 2016
KAMCO Value Recreation 4th Securitization Specialty Ltd.	Asset securitization business and others	Korea	-	December 31, 2016
NH-CA(NH Securities) privately placed securities investment trust 12-5th and 30 others (*3)	Beneficiary certificate	Korea	100.00	December 31, 2016
Eugene(NH Securities)zarang private placed securities investment 70th and another (*3)	Beneficiary certificate	Korea	99.98	December 31, 2016

(*1) Subsidiary was established in October 28, 2016.
(*2) 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 that of 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.

	December 31, 2015			
Subsidiaries	Main business	Location	Percentage of ownership (%)	Using financial statement date
Personal pension trusts and 10 other trusts (*1)	Trust business	Korea	-	December 31, 2015
Arirang SF Co., Ltd., and another (*2)	Asset securitization business and others	Korea	-	December 31, 2015
NH-CA(NH Securities) privately placed securities investment trust 12-5th and 30 others (*2)	Beneficiary certificate	Korea	100.00	December 31, 2015
Eugene(NH Securities)zarang private placed securities investment 70th and another (*2)	Beneficiary certificate	Korea	99.98	December 31, 2015

(*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 that of 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.

1. Group information (cont'd)

1.2 Scope and principles of consolidation (cont'd)

The Group includes the structured entities, to which KIFRS 1110 and KIFRS 1112 are applicable, in the consolidation scope and controls 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.

1.3 Summary of financial information of subsidiaries

Summary of financial information of subsidiaries in consolidation as at December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016					
Subsidiaries	Asset	Liabilities	Equity	Operating Income	Net income	Total comprehensive income
NongHyup Finance Myanmar Co., Ltd.	₩ 3,325	₩ -	₩ 3,325	₩ -	₩ (65)	₩ (97)
Personal pension trusts and 10 other trusts	3,427,572	3,427,572	-	100,636	-	-
KAMCO Value Recreation 4th Securitization Specialty Ltd.	174	75,035	(74,861)	-	(4,319)	(4,319)
Consolidated beneficiary certificate	1,929,529	291,305	1,638,224	64,647	25,933	25,933

	December 31, 2015					
Subsidiaries	Asset	Liabilities	Equity	Operating Income	Net income	Total comprehensive income
Personal pension trusts and 10 other trusts	₩ 3,252,136	₩ 3,252,136	₩ -	₩ 113,164	₩ -	₩ -
Arirang SF Co., Ltd.	254	168,586	(168,332)	7,781	(147)	(147)
KAMCO Value Recreation 4th Securitization Specialty Ltd.	618	71,160	(70,542)	18,119	4,442	4,442
Consolidated beneficiary certificate	1,728,509	89,724	1,638,785	113,207	48,873	48,873

1.4 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
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
11 trusts including Personal pension trusts	The Group offers principal and interest conservation commitment to trust accounts. The Group is 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

1.5 Changes in subsidiaries

Arirang SF Co., Ltd. has been excluded from the consolidation scope due to liquidation and NongHyup Finance Myanmar Co., Ltd. established on October 28, 2016, has been newly included in the consolidation scope for the year ended December 31, 2016.

1. Group information (cont'd)

1.6 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 project financing, asset-backed securitization, investment fund contracts and others as at December 31, 2016. 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.

1.6.1 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.

1.6.2 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.

1.6.3 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 group 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.

1. Group information (cont'd)

1.6 Unconsolidated structured entities (cont'd)

1.6.3 Investment funds (cont'd)

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 period ended December 31, 2016, 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):

	December 31, 2016			
Classification	Asset-backed securitization	Investment funds	Project financing	Total
Total assets of unconsolidated structured entity	₩ 57,967,906	₩ 37,145,394	₩ 12,635,117	₩ 107,748,417
Recognized assets related to unconsolidated structured entities:	5,575,857	1,988,858	1,233,290	8,798,005
Loans	2,960	-	1,217,804	1,220,764
Securities	5,572,897	1,988,858	15,486	7,577,241
Recognized liabilities related to unconsolidated structured entities	20,900	-	-	20,900
Loss on unconsolidated structured entity	231	-	6,384	6,615
Maximum exposure to loss:	7,667,167	1,988,858	1,233,290	10,889,315
Commitments and guarantees	2,091,310	-	-	2,091,310
Securities (including derivatives)	5,572,897	1,988,858	15,486	7,577,241
Loans	2,960	-	1,217,804	1,220,764

	December 31, 2015			
Classification	Asset-backed securitization	Investment funds	Project financing	Total
Total assets of unconsolidated structured entity	₩ 47,977,385	₩ 37,172,371	₩ 15,607,657	₩ 100,757,413
Recognized assets related to unconsolidated structured entities:	4,507,714	2,112,248	1,293,418	7,913,380
Loans	62,914	629,810	1,322,171	2,014,895
Securities	4,444,800	1,489,629	15,840	5,950,269
Recognized liabilities related to unconsolidated structured entities	48,643	-	-	48,643
Loss on unconsolidated structured entity	22,023	-	-	22,023
Maximum exposure to loss:	5,663,235	2,119,439	1,338,011	9,120,686
Commitments and guarantees	1,155,521	-	-	1,155,521
Securities (including derivatives)	4,444,800	1,489,629	15,840	5,950,269
Loans	62,914	629,810	1,322,171	2,014,895

2. Significant basis of preparation and accounting policies

The Group's consolidated financial statements are prepared in accordance with the Korean International Financial Reporting Standards (KIFRS) since the Bank was established on March 2, 2012. The Board of Directors approved the accompanying consolidated financial statements on February 13, 2017.

The significant accounting policies are set out below, and the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016, except for the new and amended standards adopted as explained below.

The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial assets 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 cost of acquiring asset.

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.

KIFRS 1114 *Regulatory Deferral Accounts*

KIFRS 1114 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of KIFRS. Entities that adopt KIFRS 1114 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing KIFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to KIFRS 1111 *Joint Arrangements*: *Accounting for Acquisitions of Interests*

The amendments to KIFRS 1111 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant KIFRS 1103 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to KIFRS 1111 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to KIFRS 1016 and KIFRS 1038 *Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in KIFRS 1016 Property, Plant and Equipment and KIFRS 1038 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have significant impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to KIFRS 1016 and KIFRS 1041 *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of KIFRS 1041 Agriculture. Instead, KIFRS 1016 will apply. After initial recognition, bearer plants will be measured under KIFRS 1016 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of KIFRS 1041 measured at fair value less costs to sell. For government grants related to bearer plants, KIFRS 1020 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

Annual Improvements *2012-2014 Cycle*

These amendments do not have any impact on the Group's consolidated financial statements.

KIFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in KIFRS 1105. This amendment is applied prospectively.

2. Significant basis of preparation and accounting policies (cont'd)

2.1 Changes in accounting policies and disclosures (cont'd)

KIFRS 1107 *Financial Instruments: Disclosures*

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in KIFRS 1107 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be made retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to KIFRS 1107 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

KIFRS 1019 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

KIFRS 1034 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

Amendments to KIFRS 1001 *Disclosure Initiative*

The amendments to KIFRS 1001 clarify, rather than significantly change, existing KIFRS 1001 requirements. The amendments clarify:

- The materiality requirements in KIFRS 1001
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1028 *Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under KIFRS 1110 Consolidated Financial Statements. The amendments to KIFRS 1110 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to KIFRS 1110 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to KIFRS 1028 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are retrospectively applied and the Group has reviewed the impact of this standard on its financial statements and has early adopted it..

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not effective, until the issuance day of the Group's financial statements are as follows:

KIFRS 1109 *Financial Instruments*

KIFRS 1109, enacted on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with early application permitted. KIFRS 1109 will replace KIFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group plans to apply KIFRS 1109 for annual periods beginning on or after January 1, 2018.

The new KIFRS 1109 is retrospectively applied in principle, but there are some exceptions such as exemption of restatement of comparative information for classification, measurement, impairment of financial instruments. For hedge accounting, the requirements are generally applied prospectively, with some exceptions such as accounting for time value of options.

Major characteristics of KIFRS 1109 are financial assets being classified and measured on the basis of the holder's business model and instrument's contractual cash flow characteristics, impairment model of financial instruments based on expected credit losses (ECL), broader range of hedged items and hedging instruments that qualify for the application of hedge accounting or changes in evaluation of hedging effectiveness etc.

For smooth adoption of KIFRS 1109, financial impact analysis, accounting policies establishment, accounting system establishment and stabilization need to take place. The impact of the standards on the financial statements in the period they are initially adopted may differ depending on the Group's decisions and judgments of accounting policies as well as economic environment and its financial instruments.

In connection with the adoption of KIFRS 1109, the Group is in the process of undertaking accounting policies establishment and accounting system establishment, and plans to perform accounting system test and stabilization in 2017. The Group is in the process of analyzing the financial impact of this standard on its financial statements. However, general impact of major points in this standard on the financial statements is as follows.

- Financial asset classification and measurement

The new KIFRS 1109 requires a financial instrument to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. The requirements should be applied to an entire financial asset, even if it contains an embedded derivative. That is, in contrast with the requirements of KIFRS 1039, a derivative embedded within a hybrid (combined) contract containing a financial asset host is not accounted for separately.

	Contractual cash flow characteristics	
Business model	Composed solely of principal and interest	Other
Purpose of collecting contractual cash flows	Measured at amortized cost (*1)	Measured at FVTPL (*2)
Purpose of collecting and selling contractual cash flows	Measured at FVOCI (*1)	
Purpose of selling, others	Measured at FVTPL	

(*1) can be irrevocably designated at FVTPL in order to eliminate or reduce accounting mismatch.
(*2) can be irrevocably designated at FVOCI in case of equity securities not for the purpose of realizing investment gains.

The requirements in KIFRS 1109 to classify financial assets measured at amortized costs or at FVOCI are stricter than KIFRS 1039, and thus, the proportion of financial assets measured at FVTPL may increase, which may lead to a rise in profit or loss volatility at the adoption of KIFRS 1109.

The requirements in KIFRS 1109 to classify financial assets measured at amortized costs or at FVOCI are stricter than KIFRS 1039, and thus, the proportion of financial assets measured at FVTPL may increase which may lead to a rise in profit or loss volatility at the adoption of KIFRS 1109.

- Financial liabilities classification and measurement

In KIFRS 1109, fair value changes of financial liabilities at FVTPL attributable to changes in credit risk of the liability shall be presented in other comprehensive income, not in profit or loss. Amounts presented in other comprehensive income shall

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

not be subsequently recycled to profit or loss. However, the new standard allows the recognition of the full amount of change in the fair value in profit or loss only if the presentation of the changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

The fair value changes of financial liabilities designated at FVTPL that were previously recognized as profit or loss in KIFRS 1039 will partially be recorded as other comprehensive income and thus profit or loss related to the evaluation of financial liabilities may decrease.

- Impairment: financial assets and contract assets

In KIFRS 1039, impairment is recognized only when there is objective evidence of impairment based on incurred loss model. In the new KIFRS 1109, impairment of debt instruments, lease bonds, contract assets, loan commitments and financial guarantee contracts that are measured at amortized costs or at FVOCI is recognized based on the expected credit loss (ECL) impairment model.

KIFRS 1109 outlines a 'three-stage' model for impairment based on changes in credit risk since initial recognition. Loss allowance is measured based on the 12-month ECL or life-time ECL which allows early recognition of credit loss compared to the incurred loss model of KIFRS 1039.

	Classification	Loss allowance
Stage 1	Assets with no significant increase in credit risk since initial recognition (*1)	12-month ECL: Expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Assets with significant increase in credit risk since initial recognition	Lifetime ECL: Expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Credit-impaired assets	

(*1) Low credit risk at the end of reporting period may be considered as no significant increase in credit risk

In KIFRS 1109, accumulated changes in the life-time ECL after initial recognition are taken into account as loss allowance in case credit is impaired at initial recognition of financial assets.

- Hedge accounting

The new KIFRS 1109 maintains mechanics of hedge accounting (fair value hedge, cash flow hedge and a hedge of a net investment in a foreign operation) as set forth in KIFRS 1039. However, unlike requirements in KIFRS 1039 that are too complex and strict, KIFRS 1109 is more practical, principle based and less strict and focuses on the entity's risk management activities. Also, KIFRS 1109 allows broader range of hedged items and hedging instruments. Under KIFRS 1039, a hedge is assessed to be highly effective only if the offset is in the range of 80-125 percentage by performing numerical test of effectiveness. In KIFRS 1109, such requirements are alleviated.

Transactions not qualifying for hedge accounting requirements of KIFRS 1039 may now qualify for hedge accounting under KIFRS 1109, resulting in less volatility in profit or loss.

KIFRS 1115 *Revenue from Contracts with Customers*

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In KIFRS 1115, the revenue is recognized by applying a five-step model (1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation (or as the obligation is performed over the period of time). The new standard KIFRS 1115 will replace KIFRS 1018 Revenue, KIFRS 1011 Construction Contracts, KIFRS Interpretation 2031 Revenue: Exchange Transaction of Advertising Services, KIFRS 2113 Customer Loyalty Programmes, KIFRS 2115 Agreements for the Construction of Real Estate, KIFRS 2118 Transfer of Assets from Customers and is applied for annual periods beginning on or after January 1, 2018. The Group is reviewing the impact of this standard on its financial statements and plans to apply it on required effective date.

2. Significant basis of preparation and accounting policies (cont'd)

2.2 Standards issued but not yet effective (cont'd)

Amendments to KIFRS 1110 and KIFRS 1028 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group.

Amendments to KIFRS 1007 *Statement of Cash Flows: Disclosure Initiative*

The amendments to KIFRS 1007 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

Amendments to KIFRS 1012 *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. These amendments are not expected to have any impact on the Group.

Amendments to KIFRS 1102 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to KIFRS 1102 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. These amendments are not expected to have any impact on the Group.

2.3 Significant accounting policies

2.3.1 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.1 Consolidation (cont'd)

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 KIFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.3.2 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 KIFRS 1012 Income Taxes and KIFRS 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 KIFRS 1102 Share-Based Payment at the acquisition date; and

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.2 Business combination (cont'd)

- assets (or disposal groups) that are classified as held for sale in accordance with KIFRS 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 KIFRS.

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 KIFRS 1039 or KIFRS 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.

2.3.3 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

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.3 Investments in associates (cont'd)

for in accordance with KIFRS 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 KIFRS 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 KIFRS 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 KIFRS 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 KIFRS 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 KIFRS 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.

2.3.4 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.5 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.

2.3.6 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 2.3.16 above for hedging accounting policies); and

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.6 Foreign currencies (cont'd)

- 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).

2.3.7 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, of the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognizes restructuring-related costs. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, 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.

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.

2.3.8 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.8 Income tax (cont'd)

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 KIFRS 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.

2.3.9 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

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.9 Tangible assets (cont'd)

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.

2.3.10 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.

2.3.11 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
- 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.11 Intangible assets (cont'd)

2) Internally generated intangible assets-research and development cost (cont'd)

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.

2.3.12 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.

2.3.13 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.14 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 (held-for-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 KIFRS 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.14 Financial assets (cont'd)

3) AFS financial assets (cont'd)

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

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.14 Financial assets (cont'd)

7) Impairment of financial assets (cont'd)

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:

a. 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.

b. 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.

c. 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.14 Financial assets (cont'd)

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.

2.3.15 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.

a. 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.15 Financial liabilities and equity instruments (cont'd)

3) Financial liabilities (cont'd)

a. Financial liabilities at FVTPL (cont'd)

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 KIFRS 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.

b. 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.

c. 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 KIFRS 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 KIFRS 1018, *Revenue*

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.16 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.

2. Significant basis of preparation and accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Fair values

1) Valuation techniques and assumptions applied in 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.
Held-for-trading financial assets/liabilities and AFS financial assets	Government and public bonds and listed stocks in Held-for-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 Group.
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)

3. Significant judgments and estimations

Under KIFRS, 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.

3. Significant judgments and estimations (cont'd)

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.

3.1 Critical judgment in applying accounting policies

3.1.1 Impairment of AFS financial assets

As described in Note 2.3.14, 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."

3.1.2 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.

3.1.3 Effective hedge relationships

As described in Note 2.3.16, 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.

3.2 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.

3.2.1 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.

3.2.2 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.

3.2.3 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. Operating segment information

The Group is organized into four operating segments as follows based on their products and services:

Segment	Main business activities
Personal financing	Personal banking services for general public – lending & borrowing, financial services, and etc.
Corporate financing	Corporate banking services for conglomerates, small & medium-sized companies, institutions – lending & borrowing, import & export supports, financial services, and etc.
Card	Credit card services for credit card holders, and etc.
Others	Activities other than the above

Details of current net profit by operating segment for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016						
	Personal financing	Corporate financing	Card	Others	Subtotal	Adjustments	Total
Operating income							
Net interest income	₩ 2,021,026	₩ 1,225,120	₩ 770,827	₩ 185,135	₩ 4,202,108	₩ 179,981	₩ 4,382,089
Net fee and commission income (loss)	267,504	213,562	(213,116)	70,752	338,702	46,094	384,796
Net other operating income (loss)	(272,820)	(118,285)	(17,559)	280,654	(128,010)	(312,798)	(440,808)
	2,015,710	1,320,397	540,152	536,541	4,412,800	(86,723)	4,326,077
Operating loss							
General and administrative expense	894,125	370,184	292,236	188,290	1,744,835	872,873	2,617,708
Operating income	1,121,585	950,213	247,916	348,251	2,667,965	(959,596)	1,708,369
Provision for possible credit losses	-	-	-	-	-	1,584,539	1,584,539
Income tax expenses	-	-	-	-	-	12,704	12,704
Net income for the period	₩ 1,121,585	₩ 950,213	₩ 247,916	₩ 348,251	₩ 2,667,965	₩ (2,556,839)	₩ 111,126

	For the year ended December 31, 2015						
	Personal financing	Corporate financing	Card	Others	Subtotal	Adjustments	Total
Operating income							
Net interest income	₩ 1,881,885	₩ 1,292,143	₩ 672,059	₩ 15,532	₩ 3,861,619	₩ 362,666	₩4,224,285
Net fee and commission income (loss)	244,354	175,177	(197,421)	83,414	305,524	89,016	394,540
Net other operating income (loss)	(259,432)	(106,228)	(19,042)	107,342	(277,360)	(257,895)	(535,255)
	1,866,807	1,361,092	455,596	206,288	3,889,783	193,787	4,083,570
Operating loss							
General and administrative expense	963,400	389,343	278,511	121,702	1,752,956	839,653	2,592,609
Operating income	903,407	971,749	177,085	84,586	2,136,827	(645,866)	1,490,961
Provision for possible credit losses	-	-	-	-	-	1,263,408	1,263,408
Income tax expenses	-	-	-	-	-	51,260	51,260
Net income for the period	₩ 903,407	₩ 971,749	₩ 177,085	₩ 84,586	₩ 2,136,827	₩ (1,960,534)	₩ 176,293

4. Operating segment information (cont'd)

Revenue from the external customers for the years ended December 31, 2016 and 2015 and non–current assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	Revenue from external customers				Non–current assets			
	For the year ended December 31, 2016		For the year ended December 31, 2015		December 31,2016		December 31,2015	
Domestic	₩	11,639,651	₩	11,862,635	₩	3,686,632	₩	3,577,323
Foreign		17,686		12,652		226		371
	₩	11,657,337	₩	11,875,287	₩	3,686,858	₩	3,577,694

Trust accounts' asset and operating incomes of the Bank for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016				For the year ended December 31, 2015			
Classification	Asset		Operating Income		Asset		Operating Income	
Trust-accounts consolidated	₩	3,427,691	₩	272,765	₩	3,252,136	₩	113,164
Trust-accounts Not consolidated		31,027,659		784,070		31,480,619		773,089
	₩	34,455,350	₩	1,056,835	₩	34,732,755	₩	886,253

Receivables and payables between Bank and trust accounts as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification		December 31, 2016		December 31, 2015	
Receivables	Accrued fee on trust accounts	₩	12,194	₩	10,214
Payables	Borrowings from trust accounts		1,494,267		2,098,073

Transactions between Bank and trust accounts for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification		December 31, 2016		December 31, 2015	
Profit	Fees on trust accounts	₩	43,469	₩	35,915
Loss	Interest expense		31,617		42,222

5. Financial assets

Details of financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification		December 31, 2016 Book value	December 31, 2016 Fair value
Financial assets at FVTPL:			
Held-for-trading financial assets		₩ 6,008,594	₩ 6,008,594
Trading derivative assets		606,284	606,284
		6,614,878	6,614,878
Hedging derivative assets		9,014	9,014
AFS financial assets		15,372,757	15,372,757
HTM financial assets		8,166,942	8,213,697
Loans and receivables:			
Deposits	Deposits in Korean won	6,362,128	6,362,128
	Deposits in foreign currency	507,845	507,845
		6,869,973	6,869,973
Loans (*1)	Loans in Korean won	182,160,983	183,137,675
	Loans in foreign currency	1,663,342	1,667,285
	Credit card receivables	5,704,167	5,748,359
	Others	12,243,657	12,367,268
		201,772,149	202,920,587
Receivables (*2 and *3)		5,652,003	5,381,122
		214,294,125	215,171,682
		₩ 244,457,716	₩ 245,382,028

Classification		December 31, 2015 Book value	December 31, 2015 Fair value
Financial assets at FVTPL:			
Held-for-trading financial assets		₩ 5,575,984	₩ 5,575,984
Trading derivative assets		611,393	611,393
		6,187,377	6,187,377
Hedging derivative assets		16,041	16,041
AFS financial assets		13,169,340	13,169,340
HTM financial assets		7,152,723	7,301,014
Loans and receivables:			
Deposits	Deposits in Korean won	12,442,644	12,442,644
	Deposits in foreign currency	459,388	459,388
		12,902,032	12,902,032
Loans (*1)	Loans in Korean won	165,768,959	167,947,987
	Loans in foreign currency	2,311,350	2,339,004
	Credit card receivables	4,916,174	4,758,673
	Others	8,056,268	8,085,986
		181,052,751	183,131,650
Receivables (*2 and *3)		5,332,306	5,078,823
		199,287,089	201,112,505
		₩225,812,570	₩227,786,277

(*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 ₩308,019 million and ₩280,818 million as at December 31, 2016 and 2015, 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.

5. Financial assets (cont'd)

Book values of financial assets by category as at December 31, 2016 and 2015 are as follows (Korean won in millions):

December 31, 2016

	Financial assets at FVTPL						
	Held-for-trading	Trading derivatives	Loans and Receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩ 6,008,594	₩ 606,284	₩ -	₩ -	₩ -	₩ -	₩ 6,614,878
Hedging Derivative assets	-	-	-	-	-	9,014	9,014
AFS financial assets	-	-	-	15,372,757	-	-	15,372,757
HTM financial assets	-	-	-	-	8,166,942	-	8,166,942
Deposits	-	-	6,869,973	-	-	-	6,869,973
Loans	-	-	202,080,168	-	-	-	202,080,168
Receivables	-	-	5,652,003	-	-	-	5,652,003
	₩ 6,008,594	₩ 606,284	₩ 214,602,144	₩ 15,372,757	₩ 8,166,942	₩ 9,014	₩ 244,765,735

December 31, 2015

	Financial assets at FVTPL						
	Held-for-trading	Trading derivatives	Loans and Receivables	AFS financial assets	HTM financial assets	Hedging derivative assets	Total
Financial assets at FVTPL	₩5,575,984	₩611,393	₩ -	₩ -	₩ -	₩ -	₩ 6,187,377
Hedging Derivative assets	-	-	-	-	-	16,041	16,041
AFS financial assets	-	-	-	13,169,340	-	-	13,169,340
HTM financial assets	-	-	-	-	7,152,723	-	7,152,723
Deposits	-	-	12,902,032	-	-	-	12,902,032
Loans	-	-	181,333,569	-	-	-	181,333,569
Receivables	-	-	5,332,306		-	-	5,332,306
	₩5,575,984	₩611,393	₩199,567,907	₩13,169,340	₩7,152,723	₩16,041	₩226,093,388

6. Cash and due from banks

Cash and due from banks as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Details	Interest rate (%)	December 31, 2016	December 31, 2015
Cash in Korean won	Cash on hand	-	₩ 1,530,343	₩ 1,482,990
Cash in foreign currency	Cash on hand	-	345,906	319,737
Due from banks in Korean won	Reserve deposits	-	3,414,300	8,531,621
	Non-monetary financial institution deposits	2.57	501	501
	Bank deposits	1.85~2.18	42,924	2,861,956
	Other deposits	1.49~1.50	2,904,403	1,048,566
			6,362,128	12,442,644
Due from banks in foreign currency	Reserve deposits	-	119,682	338,456
	From other banks	0.11~0.27	352,391	115,072
	Non-monetary financial institution deposits	0.86	29,729	-
	Time deposit	0.92	6,043	5,860
			507,845	459,388
			₩ 8,746,222	₩ 14,704,759

6. Cash and due from banks (cont'd)

Due from banks as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Financial institution	December 31, 2016	December 31, 2015
In Korean won:			
Reserve deposits	The Bank of Korea	₩ 3,414,300	₩ 8,531,621
Non-monetary financial institution deposits	Korea Exchange	501	501
Other deposits	The Bank of Korea	2,900,000	2,860,000
	Other financial institutions	47,327	1,050,522
		6,362,128	12,442,644
In foreign currency:			
Reserve deposits	The Bank of Korea	119,682	338,453
From other banks	Other financial institutions	352,391	115,075
Non-monetary financial institution deposits	Other financial institutions	29,729	-
Time deposit	Other financial institutions	6,043	5,860
		507,845	459,388
		₩ 6,869,973	₩ 12,902,032

Restricted due from banks in Korean won and in foreign currency as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	Financial institution	December 31, 2016	December 31, 2015	Reason for restriction
Reserve deposits in Korean won	The Bank of Korea	₩ 3,414,300	₩ 8,531,621	Required under the Bank Act and other related regulations
Monetary stabilization account	The Bank of Korea	2,900,000	2,860,000	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	119,682	338,453	Required under the Bank Act and other related regulations
Regular deposits in foreign currency	Other financial Institutions	6,043	5,860	Required under consumption contract of money loan with other foreign exchange banks
Deposit on securities and futures	Korea Investment & Securities Co., Ltd. and 7 others	2,144	1,878	Reserve securities and futures
		₩ 6,442,670	₩ 11,738,313	

7. Financial assets at FVTPL

Details of financial assets at FVTPL as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Held-for-trading securities:		
Equity securities	₩ 224,399	₩ 76,482
Debt securities	5,784,195	5,499,502
	6,008,594	5,575,984
Trading derivative assets	606,284	611,393
	₩ 6,614,878	₩ 6,187,377

Held-for-trading securities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 107,409	₩ -	₩ 112,492	₩ 112,492
Beneficiary certificates	-	100,000	-	100,351	100,351
Mutual funds	-	11,141	-	11,556	11,556
	-	218,550	-	224,399	224,399
Debt securities:					
Government and public bonds	1,675,013	1,699,088	1,691,192	1,687,599	1,687,599
Financial bonds	2,955,700	2,988,686	2,957,485	2,954,475	2,954,475
Corporate bonds	655,000	656,663	657,173	656,001	656,001
Public bonds	484,210	487,137	487,173	486,004	486,004
Others	145	145	116	116	116
	5,770,068	5,831,719	5,793,139	5,784,195	5,784,195
	₩ 5,770,068	₩ 6,050,269	₩ 5,793,139	₩ 6,008,594	₩ 6,008,594

	December 31, 2015				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
Equity securities:					
Marketable equity securities	₩ -	₩ 76,772	₩ -	₩ 76,482	₩ 76,482
	-	76,772	-	76,482	76,482
Debt securities:					
Government and public bonds	1,343,150	1,364,478	1,358,590	1,359,408	1,359,408
Financial bonds	2,987,500	3,053,855	2,991,504	2,992,340	2,992,340
Corporate bonds	684,500	685,170	685,687	685,834	685,834
Public bonds	448,810	459,916	451,565	451,846	451,846
Others	10,203	10,100	10,071	10,074	10,074
	5,474,163	5,573,519	5,497,417	5,499,502	5,499,502
	₩ 5,474,163	₩ 5,650,291	₩ 5,497,417	₩ 5,575,984	₩ 5,575,984

7. **Financial assets at FVTPL (cont'd)**

Details of financial assets at held-for-trading securities in each major industry as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		
	Book value		Ratio (%)
Government and government-sponsored institutions	₩	2,246,953	37.40
Finance and insurance		2,754,602	45.84
Manufacturing		350,692	5.84
Others		656,347	10.92
	₩	6,008,594	100.00

Classification	December 31, 2015		
	Book value		Ratio (%)
Government and government-sponsored institutions	₩	2,299,292	41.24
Finance and insurance		2,519,453	45.18
Manufacturing		40,024	0.72
Others		717,215	12.86
	₩	5,575,984	100.00

Details of financial asset at held-for-trading securities in each country as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		
	Book value		Ratio (%)
Korea	₩	6,008,594	100.00

Classification	December 31, 2015		
	Book value		Ratio (%)
Korea	₩	5,575,984	100.00

Held-for-trading securities provided as collaterals as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Provided to	Remarks	December 31, 2016			
		Pledged amount		Book value	
Industrial Bank of Korea and 2 others	Substitute securities for derivative transactions	₩	343,260	₩	308,644
IBK Capital Co., Ltd. and 14 others	Credit enhancement for derivative transactions		25,700		23,274
Korea Securities Depository	Others		19,000		18,690
		₩	387,960	₩	350,608

Provided to	Remarks	December 31, 2015			
		Pledged amount		Book value	
Mirae Asset Securities Co., Ltd	Substitute securities for derivative transactions	₩	28,100	₩	28,348
Samsung Futures Inc. and 6 others	Credit enhancement for derivative transactions		7,000		7,000
Korea Securities Depository	Others		88,960		89,173
		₩	124,060	₩	124,521

7. Financial assets at FVTPL (cont'd)

Transferred financial assets derecognized not in their entirety as at December 31, 2016 and 2015 are as follows.

1) Bonds sold under repurchase agreements

Transferred bonds sold under repurchasable agreements with a condition to repurchase at a firm price derecognized not in their entirety as at December 31, 2016 and 2015 are as follow (Korean won in millions):

Classification	Type	December 31, 2016	December 31, 2015
Transferred assets	Held-for-trading financial assets	₩ 288,747	₩ 89,173
	HTM financial assets	-	69,949
		288,747	159,122
Related liabilities	Bonds sold under repurchase agreements	289,900	119,761

2) Securities for lending

When lending securities held by the Group, the ownership of the securities are transferred. However, securities should be returned upon the maturity of lending period. Therefore, the Group continuously recognizes the entire amount of transferred securities since most of the risks and awards associated with those securities remain with the Group.

The carrying amounts of lending securities for held-for-trading financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification		December 31, 2016	December 31, 2015	Remarks
Government and public bonds	Held-for-trading financial assets	₩ 23,124	₩ 10,075	The Korea Securities Finance Corporation

8. AFS and HTM financial assets

AFS and HTM financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
Classification	Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 493,211	₩ -	₩ 321,910	₩ 321,910
Non-marketable securities	-	214,089	-	160,515	160,515
Beneficiary certificates	-	1,511,520	-	1,493,973	1,493,973
Mutual funds	-	223,196	-	238,464	238,464
Foreign currency	-	166,651	-	136,134	136,134
Others	-	370,867	-	353,808	353,808
	-	2,979,534	-	2,704,804	2,704,804
Debt securities:					
Government and public bonds	2,990,000	3,010,301	3,007,956	2,997,126	2,997,126
Financial bonds	7,250,000	7,228,621	7,227,517	7,213,959	7,213,959
Public bonds	270,000	272,471	271,857	270,192	270,192
Corporate bonds	1,629,400	1,629,617	1,629,457	1,611,612	1,611,612
Foreign currency	571,741	535,342	531,507	575,064	575,064
Others	56	56	56	-	-
	12,711,197	12,676,408	12,668,350	12,667,953	12,667,953
Total AFS financial assets	12,711,197	15,655,942	12,668,350	15,372,757	15,372,757
HTM financial assets:					
Debt securities:					
Government and public bonds	1,821,059	1,792,092	1,791,575	1,791,575	1,825,636
Financial bonds	970,000	970,000	970,000	970,000	971,147
Public bonds	1,080,000	1,080,478	1,080,217	1,080,217	4,325,913
Corporate bonds	4,325,340	4,325,129	4,325,141	4,325,141	1,090,993
Others	9	9	9	9	9
Total HTM financial assets	8,196,408	8,167,708	8,166,942	8,166,942	8,213,698
	₩ 20,907,605	₩ 23,823,650	₩ 20,835,292	₩ 23,539,699	₩ 23,586,455

8. AFS and HTM financial assets (cont'd)

Classification	December 31, 2015 Par value	Acquisition cost	Amortized cost	Book value	Fair value
AFS financial assets:					
Equity securities:					
Marketable securities	₩ -	₩ 416,026	₩ -	₩ 268,735	₩ 268,735
Non-marketable securities	-	166,278	-	169,695	169,695
Beneficiary certificates	-	1,054,247	-	1,039,707	1,039,707
Mutual funds	-	217,280	-	225,764	225,764
Foreign currency	-	228,238	-	205,175	205,175
Others	-	514,125	-	506,624	506,624
	-	2,596,194	-	2,415,700	2,415,700
Debt securities:					
Government and public bonds	3,070,000	3,112,139	3,104,311	3,116,261	3,116,261
Financial bonds	3,863,500	3,860,670	3,859,170	3,869,479	3,869,479
Public bonds	2,562,200	2,563,514	2,562,762	2,556,032	2,556,032
Corporate bonds	750,000	751,763	750,599	760,246	760,246
Foreign currency	456,990	448,463	445,787	451,622	451,622
Others	56	56	56	-	-
	10,702,746	10,736,605	10,722,685	10,753,640	10,753,640
Total AFS financial assets	10,702,746	13,332,799	10,722,685	13,169,340	13,169,340
HTM financial assets:					
Debt securities:					
Government and public bonds	2,396,961	2,349,197	2,383,594	2,383,594	2,447,854
Financial bonds	940,000	939,329	939,323	939,323	953,719
Public bonds	1,150,000	1,150,041	1,150,177	1,150,177	1,182,656
Corporate bonds	2,642,600	2,642,303	2,642,571	2,642,571	2,674,167
Foreign currency	42,192	35,873	37,048	37,048	42,608
Others	10	10	10	10	10
Total HTM financial assets	7,171,763	7,116,753	7,152,723	7,152,723	7,301,014
	₩ 17,874,509	₩ 20,449,552	₩ 17,875,408	₩ 20,322,063	₩ 20,470,354

Details of AFS financial assets measured at acquisition costs as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Amount (*) December 31, 2016	December 31, 2015
Korea Asset Management Corporation	₩ 6,670	₩ 6,670
Green GunSan GiKiMi Co., Ltd.	1,287	1,287
Gangwon-Sejong Partnership Funds	630	-
Others	770	858
	₩ 9,357	₩ 8,815

(*) 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.

AFS financial assets that should be measured at fair value but could not reliably be measured increased by ₩2,630 million by acquisition and decreased by ₩2,088 million from disposal and impairment which totaled in a ₩542 increase in value.

8. AFS and HTM financial assets (cont'd)

Credit rating of debt securities based on qualified credit rating agencies in Korea as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016			
	Held-for-trading financial assets	AFS financial assets	HTM financial assets	Total
AAA	₩ 3,733,643	₩ 11,475,906	₩ 8,146,942	₩ 23,356,491
AA+ ~ AA-	2,025,504	1,048,374	20,000	3,093,878
A+ ~ BBB	25,048	143,673	-	168,721
Under BBB-	-	-	-	-
Less than BB+	-	-	-	-
	₩ 5,784,195	₩ 12,667,953	₩ 8,166,942	₩ 26,619,090

Classification	December 31, 2015			
	Held-for-trading financial assets	AFS financial assets	HTM financial assets	Total
AAA	₩ 3,637,685	₩ 9,556,175	₩ 7,032,721	₩ 20,226,581
AA+ ~ AA-	1,826,807	1,056,026	120,002	3,002,835
A+ ~ BBB	35,010	140,678	-	175,688
Under BBB-	-	-	-	-
Less than BB+	-	761	-	761
	₩ 5,499,502	₩ 10,753,640	₩ 7,152,723	₩ 23,405,865

Portfolio of AFS and HTM financial assets by industry as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	December 31, 2016	
	Book value	Ratio (%)
Government and government-sponsored institutions	₩ 15,361,400	65.26
Finance and insurance	7,136,779	30.32
Manufacturing	247,212	1.05
Others	794,308	3.37
	₩ 23,539,699	100.00

Classification	December 31, 2015	
	Book value	Ratio (%)
Government and government-sponsored institutions	₩ 12,718,506	48.99
Finance and insurance	4,539,093	29.13
Manufacturing	197,064	1.57
Others	2,867,400	20.31
	₩ 20,322,063	100.00

Portfolio of AFS and HTM financial assets by country as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	
	Book value	Ratio (%)
Korea	₩ 23,156,786	98.37
China	137,612	0.58
USA	8,801	0.04
Japan	120,109	0.51
Others	116,391	0.49
	₩ 23,539,699	100.00

8. AFS and HTM financial assets (cont'd)

Classification	December 31, 2015		
	Book value		Ratio (%)
Korea	₩	19,948,276	98.16
USA		147,499	0.73
Japan		30,211	0.15
Others		196,077	0.96
	₩	20,322,063	100.00

Details of AFS and HTM financial assets provided as collaterals as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Provided to	Remarks	December 31, 2016			
		Pledged amount		Book value of securities provided as collaterals	
Repo:					
Korea Securities Depository	Customer repurchase sale	₩	6,700	₩	6,700
Others:					
The Bank of Korea	Payment risk		2,043,900		2,040,760
The Bank of Korea	Daylight overdraft		522,900		522,567
The Bank of Korea	Borrowing		1,240,896		1,213,821
NH Investment & Futures Co., Ltd and 4 others	Substituted securities for derivative transaction		74,500		74,507
NH Capital Co., Ltd and 3 others	Others		59,545		58,456
		₩	3,948,441	₩	3,916,811

Provided to	Remarks	December 31, 2015			
		Pledged amount		Book value of securities provided as collaterals	
Repo:					
Korea Securities Depository	Customer repurchase sale	₩	20,000	₩	20,002
Nomura International plc	Interinstitution repurchase sale		50,000		49,947
Others:					
The Bank of Korea	Payment risk		1,970,000		1,971,776
The Bank of Korea	Daylight overdraft		510,000		495,274
The Bank of Korea	Borrowing		1,085,000		1,091,125
NH Investment & Futures Co., Ltd and 5 others	Substituted securities for derivative transaction		77,550		77,758
NH Capital Co., Ltd and 4 others	Others		165,440		164,716
		₩	3,877,990	₩	3,870,598

Structured securities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Interest rate-related structured securities:				
Spread accrual note	₩	-	₩	50,000
Credit risk-related structured securities:				
CLO		-		37,049
Callable bonds		3,925,164		2,419,530
	₩	3,925,164	₩	2,506,579

9. Loans and receivables

Loans and receivables as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Type	December 31, 2016	December 31, 2015
Loans in Korean won	Corporate	₩ 78,715,482	₩ 75,341,929
	Household	86,669,341	75,513,641
	Public	16,876,438	15,521,563
	Integrated	945,238	1,117,947
		183,206,499	167,495,080
	Allowance	(1,045,516)	(1,726,121)
	Book value, net	182,160,983	165,768,959
Loans in foreign currency	Loans	1,687,435	2,361,259
	Off-shore	65,480	69,698
		1,752,915	2,430,957
	Allowance	(89,573)	(119,607)
	Book value, net	1,663,342	2,311,350
Other loans	Credit card receivables	5,836,192	5,012,664
	Bills purchased	11,186	62,742
	Bills purchased in foreign currency	1,468,036	1,503,921
	Private placement bonds	83,153	87,997
	Payment for acceptances and guarantees	50,153	13,139
	Domestic import usance	1,971,655	2,202,965
	Others	8,852,751	4,335,851
		18,273,126	13,219,279
	Allowance	(315,801)	(246,538)
	Book value, net	17,957,325	12,972,741
Receivables	Receivables	5,693,765	5,484,197
	Allowance	(26,189)	(133,892)
	Book value, net	5,667,576	5,350,305
Total loans and receivables		208,926,305	188,629,513
Total allowance for losses on credit		(1,477,079)	(2,226,158)
Deferred LOF/LOC		308,019	280,818
Present-value discounts	Loans	(9,502)	(299)
	Receivables	(15,572)	(17,999)
Total loans and receivables, net		₩ 207,732,171	₩ 186,665,875

9.1 Classification of loans by industry, country and customer

Loans classified by industry as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
Industry	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Manufacturing	₩ 14,306,929	₩ 521,588	₩ 2,819,764	₩ 17,648,281	₩ (328,787)
Construction	3,435,092	12,879	139,007	3,586,978	(151,114)
Retail and wholesale	4,337,336	112,060	777,355	5,226,751	(159,880)
Finance and insurance	3,900,326	-	2,664,432	6,564,758	(17,091)
Member cooperatives	14,678,915	-	1,347,334	16,026,249	(21,906)
Others	142,547,901	1,106,389	10,525,233	154,179,523	(772,112)
	₩ 183,206,499	₩ 1,752,916	₩ 18,273,125	₩ 203,232,540	₩ (1,450,890)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

9. Loans and receivables (cont'd)

9.1 Classification of loans by industry, country and customer (cont'd)

Industry	December 31, 2015 Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Manufacturing	₩ 14,625,579	₩ 827,337	₩ 3,031,551	₩ 18,484,467	₩ (986,098)
Construction	3,779,742	17,608	100,385	3,897,735	(164,245)
Retail and wholesale	4,033,640	87,340	730,325	4,851,305	(58,675)
Finance and insurance	3,328,776	-	348,285	3,677,061	(27,692)
Member cooperatives	14,247,849	-	1,213,689	15,461,538	(25,358)
Others	127,479,494	1,498,672	7,795,044	136,773,210	(830,198)
	₩ 167,495,080	₩ 2,430,957	₩ 13,219,279	₩ 183,145,316	₩ (2,092,266)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

Loans classified by country as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Country	December 31, 2016 Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Korea	₩ 183,206,499	₩ 1,193,365	₩ 14,093,548	₩ 198,493,412	₩ (1,286,844)
China	-	25,379	566,282	591,661	(60,911)
Japan	-	-	245,213	245,213	(8,802)
USA	-	53,119	1,012,023	1,065,142	(13,989)
Indonesia	-	62,018	58,741	120,759	(11,402)
Hong Kong	-	28,816	366,137	394,953	(751)
Panama	-	155,488	3,135	158,623	(2,831)
Singapore	-	-	216,826	216,826	(108)
Others	-	234,731	1,711,220	1,945,951	(65,252)
	₩ 183,206,499	₩ 1,752,916	₩ 18,273,125	₩ 203,232,540	₩ (1,450,890)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

Country	December 31, 2015 Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Korea	₩ 167,495,080	₩ 1,883,695	₩ 8,898,080	₩ 178,276,855	₩ (1,917,126)
China	-	29,300	711,427	740,727	(24,145)
Japan	-	-	294,317	294,317	(10,547)
USA	-	114,559	543,047	657,606	(21,654)
Indonesia	-	68,449	111,675	180,124	(5,427)
Hong Kong	-	28,342	393,152	421,494	(24,705)
Panama	-	170,270	4,093	174,363	(3,518)
Singapore	-	-	61,187	61,187	(1,791)
Others	-	136,342	2,202,301	2,338,643	(83,353)
	₩ 167,495,080	₩ 2,430,957	₩ 13,219,279	₩ 183,145,316	₩ (2,092,266)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

9. Loans and receivables (cont'd)

9.1 Classification of loans by industry, country and customer (cont'd)

Loans classified by customer as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
Customer	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Household	₩ 76,408,724	₩ 8,173	₩ 2,983,027	₩ 79,399,924	₩ (235,654)
Individual business	40,358,985	102,970	1,004,794	41,466,749	(120,178)
Corporate	33,819,560	1,637,116	3,932,775	39,389,451	(1,059,847)
Member cooperatives	14,678,915	-	1,347,334	16,026,249	(21,906)
Financial institution	1,629,594	-	2,631,293	4,260,887	(10,173)
Government and others	16,310,721	4,657	6,373,902	22,689,280	(3,132)
	₩ 183,206,499	₩ 1,752,916	₩ 18,273,125	₩ 203,232,540	₩ (1,450,890)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

	December 31, 2015				
Customer	Loans in Korean won (*1)	Loans in foreign currency (*1)	Others (*1 and *2)	Total	Allowance (*1)
Household	₩ 67,363,711	₩ 7,502	₩ 2,472,838	₩ 69,844,051	₩ (235,049)
Individual business	35,200,012	107,530	859,821	36,167,363	(125,686)
Corporate	33,839,153	2,311,559	4,182,180	40,332,892	(1,700,413)
Member cooperatives	14,247,849	-	1,213,689	15,461,538	(25,358)
Financial institution	1,854,577	-	1,769,730	3,624,307	(2,781)
Government and others	14,989,778	4,366	2,721,021	17,715,165	(2,979)
	₩ 167,495,080	₩ 2,430,957	₩ 13,219,279	₩ 183,145,316	₩ (2,092,266)

(*1) Deferred LOF/LOC is not included.
(*2) Receivables are not included.

9.2 Percentage of allowance for losses on credit of loans and receivables

As at December 31, 2016 and 2015, 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):

Classification	December 31, 2016	December 31, 2015
Total amount of loans and receivables (*)	₩ 209,234,324	₩ 188,910,331
Allowance for losses on credit	1,477,079	2,226,158
Ratio (%)	0.71	1.18

(*) Receivables and deferred LOF/LOC are included in total amounts of loans and receivables.

9. Loans and receivables (cont'd)

9.3 Classification of loans by credit rating

Details of impaired loans as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7	107,028	-	-	107,028	(19,160)
Rating 8	31,213	-	-	31,213	(14,578)
Rating 9–10	2,132,902	-	-	2,132,902	(731,834)
	2,271,143	-	-	2,271,143	(765,572)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	-	-	-	-
Rating 9–10	178,644	438,263	241	617,148	(193,667)
	178,644	438,263	241	617,148	(193,667)
	₩ 2,449,787	₩ 438,263	₩ 241	₩ 2,888,291	₩ (959,239)

(*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, 2015				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
By individual assessment:					
Rating 1–6	₩ -	₩ -	₩ -	₩ -	₩ -
Rating 7	47,561	-	-	47,561	(15,580)
Rating 8	56,417	-	-	56,417	(1,252)
Rating 9–10	2,813,165	-	18,300	2,831,465	(1,154,556)
	2,917,143	-	18,300	2,935,443	(1,171,388)
By collective assessment:					
Rating 1–6	-	-	-	-	-
Rating 7	-	-	-	-	-
Rating 8	-	6	-	6	-
Rating 9–10	138,868	475,011	129	614,008	(191,322)
	138,868	475,017	129	614,014	(191,322)
	₩ 3,056,011	₩ 475,017	₩ 18,429	₩ 3,549,457	₩ (1,362,710)

(*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 Group defines the objective evidence of impairment as follows; Significant financial difficulty of obligor, nonfulfillment of obligation, bankruptcy, financial restructuring, etc.

9. Loans and receivables (cont'd)

9.3 Classification of loans by credit rating (cont'd)

Details of loans, neither overdue nor impaired, as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 45,346,714	₩ 100,454,214	₩ 33,786,117	₩ 179,587,045	₩ (331,637)
Rating 7	1,470,605	733,463	6	2,204,074	(93,709)
Rating 8	18,627	-	-	18,627	(2,445)
Rating 9–10	-	-	-	-	-
Unrated (*3)	6,106,528	10,422,721	900,144	17,429,393	(17,618)
	₩ 52,942,474	₩ 111,610,398	₩ 34,686,267	₩ 199,239,139	₩ (445,409)

(*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 of 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.

Classification	December 31, 2015				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 45,012,421	₩ 89,399,782	₩ 32,302,492	₩ 166,714,695	₩ (496,232)
Rating 7	1,389,115	781,600	7	2,170,722	(122,912)
Rating 8	274,436	-	-	274,436	(47,342)
Rating 9–10	-	-	-	-	-
Unrated (*3)	99,521	7,348,704	2,221,142	9,669,367	(22,211)
	₩ 46,775,493	₩ 97,530,086	₩ 34,523,641	₩ 178,829,220	₩ (688,697)

(*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 of 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 December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016				
	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 88,747	₩ 121,830	₩ 59,056	₩ 269,633	₩ (1,232)
Rating 7	79,474	566,234	-	645,708	(20,118)
Rating 8	21,243	74,193	-	95,436	(20,257)
Rating 9–10	-	-	-	-	-
Unrated (*3)	117	94,202	14	94,333	(4,635)
	₩ 189,581	₩ 856,459	₩ 59,070	₩ 1,105,110	₩ (46,242)

(*1) These amounts of loans and total allowance for losses on credit have not reflected in deferred LOF/LOC.
(*2) Receivables are not included in others.
(*3) Loans made without credit evaluation of 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.

9. Loans and receivables (cont'd)

9.3 Classification of loans by credit rating (cont'd)

	December 31, 2015				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowances (*1)
Rating 1–6	₩ 53,610	₩ 124,041	₩ 2,174	₩ 179,825	₩ (5,261)
Rating 7	62,052	376,350	-	438,402	(15,625)
Rating 8	13,248	65,085	-	78,333	(15,871)
Rating 9–10	-	-	-	-	-
Unrated (*3)	29	69,996	54	70,079	(4,102)
	₩ 128,939	₩ 635,472	₩ 2,228	₩ 766,639	₩ (40,859)

(*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 of 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 December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 124,629	₩ 746,842	₩ 59,070	₩ 930,541	₩ (23,672)
More than 30 days and less than 60 days	50,727	72,346	-	123,073	(13,451)
More than 60 days and less than 90 days	14,225	37,271	-	51,496	(9,119)
	₩ 189,581	₩ 856,459	₩ 59,070	₩ 1,105,110	₩ (46,242)

(*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, 2015				
Classification	Corporate (*1)	Retail (*1)	Others (*1 and *2)	Total	Allowance (*1)
Less than 30 days	₩ 87,560	₩ 542,932	₩ 2,228	₩ 632,720	₩ (23,222)
More than 30 days and less than 60 days	28,169	65,797	-	93,966	(11,246)
More than 60 days and less than 90 days	13,210	26,743	-	39,953	(6,391)
	₩ 128,939	₩ 635,472	₩ 2,228	₩ 766,639	₩ (40,859)

(*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.

9.4 Financial impact of collateral on loans

The extent of reducing credit risk due to collateral and other credit enhancement as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Loans	₩ 2,273,215	₩ 2,168,849
Receivables	50,762	51,844
Acceptances and guarantees	22,251	7,512
Loans and credit commitment	12,222	14,470
	₩ 2,404,840	₩ 2,242,675

9. Loans and receivables (cont'd)

9.5 Assets acquired by exercising security rights

Details of assets acquired by exercising security rights as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Property and equipment (*)	₩	15	₩	15

(*) They are presented as non-current assets classified as held for sale in the consolidated statements of financial position

9.6 Restructured loans

Details of restructured loans as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
Classification	Loans		Allowances	
Reorganization and composition	₩	412,564	₩	(124,394)
Work-out		1,466,502		(448,211)
	₩	1,879,066	₩	(572,605)

	December 31, 2015			
Classification	Loans		Allowances	
Reorganization and composition	₩	8,988	₩	(1,121)
Work-out		2,790,674		(995,242)
	₩	2,799,662	₩	(996,363)

9.7 Receivables

Details of receivables as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Domestic exchange settlement debits	₩	2,082,430	₩	459,087
Accrued income		618,232		678,327
Accounts receivable		1,371,586		3,028,643
Suspense payment		13,313		21,540
Guarantee deposits paid		513,579		516,356
Unsettled credit card receivables		119,910		82,840
Intercompany receivables		954,795		688,756
Receivables from proxy sale of NACF		2,067		2,862
Others		17,853		5,786
Total receivables		5,693,765		5,484,197
Allowance for losses on credit		(26,189)		(133,892)
Present value discounts		(15,572)		(17,999)
Total of receivables, net	₩	5,652,004	₩	5,332,306

9. Loans and receivables (cont'd)

9.8 Changes in deferred LOF/LOC

Changes in deferred LOF/LOC for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016			
Classification	January 1, 2016	Increase	Decrease	December 31, 2016
Deferred LOF	₩ (12,723)	₩ (9,247)	₩ (7,777)	₩ (14,193)
Deferred LOC	293,541	240,742	212,071	322,212
Deferred LOC, net	₩ 280,818	₩ 231,495	₩ 204,294	₩ 308,019

	For the year ended December 31, 2015			
Classification	January 1, 2015	Increase	Decrease	December 31, 2015
Deferred LOF	₩ (16,185)	₩ (8,230)	₩ (11,692)	₩ (12,723)
Deferred LOC	250,873	249,677	207,009	293,541
Deferred LOC, net	₩ 234,688	₩ 241,447	₩ 195,317	₩ 280,818

9.9 Changes in allowance for losses on credit

Changes in allowance for losses on credit for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	2016	2015
Beginning balance	₩ 2,226,158	₩ 1,872,499
Provision of allowance for losses on credit	1,556,414	1,281,311
Transactions during the period	(2,181,230)	(818,079)
Foreign exchange translation	(1,520)	6,588
Unwinding effect	(105,411)	(85,715)
Debt-equity swap	(20,066)	(28,123)
Others	2,734	(2,323)
	(749,079)	353,659
Ending balance	₩ 1,477,079	₩ 2,226,158

10. Investment in associates

Details of investments in associates as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016					
	Main business	Using financial statement date	Location	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	December 31, 2016	Korea	180	9.00	₩ 6,683
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	December 31, 2016	Korea	600	9.98	3,220
NH Agri-Best 1st Private Equity Fund (*2)	Other financial business	December 31, 2016	Korea	6	70.29	1,869
NH - KOLON Green 1st Private Equity Fund (*2)	Other financial business	December 31, 2016	Korea	1	57.50	1,104
NHQCP SME Global Investment Partnership Private Equity Fund (*2)	Other financial business	December 31, 2016	Korea	26,571,750	24.95	37,248
IBK-NH Small Giant Private Equity Fund (*2 and *3)	Other financial business	December 31, 2016	Korea	1	44.90	-
NH-AJUIB Growth 2013 Private Equity Fund (*2)	Other financial business	December 31, 2016	Korea	31,987,199	29.95	37,670
Kyunggi-DSC Superman Investment Fund No. 1 (*4)	Other financial business	December 31, 2016	Korea	5	25.00	4,828
Resom Resort Co., Ltd. (*5)	Membership resort business	December 31, 2016	Korea	202	67.18	-
NH Agri-Biz Value Creative 1st Private Equity Fund (*2)	Other financial business	December 31, 2016	Korea	1,924,870	48.12	1,469
						₩ 94,091

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.

(*2) It was excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.

(*3) The unrecognized share of losses of IBK-NH Small Giant Private Equity Fund Co., Ltd., as the Group stopped applying the equity method amount to ₩224 million. And the accumulated unrecognized share of IBK-NH Small Giant Private Equity Fund Co., Ltd. is ₩562 million.

(*4) The Bank transferred it from investments in capital to investments in associates as at January 1, 2016.

(*5) Due to debt-equity swap executed during the year ended December 31, 2016, Resom Resort Co., Ltd. was included in investments in associates. Considering the related regulations and general matters related to the company, it was excluded from the consolidation scope since the council of creditor financial institutions has agreed to put the company under business continuity plan. Also, it was concluded that the Bank has restricted rights as a shareholder and does not have controlling power. The unrecognized changes in equity and the accumulated unrecognized share of losses as the Group stopped applying the equity method amount to ₩75,993 million.

10. Investment in associates (cont'd)

	December 31, 2015					
	Main business	Using financial statement date	Location	Number of shares (Unit: in thousands)	Percentage of ownership (%)	Book value
Korea Credit Bureaus Co., Ltd. (*1)	Credit investigation and collection agency	December 31, 2015	Korea	180	9.00	₩ 6,410
Nanumlotto Co., Ltd. (*1)	Issuance and sale of lottery tickets	December 31, 2015	Korea	600	9.98	3,181
NH Agri-Best 1st Private Equity Fund (*2)	Other financial business	December 31, 2015	Korea	6	70.29	1,842
NH -KOLON Green 1st Private Equity Fund (*2)	Other financial business	December 31, 2015	Korea	2	57.50	201
NH SG PEF No.2 (*2 and *3)	Other financial business	December 31, 2015	Korea	1,977,778	29.47	9,583
STX Offshore & Shipbuilding Co., Ltd. (*4 and *5)	Ship manufacturing business	December 31, 2015	Korea	174,906	22.60	-
NHQCP SME Global Investment Partnership Private Equity Fund (*2 and *3)	Other financial business	December 31, 2015	Korea	16,591,750	24.95	17,361
IBK-NH Small Giant Private Equity Fund (*2,3 and*4)	Other financial business	December 31, 2015	Korea	1	44.90	-
NH-AJUIB Growth 2013 Private Equity Fund (*2 and *3)	Other financial business	December 31, 2015	Korea	32,735,949	29.95	36,578
						₩ 75,156

(*1) Although the Group has less than 20% ownership, it has significant influence over the investee through designation of seniors like directors.
(*2) It was excluded from subsidiaries since the Group has no control due to multiple general partners, including the Group.
(*3) The Group transferred a part of the stock to NH Investment & Securities Co., Ltd. as at December 31, 2015.
(*4) The unrecognized changes in equity of STX Offshore & Shipbuilding and IBK-NH Small Giant Private Equity Fund Co., Ltd, as the Group stopped applying the equity method, amount to ₩ 222,388 million and ₩225 million, respectively. And the accumulated unrecognized share of losses amount of STX Offshore & Shipbuilding and IBK-NH Small Giant Private Equity Fund Co., Ltd are ₩ 333,894 million and ₩338 million, respectively.

10. Investment in associates (cont'd)

Changes in investment in associates for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016						
	Beginning	Acquisition	Transfer from (to) other account and Disposal	Dividend	Gain(loss) on valuation of equity method investments	Share of other comprehensive gain (loss) of associates	Ending
Korea Credit Bureaus Co., Ltd.	₩ 6,410	₩ 12	₩ -	₩ (135)	₩ 396	₩ -	₩ 6,683
Nanumlotto Co., Ltd.	3,181	-	-	(120)	117	42	3,220
NH Agri-Best 1st PEF	1,842	-	-	-	27	-	1,869
NH - KOLON Green 1st PEF	201	-	(1,725)	-	989	1,639	1,104
NHQCP SME Global investment Partnership PEF	17,361	9,980	-	(374)	10,645	(364)	37,248
NH SG PEF No.2(*1)	9,583	-	(3,624)	(54)	1,728	(7,633)	-
NH-AJUIB Growth 2013 PEF	36,578	10,632	(11,381)	(13,178)	14,722	297	37,670
Kyunggi-DSC Superman Investment Fund No. 1	-	2,000	3,000	-	(172)	-	4,828
NH Agri-Biz Value Creative 1st Private Equity Fund	-	1,925	-	-	(200)	(256)	1,469
	₩ 75,156	₩ 24,549	₩ (13,730)	₩ (13,861)	₩ 28,252	₩ (6,275)	₩ 94,091

(*1) NH SG PEF No.2 has been liquidated for the year ended December 31, 2016.

	For the year ended December 31, 2015						
	Beginning	Acquisition	Transfer from (to) other account and Disposal	Dividend	Gain(loss) on valuation of equity method investments	Share of other comprehensive gain (loss) of associates	Ending
Korea Credit Bureaus Co., Ltd.	₩ 6,052	₩ -	₩ -	₩ -	₩ 259	₩ 99	₩ 6,410
Nanumlotto Co., Ltd.	3,025	-	-	-	246	(90)	3,181
NH Agri-Best 1st PEF	1,809	-	(861)	-	894	-	1,842
NH - KOLON Green 1st PEF	231	-	-	-	(30)	-	201
NH SG PEF No.2	9,335	-	(7,022)	(11,236)	11,354	7,153	9,584
STX offshore & Shipbuilding Co., Ltd	-	-	-	-	-	-	-
NHQCP SME Global investment Partnership PEF	16,523	-	(34)	-	570	302	17,361
NH-Glenwood I PEF	29,711	-	(30,732)	-	733	288	-
NH-AJUIB Growth 2013 PEF	25,430	9,240	(60)	-	1,518	449	36,577
	₩ 92,116	₩ 9,240	₩ (38,709)	₩ (11,236)	₩ 15,544	₩ 8,201	₩ 75,156

10. Investment in associates (cont'd)

Summary of financial information of associates as at December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016					
	Assets	Liability	Equity	Operating income	Net income (loss)	Total comprehensive Income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 71,245	₩ 17,322	₩ 53,923	₩59,868	₩ 4,401	₩ 4,401
Nanumlotto Co., Ltd.	49,299	18,694	30,605	54,456	1,170	1,593
NH Agri-Best 1st PEF	3,146	487	2,659	43	41	41
NH - KOLON Green 1st PEF	1,919	-	1,919	2,504	1,719	4,569
NHQCP SME Global investment Partnership PEF	77,523	234	77,289	43,921	42,664	41,205
IBK-NH Small Giant PEF	1	1,253	(1,252)	-	(500)	(500)
NH-AJUIB Growth 2013 PEF	136,285	10,509	125,776	56,911	49,155	50,144
Kyunggi-DSC Superman Investment Fund No. 1	19,447	135	19,312	19	(496)	(512)
Resom Resort Co., Ltd	288,281	401,400	(113,119)	31,272	(2,689)	(2,689)
NH Agri-Biz Value Creative 1st Private Equity Fund	3,178	126	3,052	22	(414)	(948)

	December 31, 2015					
	Assets	Liability	Equity	Operating income	Net income (loss)	Total comprehensive Income (loss)
Korea Credit Bureaus Co., Ltd.	₩ 63,960	₩ 13,076	₩ 50,884	₩ 53,184	₩ 2,875	₩ 2,875
Nanumlotto Co., Ltd.	50,103	19,888	30,215	51,074	2,456	2,456
NH Agri-Best 1st PEF	3,106	487	2,619	1,276	1,272	1,272
NH - KOLON Green 1st PEF	350	-	350	5	(50)	(50)
NH SG PEF No.2	32,520	1	32,519	38,337	38,102	62,383
STX offshore & shipbuilding Co., Ltd (*1)	4,504,935	7,221,812	(2,716,877)	(210,771)	(1,165,518)	(1,148,463)
NHQCP SME Global investment Partnership PEF	69,793	209	69,584	66,500	2,278	3,492
IBK-NH Small Giant PEF	-	752	(752)	-	(500)	(500)
NH-Glenwood I PEF	251,958	112	251,846	7,705	6,134	19,951
NH-AJUIB Growth 2013 PEF	122,667	536	122,131	11,555	5,064	6,565

(*1) Gains on exemption of debt caused by debt-equity swap are excluded in the summary of financial information.

Reconciliation of the financial information presented to the carrying amount of its interest in the associates as at December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016					
	Equity	Percentage of ownership (%)	Interest in associates	Goodwill	Others	Book value
Korea Credit Bureaus Co., Ltd.	₩ 53,923	9.00	₩ 4,853	₩ 1,830	₩ -	₩ 6,683
Nanumlotto Co., Ltd.	30,605	9.98	3,053	167	-	3,220
NH Agri-Best 1st PEF	2,659	70.29	1,869	-	-	1,869
NH - KOLON Green 1st PEF	1,919	57.50	1,104	-	-	1,104
NHQCP SME Global Investment Partnership PEF(*1)	77,289	24.95	37,248	-	-	37,248
IBK-NH Small Giant PEF	(1,252)	44.90	(562)	-	562	-
NH-AJUIB Growth 2013 PEF	125,776	29.95	37,670	-	-	37,670
Kyunggi-DSC Superman Investment Fund No. 1	19,312	25.00	4,828	-	-	4,828
Resom Resort Co., Ltd.	(113,119)	67.18	(75,993)	-	75,993	-
NH Agri-Biz Value Creative 1st Private Equity Fund	3,052	48.12	1,469	-	-	1,469

(*1) Group applied the equity method in consideration of the ownership percentage of type 1 capital and type 2 capital.

10. Investment in associates (cont'd)

	December 31, 2015					
	Equity	Percentage of ownership (%)	Interest in associates	Goodwill	Others	Book value
Korea Credit Bureaus Co., Ltd.	₩ 50,884	9.00	₩ 4,580	₩1,830	₩ -	₩ 6,410
Nanumlotto Co., Ltd.	30,215	9.98	3,014	167	-	3,181
NH Agri-Best 1st PEF	2,619	70.29	1,842	-	-	1,842
NH - KOLON Green 1st PEF	350	57.50	201	-	-	201
NH SG PEF No.2	32,519	29.47	9,584	-	-	9,584
STX offshore & shipbuilding Co., Ltd (*1)	(2,685,571)	22.60	(606,939)	-	606,939	-
NHQCP SME Global Investment Partnership PEF	69,584	24.95	17,361	-	-	17,361
IBK-NH Small Giant PEF	(752)	44.90	(338)	-	338	-
NH-AJUIB Growth 2013 PEF	122,131	29.95	36,577	-	-	36,577

(*1) Non-controlling interests is excluded from equity.

11. Tangible assets

Details of tangible assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Subsidy	Book value
Land	₩ 1,429,835	₩ -	₩ -	₩ 1,429,835
Buildings	952,938	(128,557)	(184)	824,197
Leasehold improvements	237,139	(192,197)	(627)	44,315
Movable properties	857,864	(562,665)	(227)	294,972
Construction in progress	40,596	-	-	40,596
	₩ 3,518,372	₩ (883,419)	₩ (1,038)	₩ 2,633,915

Classification	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Subsidy	Book value
Land	₩ 1,487,574	₩ -	₩ -	₩ 1,487,574
Buildings	748,307	(101,642)	(190)	646,475
Leasehold improvements	230,841	(181,993)	(18)	48,830
Movable properties	685,776	(504,043)	(14)	181,719
Construction in progress	285,299	-	-	285,299
	₩ 3,437,797	₩ (787,678)	₩ (222)	₩ 2,649,897

Changes in acquisition cost of tangible assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016						
	January 1, 2016	Acquisition	Disposal	Depreciation	Transfer (*)	Others	December 31, 2016
Land	₩ 1,487,574	₩ 6,689	₩ (3,656)	₩ -	₩ (60,772)	₩ -	₩ 1,429,835
Buildings	646,665	29,464	(4,717)	(28,971)	181,940	-	824,381
Leasehold improvements	48,848	18,609	(381)	(22,321)	190	(4)	44,941
Movable properties	181,733	135,352	(373)	(105,191)	83,769	(91)	295,199
Construction in progress	285,299	86,625	(2,663)	-	(328,664)	-	40,597
Subsidy	(222)	(854)	-	38	-	-	(1,038)
	₩ 2,649,897	₩ 275,885	₩ (11,790)	₩ (156,445)	₩ (123,537)	₩ (95)	₩ 2,633,915

(*) ₩113,217 million of tangible assets were transferred from investment properties due to changes in ratio of leased area of land and building. ₩2,652 million and ₩231,733 million and ₩190 million and ₩83,769 million and ₩10,320 million of construction in progress were transferred to land for business purpose, buildings for business purpose, leasehold improvements, movable properties for business purpose and investment properties, respectively.

11. Tangible assets (cont'd)

Classification	January 1, 2015	Acquisition	Disposal	Depreciation	Transfer (*)	Others	December 31, 2015
	For the year ended December 31, 2015						
Land	₩ 1,564,178	₩ 19,948	₩ (31,357)	₩ -	₩ (65,195)	₩ -	₩ 1,487,574
Buildings	621,425	58,176	(7,581)	(25,015)	(340)	-	646,665
Leasehold improvements	51,775	18,632	(639)	(21,859)	-	939	48,848
Movable properties	196,658	71,018	(504)	(85,454)	-	15	181,733
Construction in progress	45,533	252,270	-	-	(12,495)	(9)	285,299
Subsidy	(253)	(20)	-	51	-	-	(222)
	₩ 2,479,316	₩ 420,024	₩ (40,081)	₩ (132,277)	₩ (78,030)	₩ 945	₩ 2,649,897

(*) ₩78,030 million of tangible assets were transferred to investment properties due to changes in ratio of leased area of land and building ₩8,751 million and ₩3,744 million of construction in progress were transferred to buildings for business purpose and land for business purpose, respectively.

12. Investment property and non-current assets classified as AFS

Fair values of investment properties amount to ₩739,932 million and ₩581,109 million as at December 31, 2016 and 2015 respectively. Fair values are measured based on valuation results performed by independent professionals. Rental income from investment properties for the years ended December 31, 2016 and 2015 amounts to ₩18,978 million and ₩15,427 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.

Details of investment properties as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Acquisition cost	Accumulated depreciation	Book value
	December 31, 2016		
Land	₩ 487,489	₩ -	₩ 487,489
Buildings	180,826	(20,567)	160,259
	₩ 668,315	₩ (20,567)	₩ 647,748

Classification	Acquisition cost	Accumulated depreciation	Book value
	December 31, 2015		
Land	₩ 424,124	₩ -	₩ 424,124
Buildings	115,607	(14,554)	101,053
	₩ 539,731	₩ (14,554)	₩ 525,177

12. Investment property and non-current assets classified as AFS (cont'd)

Changes in investment properties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016					
	January 1, 2016	Acquisition	Disposal	Depreciation	Transfer (*)	December 31, 2016
Land	₩ 424,124	₩ -	₩ (61)	₩ -	₩ 63,426	₩ 487,489
Buildings	101,053	3,767	-	(4,672)	60,111	160,259
	₩ 525,177	₩ 3,767	₩ (61)	₩ (4,672)	₩ 123,537	₩ 647,748

(*) ₩113,217 million were transferred from tangible assets due to changes in ratio of leased area of land and buildings. ₩10,320 million were transferred from construction in progress.

Classification	For the year ended December 31, 2015					
	January 1, 2015	Acquisition	Disposal	Depreciation	Transfer (*)	December 31, 2015
Land	₩ 354,126	₩ 2,671	₩ (1,612)	₩ -	₩ 68,939	₩ 424,124
Buildings	90,031	6,462	(820)	(3,711)	9,091	101,053
	₩ 444,157	₩ 9,133	₩ (2,432)	₩ (3,711)	₩ 78,030	₩ 525,177

(*) ₩78,030 million were transferred to tangible assets due to changes in ratio of leased area of land and buildings.

At the end of reporting period, the book value of assets held for sale is ₩15 million, and there have been no changes for the years ended December 31, 2016 and 2015.

13. Intangible assets

Details of intangible assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Development cost	₩ 290,399	₩ (169,265)	₩ -	₩ 121,134
Other intangible assets	589,325	(395,272)	(4,083)	189,970
	₩ 879,724	₩ (564,537)	₩ (4,083)	₩ 311,104

Classification	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Development cost	₩ 250,084	₩ (133,802)	₩ -	₩ 116,282
Other intangible assets	526,300	(314,020)	(1,098)	211,182
	₩ 776,384	₩ (447,822)	₩ (1,098)	₩ 327,464

Changes in book value of intangible assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016					
	January 1, 2016	Acquisition	Disposal	Amortization	Impairment loss	December 31, 2016
Development cost	₩ 116,282	₩ 40,315	₩ -	₩ (35,463)	₩ -	₩ 121,134
Other intangible assets	211,182	65,974	(2,948)	(81,253)	(2,985)	189,970
	₩ 327,464	₩ 106,289	₩ (2,948)	₩ (116,716)	₩ (2,985)	₩ 311,104

Classification	For the year ended December 31, 2015					
	January 1, 2015	Acquisition	Disposal	Amortization	Other	December 31, 2015
Development cost	₩ 98,666	₩ 55,902	₩ (1,665)	₩ (33,065)	₩ (3,556)	₩ 116,282
Other intangible assets	200,717	90,495	(1,074)	(78,956)	-	211,182
	₩ 299,383	₩ 146,397	₩ (2,739)	₩ (112,021)	₩ (3,556)	₩ 327,464

14. Other assets

Details of other assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Prepaid expenses	₩ 51,751	₩ 51,233
Supplies	3,096	4,132
Guarantee deposits paid	6,323	6,944
Suspense payment	3,799	952
Guarantees	181	185
Telephone and telex rights	1,414	1,462
Others	8,639	2,242
	₩ 75,203	₩ 67,150

15. Financial liabilities

Details of financial liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	
	Book value	Fair value
Financial liabilities at FVTPL:		
Trading derivative liabilities	₩ 607,507	₩ 607,507
Derivative liabilities:		
Hedging derivative liabilities	26,247	26,247
Financial liabilities measured at amortized cost:		
Deposits (*2)	194,212,330	195,161,638
Borrowings (*2)	12,185,991	12,184,443
Debentures (*2)	18,717,527	18,984,692
Others (*1 and *3)	9,996,525	9,091,918
	235,112,373	235,422,691
	₩ 235,746,127	₩ 236,056,445

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in 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, 2015	
	Book value	Fair value
Financial liabilities at FVTPL:		
Trading derivative liabilities	₩ 616,752	₩ 616,752
Derivative liabilities:		
Hedging derivative liabilities	3,656	3,656
Financial liabilities measured at amortized cost:		
Deposits (*2)	178,583,501	176,713,942
Borrowings (*2)	14,080,620	14,076,296
Debentures (*2)	12,200,984	12,543,686
Others (*1 and *3)	11,324,150	10,150,864
	216,189,255	213,484,788
	₩ 216,809,663	₩ 214,105,196

(*1) Others consist of domestic exchange settlement credits, trust account liabilities, guarantee deposits received, etc.
(*2) Interest payables among financial liabilities are included in 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.

15. Financial liabilities (cont'd)

Details of financial liabilities by category as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
Classification	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Trading derivative liabilities	Total
Trading derivative liabilities	₩ -	₩ -	₩ 607,507	₩ 607,507
Hedging derivative liabilities	-	26,247	-	26,247
Deposits	194,212,330	-	-	194,212,330
Borrowings	12,185,991	-	-	12,185,991
Debentures	18,717,527	-	-	18,717,527
Other financial liabilities	9,996,525	-	-	9,996,525
	₩ 235,112,373	₩ 26,247	₩ 607,507	₩ 235,746,127

	December 31, 2015			
Classification	Financial liabilities measured at amortized cost	Hedging derivative liabilities	Trading derivative liabilities	Total
Trading derivative liabilities	₩ -	₩ -	₩ 616,752	₩ 616,752
Hedging derivative liabilities	-	3,656	-	3,656
Deposits	178,583,501	-	-	178,583,501
Borrowings	14,080,620	-	-	14,080,620
Debentures	12,200,984	-	-	12,200,984
Other financial liabilities	11,324,150	-	-	11,324,150
	₩ 216,189,255	₩ 3,656	₩ 616,752	₩ 216,809,663

There are no financial liabilities designated at FVTPL as at December 31, 2016 and 2015.

16. Deposits

Details of deposits as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	Classification	December 31, 2016	December 31, 2015
Demand deposits:			
In Korean won	Checking accounts	₩ 107,476	₩ 95,515
	Household checking accounts	164,764	149,140
	Ordinary deposits	16,950,826	14,628,696
	Special deposits	1,886,740	1,823,318
	Official deposits	14,305,549	12,518,929
	Treasury deposits	41,537	40,089
	Other deposits	28,803	29,646
		33,485,695	29,285,333
In foreign currency	Checking accounts	312	2,013
	Ordinary deposits	1,380,658	1,285,595
	Special deposits	175	218
		1,381,145	1,287,826
		34,866,840	30,573,159
Time deposits:			
Saving deposits in Korean won	Fixed deposits	61,574,732	62,552,900
	Installment savings	1,974,606	2,249,842
	Raising lump sum of savings	1	1
	Saving deposits	32,903,588	28,673,586
	Corporate-free saving deposits	10,937,337	10,902,810
	Long-term deposits for workers	40	41
	Long-term deposits for housing	206,557	437,533
	Household long-term deposits	105	107
	Workers' preferred savings	86	89
	House application deposits	202,723	205,760
	Other saving deposits	45,466,227	34,330,641
		153,266,002	139,353,310
Saving deposits in foreign currency	Fixed deposits	522,412	660,930
	Deposits at call	1,462	1,507
	Other saving deposits	111,824	85,637
		635,698	748,074
Installment deposits	Mutual installment savings	4,123,087	4,641,936
	New house-free installment	39,109	30,582
	Free installment deposits	69	74
	House application installments	26,452	29,569
		4,188,717	4,702,161
		158,090,417	144,803,545
Certificates of deposit		1,255,073	3,206,797
		₩ 194,212,330	₩ 178,583,501

17. Borrowings

Details of borrowings as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Provider	Interest rate (%)	December 31, 2016	December 31, 2015
Borrowings in Korean won	The Bank of Korea	0.50~0.75	₩ 1,190,504	₩ 1,008,703
	Public sector	(-)1.25~5.15	5,806,541	6,092,708
	Others	0.00~2.90	1,557,280	1,310,714
			8,554,325	8,412,125
Borrowings in foreign currency	Borrowings from banks	0.49~3.79	2,188,534	2,945,113
	Borrowings from government	0.81~1.48	48,340	256,641
			2,236,874	3,201,754
Call money		1.08~1.23	1,097,400	2,333,900
Bonds sold under repurchase agreements		1.42~1.60	289,900	119,761
Bills sold		0.25~1.50	7,492	13,080
			₩ 12,185,991	₩ 14,080,620

18. Debentures

Details of debentures as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Interest rate (%)	December 31, 2016	December 31, 2015
Debentures in Korean won:			
General agricultural financial bonds	1.31~3.77	₩ 11,910,000	₩ 5,950,000
Subordinated agricultural financial bonds	2.52~4.61	3,800,000	3,200,000
Present value discounts	-	(23,645)	(23,354)
		15,686,355	9,126,646
Debentures in foreign currency:			
General agricultural financial bonds	0.50~3.50	3,008,798	3,062,119
Accumulated loss on fair value hedges	-	30,146	10,620
Present-value premium (discounts)	-	(7,772)	1,599
		3,031,172	3,074,338
		₩ 18,717,527	₩ 12,200,984

19. Provisions

Details of provisions as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Provision for acceptances and guarantees	₩ 118,242	₩ 81,142
Provision for unused credit limit	105,405	111,966
Other provisions	64,299	80,476
	₩ 287,946	₩ 273,584

19. Provisions (cont'd)

Acceptances and guarantees (including endorsed bills) as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Confirmed acceptances and guarantees:		
Acceptances and guarantees in Korean won	₩ 601,883	₩ 704,696
Acceptances and guarantees purchased	124,647	177,463
Acceptances and guarantees for imported goods (letter of guarantees)	29,412	27,023
Acceptances and guarantees in foreign currencies	3,599,746	5,482,973
	4,355,688	6,392,155
Unconfirmed acceptances and guarantees:		
Issuance of local letter of credit	307,077	342,805
Issuance of import letter of credit	1,408,062	1,437,344
Others	721,736	1,525,783
	2,436,875	3,305,932
Bills endorsed	14,990	11,607
	₩ 6,807,553	₩ 9,709,694

Acceptances and guarantees (including endorsed bills) by country as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Korea	₩ 1,003,892	₩ 368,705	₩ -	₩ 1,372,597	20.16
China	55,937	311,089	12,308	379,334	5.57
Japan	83,611	155,182	-	238,793	3.51
USA	135,976	280,013	-	415,989	6.11
Indonesia	14,064	42,580	-	56,644	0.83
Hong Kong	13,941	3,575	-	17,516	0.26
Panama	119,226	-	-	119,226	1.75
Singapore	114,130	46,118	-	160,248	2.35
Others	2,814,911	1,229,613	2,682	4,047,206	59.46
	₩ 4,355,688	₩ 2,436,875	₩ 14,990	₩ 6,807,553	100.00

	December 31, 2015				
Classification	Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Korea	₩ 1,022,321	₩ 453,954	₩ -	₩ 1,476,275	15.20
China	507,627	287,577	8,421	803,625	8.28
Japan	122,369	91,272	-	213,641	2.20
USA	114,003	301,699	1,410	417,112	4.30
Indonesia	4,756	27,439	-	32,195	0.33
Hong Kong	16,363	5,326	-	21,689	0.22
Panama	136,245	32,494	-	168,739	1.74
Singapore	83,885	103,428	-	187,313	1.93
Others	4,384,586	2,002,743	1,776	6,389,105	65.80
	₩ 6,392,155	₩ 3,305,932	₩ 11,607	₩ 9,709,694	100.00

19. Provisions (cont'd)

Acceptances and guarantees (including endorsed bills) by industry as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016 Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Manufacturing	₩ 3,346,739	₩ 1,511,813	₩ -	₩ 4,858,552	71.37
Construction	152,550	42,883	-	195,433	2.87
Retail and wholesale	383,787	441,792	14,990	840,569	12.35
Finance and insurance	46,460	4,567	-	51,027	0.75
Others	426,152	435,820	-	861,972	12.66
	₩ 4,355,688	₩ 2,436,875	₩ 14,990	₩ 6,807,553	100.00

Classification	December 31, 2015 Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Manufacturing	₩ 5,296,246	₩ 2,376,670	₩ 2,157	₩ 7,675,073	79.04
Construction	139,149	124,575	-	263,724	2.72
Retail and wholesale	386,312	444,243	9,450	840,005	8.65
Finance and insurance	50,074	2,259	-	52,333	0.54
Others	520,374	358,185	-	878,559	9.05
	₩ 6,392,155	₩ 3,305,932	₩ 11,607	₩ 9,709,694	100.00

Acceptances and guarantees (including endorsed bills) by customer as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016 Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Corporate	₩ 4,177,978	₩ 2,042,772	₩ 14,990	₩ 6,235,740	91.60
Sole entrepreneur	14,258	11,061	-	25,319	0.37
Member cooperatives	670	11,123	-	11,793	0.17
Financial institutions	45,789	1	-	45,790	0.67
Government and others	116,993	371,918	-	488,911	7.19
	₩ 4,355,688	₩ 2,436,875	₩ 14,990	₩ 6,807,553	100.00

Classification	December 31, 2015 Confirmed acceptances and guarantees	Unconfirmed acceptances and guarantees	Bills endorsed	Total	Ratio (%)
Corporate	₩ 6,215,237	₩ 2,946,741	₩ 11,607	₩ 9,173,585	94.48
Sole entrepreneur	9,943	12,657	-	22,600	0.23
Member cooperatives	3,790	7,804	-	11,594	0.12
Financial institutions	46,284	525	-	46,809	0.48
Government and others	116,901	338,205	-	455,106	4.69
	₩ 6,392,155	₩ 3,305,932	₩ 11,607	₩ 9,709,694	100.00

19. Provisions (cont'd)

The percentage of provision for acceptances and guarantees to the outstanding balance of acceptances and guarantees as at December 31, 2016 and 2015 are as follows (Korean won in millions and):

Classification	Outstanding balance	Provision for acceptances and guarantees	Ratio (%)
December 31, 2016	₩ 6,807,553	₩ 118,242	1.74
December 31, 2015	9,709,694	81,142	0.84

The percentage of provision for unused credit limit to the outstanding balance of unused credit limit as at December 31, 2016 and 2015 is as follows (Korean won in millions and):

Classification	Outstanding balance	Provision for unused credit limit	Ratio (%)
December 31, 2016	₩ 64,479,044	₩ 105,405	0.16
December 31, 2015	64,808,837	111,966	0.17

Details of other provisions as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Provision for mileage	₩ 15,384	₩ 15,080
Provision for litigation	7,916	17,581
Provision for donation of public interest	4,478	4,202
Provision for restoration	27,530	31,031
Provision for refund of dormant deposits	3,309	551
Others	5,682	12,031
	₩ 64,299	₩ 80,476

Changes in provision for acceptances and guarantees and unused credit limits for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	Provision for acceptances and guarantees	Provision for unused credit limits
January 1, 2016	₩ 81,142	₩ 111,966
Changes for the period:		
Provision (reversal)	35,010	(6,884)
Foreign currency translation	2,090	323
December 31, 2016	₩ 118,242	₩ 105,405

Classification	Provision for acceptances and guarantees	Provision for unused credit limits
January 1, 2015	₩ 82,135	₩ 124,164
Changes for the period:		
Reversal	(4,984)	(12,919)
Foreign currency translation	3,991	721
December 31, 2015	₩ 81,142	₩ 111,966

20. Other liabilities

Details of other liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Trust accounts payable	₩ 1,485,868	₩ 2,060,570
Domestic exchange settlement credits	2,554,043	1,984,049
Foreign exchange settlement credits	28,719	15,728
Accounts payable	1,465,147	3,052,507
Accrued expenses	1,324,919	1,437,222
Guarantee deposit received	195,328	177,228
Agency	1,089,248	1,225,546
Financial guarantee contract	24,787	20,640
Unearned revenue	26,486	25,335
Deferred mileage revenue	72,540	63,849
Suspense receipt	162,240	81,753
Other sundry liabilities	1,950,260	1,448,191
	₩ 10,379,585	₩ 11,592,618

21. Derivatives and hedge accounting

Details of derivatives as at December 31 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Derivative assets		Derivative liabilities	
Classification	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 389,335	₩ -	₩ 422,404	₩ -
Currency swap	103,256	-	59,497	-
Currency options purchased	2,801	-	-	-
Currency options sold	-	-	2,801	-
	495,392	-	484,702	-
Interest rate:				
Interest rate swap	107,768	9,014	118,906	26,247
Stock:				
Stock options purchased	3,124	-	-	-
Stock options sold	-	-	3,899	-
	3,124	-	3,899	-
	₩ 606,284	₩ 9,014	₩ 607,507	₩ 26,247

	December 31, 2015			
	Derivative assets		Derivative liabilities	
Classification	Trading	Hedging	Trading	Hedging
Currency:				
Currency forwards	₩ 298,488	₩ -	₩ 284,474	₩ -
Currency swap	117,920	-	117,414	-
Currency options purchased	197	-	-	-
Currency options sold	-	-	197	-
	416,605	-	402,085	-
Interest rate:				
Interest rate swap	194,773	16,041	198,948	3,656
Stock:				
Stock options purchased	15	-	-	-
Stock options sold	-	-	15,719	-
	15	-	15,719	-
	₩ 611,393	₩ 16,041	₩ 616,752	₩ 3,656

21. Derivatives and hedge accounting (cont'd)

The notional amounts outstanding for derivative contracts as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016 Trading	Hedging	Total
Currency:			
Currency forwards	₩ 24,384,622	₩ -	₩ 24,384,622
Currency futures (*)	366,538	-	366,538
Currency swap	2,564,290	-	2,564,290
Currency options purchased	224,032	-	224,032
Currency options sold	224,032	-	224,032
	27,763,514	-	27,763,514
Interest rate:			
Interest rate swaps	8,438,476	2,861,849	11,300,325
Stock:			
Stock options purchased	59,952	-	59,952
Stock options sold	61,451	-	61,451
	121,403	-	121,403
	₩ 36,323,393	₩ 2,861,849	₩ 39,185,242

(*) Futures transactions are settled daily and reflected in deposits.

Classification	December 31, 2015 Trading	Hedging	Total
Currency:			
Currency forwards	₩ 32,326,957	₩ -	₩ 32,326,957
Currency futures (*)	197,529	-	197,529
Currency swap	3,271,613	-	3,271,613
Currency options purchased	65,632	-	65,632
Currency options sold	65,632	-	65,632
	35,927,363	-	35,927,363
Interest rate:			
Interest rate swaps	14,013,461	2,671,808	16,685,269
Stock:			
Stock options purchased	747	-	747
Stock options sold	124,527	-	124,527
	125,274	-	125,274
	₩ 50,066,098	₩ 2,671,808	₩ 52,737,906

(*) Futures transactions are settled daily and reflected in deposits.

21. Derivatives and hedge accounting (cont'd)

Details of derivatives as at December 31, 2016 and 2015 and gain or loss on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016							
	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	₩ 385,781	₩ 422,422	₩ -	₩ -	₩ 385,781	₩ 422,422	₩ 389,335	₩ 422,404
Swap	72,661	26,182	-	-	72,661	26,182	103,256	59,497
Options purchased	2,933	-	-	-	2,933	-	2,801	-
Options sold	-	2,544	-	-	-	2,544	-	2,801
	461,375	451,148	-	-	461,375	451,148	495,392	484,702
Interest rate:								
Swap	51,846	49,006	6,980	29,321	58,826	78,327	116,782	145,153
Stock:								
Options purchased	159	8,119	-	-	159	8,119	3,124	-
Options sold	404	466	-	-	404	466	-	3,899
	563	8,585	-	-	563	8,585	3,124	3,899
	₩ 513,784	₩ 508,739	₩ 6,980	₩ 29,321	₩ 520,764	₩ 538,060	₩ 615,298	₩ 633,754

	For the year ended December 31, 2015							
	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	₩ 300,079	₩ 286,966	₩ -	₩ -	₩ 300,079	₩ 286,966	₩ 298,488	₩ 284,474
Swap	69,571	82,359	-	-	69,571	82,359	117,920	117,414
Options purchased	213	-	-	-	213	-	197	-
Options sold	50	123	-	-	50	123	-	197
	369,913	369,448	-	-	369,913	369,448	416,605	402,085
Interest rate:								
Swap	72,688	70,681	6,564	9,760	79,252	80,441	210,814	202,604
Stock:								
Options purchased	-	10	-	-	-	10	15	-
Options sold	135	656	-	-	135	656	-	15,719
	135	666	-	-	135	666	15	15,719
	₩ 442,736	₩ 440,795	₩ 6,564	₩ 9,760	₩ 449,300	₩ 450,555	₩ 627,434	₩ 620,408

At the end of the reporting period, hedged items applied with fair value hedge accounting include AFS financial assets (debt securities) and the issuance of financial bonds. Changes in the fair value of derivatives due to fluctuation in interest rate 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 in interest rate.

21. Derivatives and hedge accounting (cont'd)

Details of the Group's hedged items and types of hedge accounting as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Hedged item	Hedged risk	Hedging instrument	Type of hedge accounting	Fair value of hedging instrument December 31, 2016	Fair value of hedging instrument December 31, 2015
AFS financial assets	Interest risk	Interest rate swaps	Fair value hedge	₩ 6,510	₩ (545)
Debentures	Interest risk	Interest rate swaps	Fair value hedge	(23,743)	12,930

Details of (loss) gain on valuation of hedged items and hedging instruments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016		For the year ended December 31, 2015	
Classification	Gain (loss) on valuation of hedged items	Gain (loss) on valuation of hedging instrument	Gain (loss) on valuation of hedged items	Loss on valuation of hedging instrument
AFS financial assets	₩ (4,714)	₩ 6,508	₩ 1,332	₩ (213)
Debentures	20,751	(28,849)	482	(2,983)
	₩ 16,037	₩ (22,341)	₩ 1,814	₩ (3,196)

22. Net defined benefit liabilities

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 KIFRS. 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 December 31, 2016 and 2015 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 December 31, 2016 and 2015 are as follows:

Classification	December 31, 2016	December 31, 2015
Discount rate	2.56%	2.55%
Salary increase rate:		
Inflation	2.26%	2.26%
Empirical promotion rate	Empirical promotion rate by age	

Details of net defined benefit liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	₩ 1,448,520	₩ 1,215,777
Fair value of plan assets	(1,111,371)	(813,415)
Net liabilities from DB plan	₩ 337,149	₩ 402,362

22. Net defined benefit liabilities (cont'd)

Changes in net defined benefit liabilities for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		
	Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2016	₩ 1,215,777	₩ (813,415)	₩ 402,362
Current service cost	177,748	-	177,748
Interest expense (income)	30,305	(20,742)	9,563
Remeasurement elements:			
Return on planned assets (on the net basis of net interest cost)	-	8,108	8,108
Actuarial losses incurred due to changes in demographic assumptions	71,809	-	71,809
Actuarial losses incurred due to changes in financial assumptions	45,007	-	45,007
Actuarial losses incurred due to experience adjustments	29,311	-	29,311
Employer contributions	-	(422,369)	(422,369)
Payment	(122,342)	136,147	13,805
Transfer from related-party	12,692	-	12,692
Transfer to related-party	(11,769)	-	(11,769)
Other	(18)	900	882
Present value as at December 31, 2016	₩ 1,448,520	₩ (1,111,371)	₩ 337,149

Classification	For the year ended December 31, 2015		
	Present value of defined benefit obligations	Plan assets	Total
Present value as at January 1, 2015	₩ 1,015,666	₩ (662,258)	₩ 353,408
Current service cost	147,100	-	147,100
Interest expense (income)	30,572	(19,934)	10,638
Remeasurement elements:			
Return on planned assets (on the net basis of net interest cost)	-	6,780	6,780
Actuarial gains incurred due to changes in demographic assumptions	(1,292)	-	(1,292)
Actuarial losses incurred due to changes in financial assumptions	84,459	-	84,459
Actuarial losses incurred due to experience adjustments	115,379	-	115,379
Employer contributions	-	(295,683)	(295,683)
Payment	(178,245)	156,976	(21,269)
Transfer from related-party	11,470	-	11,470
Transfer to related-party	(9,332)	-	(9,332)
Other	-	704	704
Present value as at December 31, 2015	₩ 1,215,777	₩ (813,415)	₩ 402,362

Portfolio of plan assets as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Fixed deposits	₩ 1,111,371	₩ 813,415

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

22. Net defined benefit liabilities (cont'd)

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 ₩12,634 million and ₩13,154 million for the year ended December 31, 2016 and 2015, respectively.

The effects of reasonable possible changes to significant actuarial assumptions on defined benefit obligation whilst all other assumptions occurring as at December 31, 2016 are held constant are as follows (Korean won in millions):

Classification	Increase		Decrease	
100 basis point (bp) change in discount rate	₩	(153,319)	₩	183,137
1% change in salary increase rate		181,883		(155,186)

The sensitivity analysis presented above may not present 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 the actuarial assumptions are 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.

The Group expects to make a contribution of ₩162,283 million to the defined benefit plans during the next fiscal year.

The weighted average maturity of the defined benefit obligation is 11.71 years at December 31, 2016.

23. Equity

Capital stock as at December 31, 2016 and 2015 is as follows (Korean won in millions, shares in units):

Classification	December 31, 2016		December 31, 2015	
Shares authorized		1,000,000,000		1,000,000,000
Par value (in Korean won)	₩	5,000	₩	5,000
Shares issued		426,555,827		426,555,827
Common stock	₩	2,132,779	₩	2,132,779

Other paid-in capital as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Capital surplus:				
capital in excess of par value	₩	9,295,401	₩	9,295,401
other capital surpluses		35,948		35,948
		9,331,349		9,331,349
Capital adjustments (*1)		(3,019)		(3,019)
Hybrid bonds (*2)		349,648		349,648
	₩	9,677,978	₩	9,677,978

(*1) Capital adjustment arose from the acquisition of IT department of NACF.
(*2) The Group classifies the hybrid bonds as capital as the maturity of the hybrid bonds is over 30 years and the Group holds the right to extend the bond maturity continuously under the same conditions and evade delivering cash or another financial asset to pay the contractual obligation.

23. Equity (cont'd)

For the year ended December 31, 2016, there were no changes in capital stock and paid-in capital in excess of par value. Changes in capital stock and paid-in capital in excess of par value for the year ended December 31, 2015 are as follows (Korean won in millions):

Classification		Capital stock		Paid-in capital in excess of par value		Total
Balance at January 1, 2015	₩	2,073,956	₩	8,954,508	₩	11,028,464
Capital increase (*1)		58,823		340,893		399,716
Balance at December 31, 2015	₩	2,132,779	₩	9,295,401	₩	11,428,180

(*1) The Group has made a capital increase in accordance with the Board of Director's resolution dated March 13, 2015 by offering 11,764,705 shares at ₩34,000 per share.

Details of other components of equity as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification		December 31, 2016		December 31, 2015
Remeasurements of the net defined benefit liability	₩	(504,271)	₩	(387,360)
Gain on valuation & foreign currency translation of AFS financial assets		196,477		262,761
Exchange differences on translating foreign operations		1,438		599
Loss on valuation of investments in associates		71		4,828
	₩	(306,285)	₩	(119,172)

Changes in other components of equity for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016							
Classification		January 1, 2016		Changes for the period		Deferred income tax		December 31, 2016
Remeasurements of the net defined benefit liability	₩	(387,360)	₩	(154,235)	₩	37,324	₩	(504,271)
Gain (loss) on valuation & foreign currency translation of AFS financial assets		262,761		(80,717)		14,433		196,477
Exchange differences on translating foreign operations		599		839		-		1,437
Loss on valuation of investments in associates		4,828		(6,275)		1,518		70
	₩	(119,172)	₩	(240,388)	₩	53,275	₩	(306,285)

	For the year ended December 31, 2015							
Classification		January 1, 2015		Changes for the period		Deferred income tax		December 31, 2015
Remeasurements of the net defined benefit liability	₩	(231,724)	₩	(205,325)	₩	49,689	₩	(387,360)
Gain (loss) on valuation & foreign currency translation of AFS financial assets		292,548		(35,450)		5,663		262,761
Exchange differences on translating foreign operations		(164)		763		-		599
Loss on valuation of investments in associates		(1,388)		8,201		(1,985)		4,828
	₩	59,272	₩	(231,811)	₩	53,367	₩	(119,172)

23. Equity (cont'd)

Details of retained earnings as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Regulatory reserve for bad debt	₩	1,382,507	₩	1,204,786
Allowance for profit		91,984		91,984
Voluntary reserve for recapitalization		1,000,000		1,000,000
Voluntary reserve		14		14
Unappropriated retained earnings		104,056		177,721
	₩	2,578,561	₩	2,474,505

Changes in retained earnings for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Balance as at January 1	₩	2,474,505	₩	2,493,214
Net income		111,126		176,293
Changes in consolidated taxation payment		10,010		28,229
Cash dividends		-		(206,151)
Hybrid bond dividends		(17,080)		(17,080)
Balance as at December 31	₩	2,578,561	₩	2,474,505

There were no dividend payments made by the Group for the year ended December 31, 2016.

Reserve for bad debt as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Beginning balance	₩	1,382,507	₩	1,204,786
Planned reserve for bad debt		104,056		177,721
Expected balance	₩	1,486,563	₩	1,382,507

Provision of reserve for bad debt and adjusted net income after reflecting reserve for bad debt for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Net income	₩	111,126	₩	176,293
Provision of reserve for bad debt		(115,487)		(465,181)
Adjusted net income after reserve for bad debt		(4,361)		(273,134)
Adjusted basic and diluted earnings per share after reserve for bad debt (in Korean won) (*)		(50)		(722)

(*) Hybrids bonds' dividends ₩17,080 million and ₩17,080 million as at December 31, 2016 and 2015 are deducted from adjusted net income after reserve for bad debt when calculating adjusted basic earnings per share. Adjusted diluted earnings per share is identical to basic earnings per share, as the Group does not retain dilutive common shares.

24. Capital management

24.1 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 common equity tier 1 and additional tier 1 capital. Common equity tier 1 is composed of capital stock, additional paid-in capital, retained earnings (excluding reserve for bad loans), non-controlling interests of bank which is the consolidated subsidiary and accumulated other comprehensive income. Additional tier 1 capital is composed of capital securities (including hybrid bonds) and non-controlling interests of consolidated subsidiaries
- Tier 2 capital (supplementary capital): Supplementary capital is composed of allowance for losses on credit for assets classified as normal or precautionary according to the forward looking criteria, capital securities (such as subordinated bonds) and non-controlling interests of consolidated subsidiaries.

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 Group sets up internal policies on capital management for the criteria of capital adequacy and soundness of finance. In addition, the Group monitors the soundness of finance by allocating the risk appetite of the available capital to the limit of internal capital (the amount of capital that ensures that the Group 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 Group computes on appropriateness of internal capital under regular inspection.

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 at December 1, 2013. Details of the Group's BIS capital adequacy ratio as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Basic capital (A)	₩	12,647,271	₩	11,877,836
Supplementary capital (B)		3,230,376		3,348,974
Equity capital (C)		15,877,647		15,226,810
Risk-weighted assets (D)		108,610,930		107,554,221
Equity capital ratio (C/D*100)		14.62		14.16
Basic capital ratio (A/D*100)		11.64		11.04

24.2 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.

25. Income tax expense

The components of income tax expense for years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Income tax currently payable (including additional and refunded income tax)	₩ 41,267	₩ 45,269
Adjustments recognized for the current period in relation to the current tax of prior periods	(22,389)	(13,209)
Change in deferred income tax due to temporary differences	(59,449)	(34,167)
Total income tax effect	(40,571)	(2,107)
Income taxes directly applied to shareholder's equity	53,275	53,367
Income tax expense	₩ 12,704	₩ 51,260
(*) Net deferred income tax assets due to temporary differences as at December 31, 2016 and 2015	₩ 366,366	₩ 306,917
Net deferred income tax assets due to temporary differences as at January 1, 2016 and 2015	306,917	272,750
Change in deferred income tax due to temporary differences	₩ 59,449	₩ 34,167

A reconciliation of income before income tax and income tax expenses for the years ended December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Net income before income tax	₩ 123,830	₩ 227,553
Income tax expense before adjustments (A) (*)	29,505	54,606
Adjustments (B):		
Non-taxable income	(19,926)	(8,525)
Non-deductible expenses	9,769	4,620
Unrecognized deferred tax assets	1,045	(1,039)
Refund of income tax or Supplementary pay of income tax	(1,952)	126
Others	(5,737)	1,472
	(16,801)	(3,346)
Income tax expense (A-B)	₩ 12,704	₩ 51,260
Effective tax rate	10.26%	22.53%

(*) Tax at the statutory income tax rate is calculated by using the income tax rate (11% on taxable income below ₩200 million, 22% on taxable income exceeding ₩200 million and below ₩200 billion, 24.2% on taxable income exceeding ₩200 billion).

The deferred income tax recognized as other comprehensive income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Gain (loss) on valuation & foreign currency translation of AFS financial assets	₩ 14,433	₩ 5,663
Remeasurements of the net defined benefit liability	37,324	49,689
Gain (Loss) on valuation of investments in associates	1,518	(1,985)
	₩ 53,275	₩ 53,367

25. Income tax expense (cont'd)

The deferred income tax assets (liabilities) of the Group as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Deductible (taxable) temporary differences			
Classification	Beginning	Increase	Decrease	Ending
Deductible temporary differences:				
Retirement benefit obligation	₩ 1,141,392	₩ 340,861	₩ 98,987	₩ 1,383,266
Derivative liabilities	280,195	391,434	280,155	391,474
AFS equity securities in Korean won	396,513	387,565	393,745	390,333
HTM financial assets in Korean won (market adjustment)	78,517	(53,112)	8,441	16,964
Employee benefits for unused vacation	71,239	74,016	71,239	74,016
Provision for acceptances and guarantees	81,141	34,362	-	115,503
Debt-for-equity swap receivables	559,165	31,887	19,365	571,687
Deferred mileage revenue	63,849	8,691	-	72,540
Deposit with statute of limitations expired	41,004	703	-	41,707
Provision for restoration	31,031	27,530	31,031	27,530
Interest income from payment in subrogation	42,005	-	-	42,005
Provision for unused credit limit	21,011	5,143	-	26,154
AFS debt securities in Korean won	11,244	24,280	11,244	24,280
Financial guarantee contract	20,708	24,787	20,708	24,787
Other present value discounts	2,240	7,262	-	9,502
Depreciation	12,683	7,197	15,887	3,993
Convertible stock (Sungdong Shipbuilding & Marine Engineering)	10,999	-	-	10,999
Deferred LOF/LOC	12,723	14,193	12,723	14,193
AFS debt securities in foreign currency	770	6,731	763	6,738
Provision for credit risk of derivatives	729	-	-	729
Provision for credit card mileage	12,455	455	-	12,910
Restructuring fund distributions of non-performing loans	5,721	-	-	5,721
Held-for-trading debt securities in Korean won	3,972	5,479	3,972	5,479
Other provisions	27,712	28,945	13,399	43,258
Mileage deposit	7,205	1,944	-	9,149
Other accounts payable	334	(206)	64	64
Hanaro Branch establishment costs	5,747	(447)	-	5,300
Provision for customer loyalty program	2,625	5	156	2,474
Bank levy	2,626	1,650	2,626	1,650
Card public fund	1,638	727	642	1,723
AFS equity securities in foreign currency	908	756	908	756
Variable incentive	2,609	2,555	2,609	2,555
Accrued expenses (mileage)	834	108	-	942
Impairment loss on AFS financial assets	657	-	-	657
Provision for dormant account	552	2,768	11	3,309
Provision for compensation due to illicit use of card	313	203	314	202
Depreciation of asset irrelevant to business	1,573	988	121	2,440
Provision for fund	129	-	-	129
Trust with statute of limitations expired	133	34	-	167
Litigation expenses	51	41	46	46
Index-linked deposits	3	523	3	523
Subsidy	23	822	1	844
Received public fund	3,952	2,021	3,217	2,756
Convertible stock (STX engine)	4,954	197	-	5,151
Convertible stock (STX Heavy Industries)	6,622	-	-	6,622
Investment stock in subsidiaries and associates	52,133	52,133	52,133	52,133

25. Income tax expense (cont'd)

Classification	December 31, 2016 Deductible (taxable) temporary differences Beginning	Increase	Decrease	Ending
Beneficiary certificates dividends	₩ 10,596	₩ (827)	₩ 9,769	₩ -
Loss/Gain on valuation of unsettled spot exchange	752	74	752	74
Constructive dividends	428	(214)	-	214
Donations in excess of tax limit	24,315	-	24,315	-
PEF dividends	-	17,079	-	17,079
Uncompleted development cost	-	1,892	35	1,857
Impairment loss on intangible asset	-	2,986	-	2,986
	3,060,730	1,456,221	1,079,381	3,437,570
Tax rate (*1)	24.20%			24.20%
Deferred income tax assets	740,697			831,892
Taxable temporary differences:				
Loss on valuation of ASF financial assets (OCI)	(214,454)	(155,853)	(214,454)	(155,853)
Leasehold improvements	(4,123)	(3,204)	(4,071)	(3,256)
Held-for-trading equity securities in Korean won	-	(380)	-	(380)
Deposit with statute of limitations expired	(90)	(4,343)	(813)	(3,620)
HTM financial assets (Hybrid bonds)	(5,257)	-	-	(5,257)
AFS financial assets in foreign currency (Hybrid bonds)	(5,902)	-	(2,980)	(2,922)
Convertible stock (Kumho Tire)	(5,284)	-	-	(5,284)
Receivable from financial guarantee contract	(19,596)	(23,544)	(19,596)	(23,544)
Other accounts receivable	(26,230)	-	-	(26,230)
Special contribution for credit guarantee	(28,462)	(27,000)	(23,779)	(31,683)
Hedging financial debentures	(18,538)	(20,751)	(28,317)	(10,972)
Derivative assets	(236,060)	(373,015)	(235,379)	(373,696)
Deferred LOC	(236,230)	(379,522)	(293,540)	(322,212)
Accrued interest	(198,010)	(107,025)	(198,848)	(106,187)
Retirement fund	(699,871)	(142,489)	(98,987)	(743,373)
Collective Investment Scheme dividends	(3,099)	-	(3,099)	-
Gains on settlement of futures	(11)	(9,298)	(11)	(9,298)
Special reserve	(78,789)	(4,347)	(536)	(82,600)
Investments in associates (*2)	(10,435)	(8,471)	(4,757)	(14,149)
Investments in subsidiaries and others	(2,039)	(1,105)	-	(3,144)
	(1,792,480)	(1,260,347)	(1,129,167)	(1,923,660)
Tax rate (*1)	24.20%			24.20%
Deferred income tax liabilities	(433,780)			(465,526)
Deferred income tax assets, net	₩ 306,917			₩ 366,366

(*1) The tax rate used for calculating deferred income tax assets and liabilities, based on final tax rate as at December 31, 2016 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. Income tax expense (cont'd)

	December 31, 2015			
	Deductible (taxable) temporary differences			
Classification	Beginning	Increase	Decrease	Ending
Deductible temporary differences:				
Retirement benefit obligation	₩ 922,150	₩ 376,218	₩ 156,976	₩ 1,141,392
Provision for credit card mileage	11,577	878	-	12,455
Deferred mileage revenue	55,882	7,967	-	63,849
Accrued expenses (mileage)	739	95	-	834
Mileage deposit	6,259	946	-	7,205
Provision for acceptances and guarantees	60,585	20,556	-	81,141
Provision for unused credit limit	20,284	727	-	21,011
Financial guarantee contract	12,269	20,708	12,269	20,708
Provision for restoration	27,040	31,031	27,040	31,031
Interest income from payment in subrogation	42,005	-	-	42,005
Deferred LOF/LOC	13,330	11,085	11,692	12,723
Provision for credit risk of derivatives	13,352	-	12,623	729
Other present value discounts	9,060	-	6,820	2,240
Impairment loss on AFS financial assets	657	-	-	657
HTM financial assets in Korean won	77,232	(26,917)	(28,202)	78,517
Employee benefits for unused vacation	75,831	71,239	75,831	71,239
Variable incentive	2,586	2,675	2,652	2,609
Other accounts payable	118	551	335	334
Hanaro Branch establishment costs	3,700	2,047	-	5,747
Litigation expenses	56	47	52	51
Derivative liabilities	180,937	280,196	180,938	280,195
Loss on daily settlement of futures transactions	14	-	14	-
Index-linked deposits	12	3	12	3
Provision for fund	128	1	-	129
Card public fund	1,703	760	825	1,638
Provision for compensation due to illicit use of card	230	432	349	313
Provision for dormant account	552	-	-	552
Provision for customer loyalty program	2,198	427	-	2,625
Debt-for-equity swap receivables	538,069	24,728	3,632	559,165
Bank levy	2,659	2,626	2,659	2,626
Restructuring fund distributions of non-performing loans	5,721	-	-	5,721
Depreciation	32,330	11,348	30,995	12,683
Depreciation of asset irrelevant to business	1,500	117	44	1,573
Convertible stock(Sungdong Shipbuilding & Marine Engineering)	10,999	-	-	10,999
Subsidy	6	20	3	23
AFS equity securities in Korean won	392,626	390,881	386,994	396,513
AFS debt securities in Korean won	30,326	11,243	30,325	11,244
AFS debt securities in foreign currency	6,516	770	6,516	770
AFS equity securities in foreign currency	3,680	908	3,680	908
Deposit with statute of limitations expired	45,439	(4,435)	-	41,004
Trust with statute of limitations expired	97	36	-	133
Held-for-trading debt securities in Korean won	1,816	3,972	1,816	3,972

25. Income tax expense (cont'd)

Classification	December 31, 2015 Deductible (taxable) temporary differences Beginning	Increase	Decrease	Ending
Other provisions	₩ 8,286	₩ 32,307	₩ 12,881	₩ 27,712
Received public fund	3,478	2,619	2,145	3,952
Convertible stock (STX engine)	898	4,056	-	4,954
Convertible stock (STX Heavy Industries)	-	6,622	-	6,622
Investment stock in subsidiaries and associates	50,695	1,438	-	52,133
Beneficiary certificates dividends	266	21,159	10,829	10,596
Special contribution for credit guarantee	15,514	(36,860)	(21,346)	-
Loss/Gain on valuation of unsettled spot exchange	-	752	-	752
Constructive dividends	-	428	-	428
Held-for-trading equity securities in Korean won	63	-	63	-
Donations in excess of tax limit	-	24,315	-	24,315
	2,691,470	1,300,722	931,462	3,060,730
Tax rate (*1)	24.20%			24.20%
Deferred income tax assets	651,336			740,697
Taxable temporary differences:				
Retirement fund	(530,641)	(326,206)	(156,976)	(699,871)
Receivable from financial guarantee contract	(11,286)	(19,596)	(11,286)	(19,596)
Leasehold improvements	(3,832)	(4,123)	(3,832)	(4,123)
Deferred LOC	(193,562)	(249,678)	(207,010)	(236,230)
Derivative assets	(137,850)	(236,593)	(138,383)	(236,060)
Financial liabilities designated at FVTPL in Korean won	(6,509)	-	(6,509)	-
Agricultural financial bond	(65,218)	-	(65,218)	-
Hedging financial debentures	(18,621)	(481)	(564)	(18,538)
Deposit with statute of limitations expired	(4,163)	(1,000)	(5,073)	(90)
HTM financial assets (Hybrid bonds)	(5,257)	-	-	(5,257)
AFS financial assets in foreign currency (Hybrid bonds)	(6,751)	-	(849)	(5,902)
Convertible stock (Kumho Tire)	(5,284)	-	-	(5,284)
Investments in associates (*2)	(384)	(12,267)	(2,216)	(10,435)
Investments in subsidiaries and others	(6,084)	4,045	-	(2,039)
Other accounts receivable	(26,230)	-	-	(26,230)
Financial liabilities designated at FVTPL in Korean won	(1,039)	-	(1,039)	-
Collective Investment Scheme dividends	-	-	3,099	(3,099)
Gains on settlement of futures	-	(11)	-	(11)
Accrued interest	(224,226)	(198,010)	(224,226)	(198,010)
Special contribution for credit guarantee	-	(28,462)	-	(28,462)
Special reserve	(75,207)	(4,468)	(886)	(78,789)
Loss on valuation of ASF financial assets (OCI)	(242,259)	(214,885)	(242,690)	(214,454)
	(1,564,403)	(1,291,735)	(1,063,658)	(1,792,480)
Tax rate (*1)	24.20%			24.20%
Deferred income tax liabilities	(378,586)			(433,780)
Deferred income tax assets, net	₩ 272,750			₩ 306,917

25. Income tax expense (cont'd)

(*1) The tax rate used for calculating deferred income tax assets and liabilities, based on final tax rate as at December 31, 2015 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.

26. Interest income and expenses

The interest income and expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Interest income:		
Due from banks	₩ 27,967	₩ 57,296
Loans and other receivables	5,623,562	5,699,822
Financial assets at FVTPL	120,919	144,350
AFS financial assets	256,349	259,560
HTM financial assets	201,366	250,635
Others	863,709	766,095
	7,093,872	7,177,758
Interest expenses:		
Deposits	2,151,095	2,475,486
Debentures	386,537	288,260
Borrowings	133,181	133,446
Financial liabilities at FVTPL	-	3,362
Others	40,970	52,919
	2,711,783	2,953,473
Interest income, net	₩ 4,382,089	₩ 4,224,285

Interest income of impaired financial assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Loans	₩ 102,986	₩ 84,662
Credit card	1,933	1,053
	₩ 104,919	₩ 85,715

27. Commission income and expenses

Commission income and expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Commission income:		
Deposits	₩ 1,296	₩ 1,388
Loans and credits	90,553	86,330
Foreign exchange	35,174	32,035
Credit card	135,591	101,531
Asset management	58,362	55,793
Agency business	184,081	202,617
Guarantee service	39,273	42,932
Trust service	76,974	64,016
Others	210,981	201,328
	832,285	787,970
Commission expenses:		
Loans and credits	18,190	18,402
Foreign exchange	8,167	8,552
Agency business	23,823	17,857
Credit card	348,707	298,955
Others	48,602	49,664
	447,489	393,430
Commission income, net	₩ 384,796	₩ 394,540

28. Gain (loss) on financial investments

Gain (loss) on held-for-trading financial assets for the years ended December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2016	For the year ended December 31, 2015
Held-for-trading financial instruments:			
Held-for-trading financial assets:			
Gain (loss) on valuation	Gain on valuation of held-for-trading financial assets	₩ 13,837	₩ 9,342
	Loss on valuation of held-for-trading financial asset	(14,870)	(9,610)
		(1,033)	(268)
Gain (loss) on disposal	Gain on disposal of held-for-trading financial assets	40,728	94,056
	Loss on disposal of held-for-trading financial assets	(26,387)	(66,408)
		14,341	27,648
Gain (loss) on redemption	Gain on redemption of held-for-trading financial assets	1,033	1,561
	Loss on redemption of held-for-trading financial assets	(8,541)	(11,199)
		(7,508)	(9,638)
Dividend income	Dividend income of held-for-trading financial assets	1,713	2,221
		7,513	19,963

28. Gain (loss) on financial investments (cont'd)

Classification		For the year ended December 31, 2016	For the year ended December 31, 2015
Trading derivatives:			
Gain (loss) on valuation	Gain on valuation of held-for-trading financial assets	₩ 513,784	₩ 442,736
	Loss on valuation of held-for-trading financial assets	(508,739)	(440,795)
		5,045	1,941
Gain (loss) on disposal	Gain on disposal of trading derivatives	1,973,568	1,976,248
	Loss on disposal of trading derivatives	(1,920,473)	(2,147,041)
		53,095	(170,793)
		58,140	(168,852)
		₩ 65,653	₩ (148,889)

Gain (loss) on financial investment assets for the years ended December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2016	For the year ended December 31, 2015
Financial investment assets:			
AFS financial assets:			
Gain (loss) on disposal	Gain on disposal of AFS financial assets	₩ 151,527	₩ 169,160
	Loss on disposal of AFS financial assets	(10,944)	(21,406)
		140,583	147,754
Gain (loss) on redemption	Gain on redemption of AFS financial assets	59,350	56,670
	Loss on redemption of AFS financial assets	(8,001)	(2,879)
		51,349	53,791
Dividend income	Dividend income of AFS financial assets	115,421	76,208
Impairment loss	Impairment loss on AFS financial assets	(57,765)	(53,554)
		249,588	224,199
HTM financial assets:			
Gain on redemption	Gain on redemption of HTM financial assets	6,940	-
Gain (loss) on disposal	Gain on disposal of HTM financial assets	7,645	4,579
	Loss on disposal of HTM financial assets	(6)	-
Reversal of impairment loss	Reversal of impairment loss of HTM financial assets	7,771	3,166
		22,350	7,745
		₩ 271,938	₩ 231,944

28. Gain (loss) on financial investments (cont'd)

Dividend income from financial investments for the years ended December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2016		For the year ended December 31, 2015
Held-for-trading financial assets	₩	1,713	₩	2,221
AFS financial assets		115,421		76,208
	₩	117,134	₩	78,429

29. Impairment loss on financial assets

Impairment loss related to financial assets for the years ended December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification		For the year ended December 31, 2016		For the year ended December 31, 2015
Loans and receivables	₩	1,556,414	₩	1,281,311
AFS financial assets		57,765		53,554
	₩	1,614,179	₩	1,334,865

30. Other operating income and expenses

Other operating income and expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification		For the year ended December 31, 2016		For the year ended December 31, 2015
Other operating income:				
Gain on derivatives	₩	6,980	₩	8,304
Gain on fair value hedge		22,022		11,064
Point income		49,223		38,295
Gain from changes in foreign exchange rate		679,582		880,850
Others		80,056		135,099
		837,863		1,073,612
Other operating expenses:				
Loss on derivatives		30,291		10,757
Loss on fair value hedge		5,205		10,240
Point expense		54,687		43,438
Loss from changes in foreign exchange rate		659,678		679,308
Fund contribution		443,896		437,780
Transfer to other provisions		17,124		41,334
Others		163,439		200,403
		1,374,320		1,423,260
	₩	(536,457)	₩	(349,648)

31. Employee benefits

Details of employee benefits for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Employee benefits	₩	1,136,115	₩	1,142,894
Fringe benefits		368,257		372,616
Retirement benefits		187,311		157,738
Termination benefits		20,553		14,000
	₩	1,712,236	₩	1,687,248

32. Other selling and administrative expenses

Other selling and administrative expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Tax and dues	₩	95,132	₩	93,155
Travel		4,598		4,884
Telecommunications and transportation		28,451		28,633
Supplies		22,003		20,578
Publication		13,088		14,381
Office rental expense		179		187
Advertising		79,289		94,619
Registration and legal fees		242		245
Development cost		3,174		5,216
Business promotion expenses		14,533		15,625
Repairs and maintenance		11,392		12,276
Utilities		26,960		24,688
Benevolent fee		6,014		5,568
Rental		131,216		133,927
Vehicle maintenance		4,252		5,309
Training		4,729		4,447
Service contract		147,239		144,500
Prizes		9,025		17,665
Compensation for overnight duty		14,491		16,143
Conference		6,850		8,188
Computer service fees		6,351		5,786
Sundry expenses		3,104		5,043
	₩	632,311	₩	661,063

33. Other income and expenses

Other income and expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016	For the year ended December 31, 2015
Other income:		
Gain on disposal of assets	₩ 1,282	₩ 16,144
Rent income	18,978	15,427
Gain on subsidy	17	-
Income from unused gift card	203	302
Miscellaneous	59,405	28,896
Gain on disposal of investments in subsidiaries	27,925	-
Gain on disposal of investments in affiliates	238	5,901
Others	3,617	35,214
	111,665	101,884
Other expense:		
Loss on disposal of assets	3,065	10,319
Brand fee (*)	315,471	305,154
Expenses on restoration	750	887
Miscellaneous	45,521	50,466
Depreciation on investment properties	4,672	3,711
Expense related to collecting receivable	7,272	6,208
Loss on disposal of investments in affiliates	380	737
Others	4,729	8,608
	381,860	386,090
	₩ (270,195)	₩ (284,206)

(*) 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.

34. 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):

	For the year ended December 31, 2016	For the year ended December 31, 2015
Net income	₩ 111,126	₩ 176,293
Dividends on hybrid equity securities	(17,080)	(17,080)
Income attributable to common share	94,046	159,213
Weighted-average number of common shares	426,555,827	423,719,405
Basic and diluted earnings per share (in Korean won)	₩ 220	₩ 376

35. Risk disclosure 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 within ten 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.

35. Risk disclosure of financial instruments (cont'd)

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.

35.1 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 December 31, 2016 and 2015 is summarized as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Deposits	₩ 6,869,973	₩ 12,902,032
Loans	202,080,167	181,333,569
Receivables	5,652,004	5,332,306
Debt securities	26,619,090	23,405,865
Derivative assets	615,298	627,434
Loans and credit commitment	64,479,044	64,808,837
Guarantees and endorsed bills	6,807,553	9,709,694
Financial guarantee contracts	2,713,033	1,574,309
	₩ 315,836,162	₩ 299,694,046

35.2 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.

35. Risk disclosure of financial instruments (cont'd)

35.2 Market risk (cont'd)

35.2.1 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 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 when the Group 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 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

35. Risk disclosure of financial instruments (cont'd)

35.2 Market risk (cont'd)

35.2.1 Trading position (cont'd)

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 at December 31, 2016 and 2015 (total VaR is computed by considering the correlations of the risk factors):

Classification	December 31, 2016 Max	Min	Average	December 31, 2016
Interest rate risk	₩ 37,452	₩ 16,848	₩ 25,632	₩ 37,284
Stock price risk	10,131	4,868	7,165	4,962
Foreign currency risk	5,366	301	1,290	912
Total risk (*)	₩ 38,224	₩ 17,897	₩ 27,096	₩ 37,819

Classification	December 31, 2015 Max	Min	Average	December 31, 2015
Interest rate risk	₩ 35,017	₩ 13,724	₩ 25,903	₩ 29,351
Stock price risk	16,500	5,798	10,899	5,798
Foreign currency risk	6,885	158	898	1,571
Total risk (*)	₩ 38,995	₩ 14,887	₩ 28,708	₩ 30,823

(*) It is not equal to the sum of the individual risks because it is computed taking into consideration the correlations of the risks.

35.2.2 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, and 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

35. Risk disclosure of financial instruments (cont'd)

35.2 Market risk (cont'd)

35.2.2 Non-trading positions (cont'd)

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 as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Interest rate VaR	₩ 314,430	₩ 87,438

35.3.1 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.

35.3.2 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.).

The term structure of liabilities as at December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016						
Classification (*1 and *2)	Less than 1 month	1 month–3 months	3 month–6 months	6 months–1 year	1 year–5 years	More than 5 years	Total
Deposits	₩ 95,417,815	₩ 22,368,578	₩ 29,003,343	₩ 40,780,954	₩ 6,167,893	₩ 2,491,510	₩ 196,230,093
Trading derivative liabilities	607,507	-	-	-	-	-	607,507
Hedging derivative liabilities	(1,430)	659	(288)	1,951	26,874	-	27,766
Borrowings	4,159,885	472,061	697,208	875,459	4,221,681	1,832,633	12,258,927
Debentures	677,811	3,392,407	2,607,341	2,027,139	8,139,736	3,286,702	20,131,136
Other financial liabilities	8,914,099	5,311	3,561	52,683	17,977	525	8,994,156
	₩ 109,775,687	₩ 26,239,016	₩ 32,311,165	₩ 43,738,186	₩ 18,574,161	₩ 7,611,370	₩ 238,249,585

(*1) Cash flows of principal and interest are included.
(*2) Unmatured instruments such as deposits that are contractually repayable on demand or on short notice are classified under the 'Less than 1 month' category.

35. Risk disclosure of financial instruments (cont'd)

35.3.2 Liquidity risk management (cont'd)

Classification (*1 and *2)	December 31, 2015						
	Less than 1 month	1 month– 3 months	3 month– 6 months	6 months– 1 year	1 year– 5 years	More than 5 years	Total
Deposits	₩ 90,273,703	₩ 22,268,415	₩ 25,477,919	₩ 34,025,342	₩ 6,516,048	₩ 2,170,311	₩ 180,731,738
Trading derivative liabilities	616,752	-	-	-	-	-	616,752
Hedging derivative liabilities	75	(930)	1,160	1,087	2,268	-	3,660
Borrowings	5,157,548	599,553	1,071,959	1,224,260	4,312,774	1,741,081	14,107,175
Debentures	619,544	1,531,063	832,795	1,410,522	6,176,068	3,006,287	13,576,279
Other financial liabilities	10,118,591	1,655	3,873	63,246	8,655	-	10,196,020
	₩ 106,786,213	₩ 24,399,756	₩ 27,387,706	₩ 36,724,457	₩ 17,015,813	₩ 6,917,679	₩ 219,231,624

(*1) Cash flows of principal and interest are included.
(*2) Unmatured instruments such as deposits that are contractually repayable on demand or on short notice are classified under the 'Less than 1 month' category.

35.3.3 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 December 31, 2016 and 2015 are as follows (Korea won in millions):

Classification	December 31, 2016	December 31, 2015
Financial guarantee contract	₩ 2,713,033	₩ 1,574,309
Loan commitment	64,479,044	64,808,837
Guarantees and endorsed bills	6,807,553	9,709,694
	₩ 73,999,630	₩ 76,092,840

35.3.4 Currency risk

Currency risk is a risk incurred when the value of a financial instrument or future cash flows fluctuates due to the changes in foreign exchange rates. Currency risk arises from the financial instruments expressed in currencies other than the functional currency. Currency risk does not arise from the financial instruments expressed in the functional currency or in non–monetary items measured by using the historical foreign exchange rates. In order to establish the stop loss and limits, the Group manages the foreign exchange net exposure amount of the trading and non–trading portfolios by each currency.

35. Risk disclosure of financial instruments (cont'd)

35.3.4 Currency risk (cont'd)

Significant assets and liabilities denominated in foreign currencies as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	December 31, 2016 USD	JPY	EUR	CNY	Others	Total
Assets:						
Cash and due from banks	₩ 422,133	₩106,015	₩112,455	₩ 59,794	₩ 153,354	₩ 853,751
Derivative assets	37,454	-	-	-	-	37,454
Available-for-sale financial assets	702,125	-	9,074	-	-	711,199
Loan	5,797,608	238,196	151,857	11,096	194,445	6,393,202
Receivables	578,257	8,159	6,584	-	13,726	606,726
	₩7,537,577	₩352,370	₩279,970	₩ 70,890	₩ 361,525	₩8,602,332
Liabilities:						
Deposits	₩1,799,916	₩105,011	₩113,282	₩ 50,211	₩ 75,317	₩2,143,737
Derivative liabilities	62,377	-	1,342	-	-	63,719
Borrowings	2,101,432	65,247	54,358	10,191	5,645	2,236,873
Debentures	2,890,354	124,417	-	-	16,400	3,031,171
Other financial liabilities	917,191	8,227	65,492	189	7,674	998,773
	₩7,771,270	₩302,902	₩234,474	₩ 60,591	₩ 105,036	₩8,474,273

Classification	December 31, 2015 USD	JPY	EUR	CNY	Others	Total
Assets:						
Cash and due from banks	₩ 489,239	₩ 92,854	₩ 90,024	₩ 22,674	₩ 84,334	₩ 779,125
Derivative assets	79,542	-	-	-	-	79,542
Available-for-sale financial assets	638,812	-	761	-	17,223	656,796
Held-to-maturity financial assets	37,048	-	-	-	-	37,048
Loan	6,579,629	268,891	346,793	1,764	164,949	7,362,026
Receivables	2,211,018	126,216	17,603	1,043	511,106	2,866,986
	10,035,288	487,961	455,181	25,481	777,612	11,781,523
Liabilities:						
Deposits	1,847,773	107,673	80,434	14,109	38,651	2,088,640
Derivative liabilities	73,747	-	3,991	-	-	77,738
Borrowings	3,022,207	101,919	94,469	718	12,282	3,231,595
Debentures	2,832,247	116,641	55,063	-	70,387	3,074,338
Others	1,314,889	10,863	35,260	247	11,406	1,372,665
	₩ 9,090,863	₩337,096	₩269,217	₩ 15,074	₩ 132,726	₩ 9,844,976

35. Risk disclosure of financial instruments (cont'd)

35.3.5 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 December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016					
				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	₩ 552,471	₩ -	₩ 552,471	₩ 253,096	₩2,948	₩ 296,427
Loans-bonds purchased under resale agreements	7,248,200	-	7,248,200	7,248,200	-	-
Receivables-receivable spot exchange	616,080	-	616,080	616,032	-	48
Receivables-receivable spot exchange in foreign currency	572,497	-	572,497	516,506	-	55,991
Receivables-domestic exchange settlement debits	10,119,374	8,036,944	2,082,430	-	-	2,082,430
	₩19,108,622	₩8,036,944	₩11,071,678	₩8,633,834	₩2,948	₩ 2,434,896

	December 31, 2015					
				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	₩ 559,366	₩ -	₩ 559,366	₩ 381,345	₩21,368	₩156,653
Loans-bonds purchased under resale agreements	2,876,900	-	2,876,900	2,876,900	-	-
Receivables-receivable spot exchange	1,102,708	-	1,102,708	1,102,543	-	165
Receivables-receivable spot exchange in foreign currency	1,695,770	-	1,695,770	1,638,271	-	57,499
Receivables-domestic exchange settlement debits	7,479,703	7,020,616	459,087	-	-	459,087
	₩13,714,447	₩7,020,616	₩6,693,831	₩5,999,059	₩21,368	₩673,404

35. Risk disclosure of financial instruments (cont'd)

35.3.5 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 December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016					
				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	₩ 568,585	₩ -	₩ 568,585	₩ 253,096	₩ 35,614	₩ 279,875
Borrowings-bonds sold under repurchase agreements	289,900	-	289,900	289,900	-	-
Other financial liabilities-payable spot exchange	516,521	-	516,521	516,506	-	15
Other financial liabilities-payable spot exchange in foreign currency	672,130	-	672,130	616,032	-	56,098
Other financial liabilities-domestic exchange settlement credits	10,590,987	8,036,944	2,554,043	-	-	2,554,043
	₩12,638,123	₩8,036,944	₩4,601,179	₩1,675,534	₩ 35,614	₩ 2,890,031

	December 31, 2015					
				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	₩ 530,920	₩ -	₩ 530,920	₩ 381,345	₩9,445	₩ 140,130
Borrowings-bonds sold under repurchase agreements	119,761	-	119,761	119,761	-	-
Other financial liabilities-payable spot exchange	1,639,161	-	1,639,161	1,638,271	-	890
Other financial liabilities-payable spot exchange in foreign currency	1,160,068	-	1,160,068	1,102,543	-	57,525
Other financial liabilities-domestic exchange settlement credits	9,004,665	7,020,616	1,984,049	-	-	1,984,049
	₩12,454,575	₩7,020,616	₩5,433,959	₩3,241,920	₩9,445	₩2,182,594

36. Fair value hierarchy of financial instruments

Fair value hierarchy of financial instruments as at December 31, 2016 and 2015 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)

36. Fair value hierarchy of financial instruments (cont'd)

Classification	December 31, 2016 Level 1	Level 2	Level 3	Total
Assets:				
Held-for-trading financial assets	₩ 3,189,901	₩ 2,818,693	₩ -	₩ 6,008,594
Derivative assets	-	606,780	8,518	615,298
AFS financial assets	3,244,236	11,654,523	473,998	15,372,757
	₩ 6,434,137	₩ 15,079,996	₩ 482,516	₩ 21,996,649
Liabilities:				
Derivative liabilities	₩ -	₩ 625,398	₩ 8,356	₩ 633,754

Classification	December 31, 2015 Level 1	Level 2	Level 3	Total
Assets:				
Held-for-trading financial assets	₩ 2,758,648	₩ 2,817,336	₩ -	₩ 5,575,984
Derivative assets	-	597,634	29,800	627,434
AFS financial assets	3,379,062	9,224,006	566,272	13,169,340
	₩ 6,137,710	₩ 12,638,976	₩ 596,072	₩ 19,372,758
Liabilities:				
Derivative liabilities	₩ -	₩ 575,915	₩ 44,493	₩ 620,408

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 ₩9,357 million and ₩8,815 million as at December 31, 2016 and 2015, 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, held-for-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.

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, NICE P&I, and FN Pricing.

36. Fair value hierarchy of financial instruments (cont'd)

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 at FVTPL	Discounted cash flow and others	Risk-free rate of return, Forward rate and others	- / -
Derivatives	Discounted cash flow, intrinsic forward rate,	Risk-free rate of return, Forward rate	- / -
	Option-pricing model, Monte-Carlo Simulation	Volatility of the underlying assets	10% - 30%
AFS financial assets	Discounted cash flow, comparable companies	Discount curve	1.5% - 5%
	valuation method, FCFE model, dividend discount model and net asset value method, etc.	Expected growth rate Discount rate	-
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.

Sensitivity analysis by type of financial instruments as a result of varying input parameters as at December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016				
		Net income (loss)		Other comprehensive income (loss)	
Classification	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 8,518	₩ 7,745	₩ (3,576)	₩ -	₩ -
Equity securities (*2)	473,998	-	-	13,940	(20,394)
	₩ 482,516	₩ 7,745	₩ (3,576)	₩ 13,940	₩ (20,394)
Financial liabilities:					
Derivative liabilities (*1)	₩ 8,356	₩ 6,968	₩ (2,861)	₩ -	₩ -

(*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.

36. Fair value hierarchy of financial instruments (cont'd)

(*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, 2015				
		Net income (loss)		Other comprehensive income (loss)	
Classification	Book value	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Derivative assets (*1)	₩ 29,800	₩ 22,567	₩ (21,717)	₩ -	₩ -
Equity securities (*2)	566,027	-	-	19,934	(11,512)
	₩ 595,827	₩ 22,567	₩ (21,717)	₩ 19,934	₩ (11,512)
Financial liabilities:					
Derivative liabilities (*1)	₩ 44,493	₩ 21,893	₩ (22,616)	₩ -	₩ -

(*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.

Changes in Level 3 financial instruments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3	Ending
Financial assets:							
AFS financial assets	₩566,272	₩ (8,848)	₩ 9,193	₩ 19,757	₩ (112,383)	₩ 7	₩ 473,998
Derivative assets	(14,693)	912	-	10,812	3,131	-	162
	₩551,579	₩ (7,936)	₩ 9,193	₩ 30,569	₩ (109,252)	₩ 7	₩ 474,160

	For the year ended December 31, 2015						
	Beginning	Gain (loss)	Other comprehensive income	Purchase/ issue	Disposal/ settlement	Transfer from or to Level 3	Ending
Financial assets:							
AFS financial assets	₩738,564	₩ (4,373)	₩ (38,733)	₩ 27,060	₩ (138,050)	₩ (18,196)	₩ 566,272
Derivative assets	(19,312)	(4,991)	-	13,838	(4,228)	-	(14,693)
	₩719,252	₩ (9,364)	₩ (38,733)	₩ 40,898	₩ (142,278)	₩ (18,196)	₩ 551,579

For the years ended December 31, 2016 and 2015, 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 December 31, 2016 are recognized as changes in valuation gain (loss) of AFS financial assets.

36. Fair value hierarchy of financial instruments (cont'd)

Gains or losses recognized from financial instruments categorized as Level 3 of the fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position for the years ended December 31, 2016 and 2015 and the line items in profit or loss in which those gains or losses are recognized are as follows (Korean won in million):

	For the year ended December 31, 2016	
	Income or loss during the reporting period	Income or loss related to financial instruments held at the end of the reporting period
Gain (loss) on held-for-trading financial assets	₩ 912	₩ (177)
Other income related to financial instruments	528	-
Impairment related to financial assets	(9,376)	(7,076)
	₩ (7,936)	₩ (7,253)

	For the year ended December 31, 2015	
	Income or loss during the reporting period	Income or loss related to financial instruments held at the end of the reporting period
Gain (loss) on held-for-trading financial assets	₩ (4,991)	₩ (311)
Other income related to financial instruments	5,834	-
Impairment related to financial assets	(10,207)	(10,207)
	₩ (9,364)	₩ (10,518)

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 year ended December 31, 2016.

Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
Classification	Level 1	Level 2	Level 3	Fair value	Book value
Assets:					
HTM financial assets	₩ 665,232	₩ 7,548,466	₩ -	₩ 8,213,698	₩ 8,166,942
Loans and receivables	-	-	208,609,731	208,609,731	207,732,171
Other financial assets	-	-	198	198	198
	₩ 665,232	₩ 7,548,466	₩ 208,609,929	₩ 216,823,627	₩ 215,899,311
Liabilities:					
Deposits	₩ -	₩ -	₩ 195,161,638	₩ 195,161,638	₩ 194,212,330
Borrowings	-	-	12,184,443	12,184,443	12,185,991
Debentures	-	18,984,692	-	18,984,692	18,717,527
Other financial liabilities (*1)	-	-	9,091,918	9,091,918	9,996,525
	₩ -	₩ 18,984,692	₩ 216,437,999	₩ 235,422,691	₩ 235,112,373

(*1) Interest payables included in the computation for fair value of deposits, borrowings and debentures are excluded from fair value of other financial liabilities.

36. Fair value hierarchy of financial instruments (cont'd)

Classification	December 31, 2015 Level 1	Level 2	Level 3	Fair value	Book value
Assets:					
HTM financial assets	₩ 1,571,869	₩ 5,686,536	₩ 42,609	₩ 7,301,014	₩ 7,152,723
Loans and receivables	-	-	188,491,291	188,491,291	186,665,875
Other financial assets	-	-	192	192	192
	₩ 1,571,869	₩ 5,686,536	₩ 188,534,092	₩ 195,792,497	₩ 193,818,790
Liabilities:					
Deposits	₩ -	₩ -	₩ 176,713,942	₩ 176,713,942	₩ 178,583,501
Borrowings	-	-	14,076,296	14,076,296	14,080,620
Debentures	-	12,543,686	-	12,543,686	12,200,984
Other financial liabilities (*1)	-	-	10,150,864	10,150,864	11,324,150
	₩ -	₩ 12,543,686	₩ 200,941,102	₩ 213,484,788	₩ 216,189,255

(*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.

37. Related-party transactions

Details of related-party transactions of the Group as at December 31, 2016 are as follows:

Classification	Company
Ultimate parent company	NACF
Parent company	NH Financial Group Inc.
Associates	Nanumlotto; Korea Credit Bureau; NH Agri-Best 1st Private Equity Fund; NH - KOLON Green 1st Private Equity Fund; NH-QCP Global Partnership PEF; IBK-NH Smallgiant PEF; NH-AJUIB Growth 2013 PEF; Kyunggi-DSC Superman Investment Fund No. 1; Resom Resort; NH Agri-Biz Value Creative 1st Private Equity Fund
Other related-parties	NH Life Insurance Co., Ltd.; NH Property and Casualty Insurance Co., Ltd.; NH Investment & Securities Co., Ltd. (formerly known as Woori Investment &Securities Co., Ltd.); NH NongHyup Capital Co., Ltd.; NH Savings Bank.; Tongyang Global REF private mixed investment trust; Maps NH private placed real estate investment trust 1-2; NH-CA(NH Futures) PEF Best 30 12-6th and 21 others; NH Futures (formerly known as Woori Futures Co., Ltd.); Principal Guaranteed Trust of NH Investment & Securities; NH Investment & Securities (H.K.) Ltd., Woori Investment Asia Pte., Ltd., NH Absolute Global Opportunity Fund, NH Absolute Return Investment Strategies Fund, Woori CBV Securities Corporation, NH Securities America, Inc., NH Absolute Return Partners Pte., Ltd., PT. NH Korindo Securities Indonesia; Beijing NH Investment Advisory Co., Ltd; KoFC Woori Growth Champ 2010 No.3; RG HVL overseas resources development Fund; NH Absolute Return PEF No.1; Lyxor Daemunshin Multi-Strategy Fund PC; Alpenrose 2nd SPC, Inc.; IBS 11th SPC, Inc.; Woori Credit 1st Co., Ltd.; Woori Credit 2nd Co., Ltd.; Woori Credit 3rd Co., Ltd.; Woori Credit 6th Co.; Woori Giant 1st Co., Ltd.; BJA 1st Co., Ltd.; E-Revolution Private Equity Fund No. 1.; NEW HARMONY 2nd Co., Ltd.; NEW HARMONY 3rd Co., Ltd.; NEW HARMONY 4th Co., Ltd.; Able Hanul 1st Co., Ltd.; Precious 6th Co., Ltd.; Spes 6th Co., Ltd.; Spes 9th Co., Ltd.; HI-Yeongjong 1st Co., Ltd.; New start KLI Co., Ltd.; New start JH Co., Ltd.; ILsantanhyun N&D Inc.; MJ-10 the 2nd Co., Ltd.; Plan 2nd Co., Ltd.; Biangko 2nd Co., Ltd.; Biangko 3rd Co., Ltd.; Biangko 6th Co., Ltd.; Biangko 7th Co., Ltd.; New real two 1st Co., Ltd.; New real two 2nd Co., Ltd.; Green Power 1st Co., Ltd.; Green Power 2nd Co., Ltd.; Green Power 3rd Co., Ltd.; Renewable Energy 9th Co., Ltd.; NH-Amundi Asset Management Co., Ltd (formerly known as NH-CA Asset Management Co., Ltd); MEGA BOWL CITY Co., Ltd.; Medical Investment

37. Related-party transactions (cont'd)

Classification	Company
	Advisory Co., Ltd (formerly known as Clover Investment Advisory Co., Ltd); Kokam Co., Ltd; Blue ocean Corporate's Financial Stabilization Private Equity Fund No. 1; Sandonghansangchieop Co., Ltd.; Seoul Seongbo Chieop Co., Ltd.; Yeosu New City Complex Development Co., Ltd.; Daguang real estate developing Co., Ltd.; Edupalace INC.; Edupalace Co., Ltd.; Sehanmetro PFV; NH-LB Growth Champ 2011-4 PEF; KDBC-EUM Corporate's Financial Stabilization Private Equity Fund No.4; Presto Private Equity Fund No.4; NH-QCP HNC KD-1 PEF; Oracle 1st LP; ACFSMC (Tianjin) International Financial Leasing Co., Ltd.; NH Agribusiness Group Inc.; NH Development, Ltd.; NH Information System Co., Ltd.; Agricultural Cooperative Asset Management Co., Ltd.; NH Hyupdong Planning; Nonghyup Hanaro Mart Inc.; Agricultural Corporation Nonghyup Food Grain Inc.; 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.; Nonghyup Chemical Co., Ltd.; NH Trading Co., Ltd.; Nonghyup-Agro; Nonghyup RedGinseng.co., Ltd.; Namhae Chemical Corporation; Nonghyup Moguchon Inc.; Nonghyup Feed Inc.; Nongwoo BIO Co., Ltd.; NH-Hay Inc.; NH Heuk Sarang Co., Ltd.; Nonghyup TMR Co., Ltd.; Nisso-namhae Agro Co., Ltd.; Japan Nonghyup International; Kongyoung Homeshopping Co., Ltd.; Home and Shopping Co., Ltd.; NH Special Purpose Acquisition 3 Co., Ltd.; NH SL Special Purpose Acquisition Co., Ltd.; NH Special Purpose Acquisition 5 Co., Ltd.; NH Special Purpose Acquisition 7 Co., Ltd.; NH Special Purpose Acquisition 8 Co., Ltd.; NH Special Purpose Acquisition 9 Co., Ltd.; NH Special Purpose Acquisition 10 Co., Ltd.; NH Special Purpose Acquisition 11 Co., Ltd.; My Dream 1st Co., Ltd.; NH Dongtan 1st Co., Ltd.; Daewoo Logistics Corp.; HND Logistics Co., Ltd.; Gwangyang International Container Terminal; Magic Holdings Ltd.; Tongyang Magic Inc.; Tongyang Magic Service Co, Ltd.; Resom construction Co., Ltd.; Resom Resort (Hwajinpo) Co., Ltd.; Resom Weihai Golf resort Co., Ltd.; Green Industrial Co., Ltd.; Resom Resort Philippines, Inc.; MS Dongtantechno 2nd Co., Ltd.; LakeBaekwoon 2nd Co., Ltd.; LakeBaekwoon 1st Co., Ltd.; Agricultural Corporation K-Food Inc.; Honey Dream 1st Co., Ltd.
Others(*1)	Yoesu Green Energy Co., Ltd.; TAPEX Inc.; CHANGMYUNG SHIPPING CO., LTD.

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

Details of related-party transactions of the Group as at December 31, 2016 and 2015 are as follows:

	December 31, 2016						
Company	Receivables	Derivative assets	Allowances	Deposits	Derivative liabilities	Debentures	Other liabilities
Ultimate parent company:							
NACF	₩ 1,817,955	₩ 103,593	₩ -	₩ 52,669	₩ 2,156	₩ -	₩ 752
Parent company:							
NH Financial Group Inc.	419	-	-	400	-	-	-
Associates:							
Nanumlotto	196	-	-	9,897	-	-	-
Korea Credit Bureau	-	-	-	5,162	-	-	40
NH Agri-Best 1st PEF	-	-	-	3,126	-	-	14
NH - KOLON Green 1st PEF	-	-	-	318	-	-	1
Kyunggi-DSC Superman Investment Fund No. 1	-	-	-	1,881	-	-	-
Resom Resort	140,711	-	-	1,676	-	-	18
NH Agri-Biz Value Creative 1st Private Equity Fund	63	-	-	-	-	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	2,289	1,894	1	812,143	4,001	150,003	13,539
NH NongHyup Capital Co., Ltd.	2,010	-	1	12,854	-	-	-
NH-Amundi Asset Management Co., Ltd	164	-	7	91,940	-	-	710
Nongwoo BIO CO., Ltd	7,549	-	8	1,639	-	-	-
NH Life Insurance Co., Ltd.	2,873	102,652	1	33,782	2,535	-	4,136
NH Property and Casualty Insurance Co., Ltd.	1,427	6,733	1	9,916	-	-	-
NH Agribusiness Group Inc.	62,134	-	15	215,582	-	-	3,430
Namhae Chemical Corporation	19,306	-	16	23,027	48	-	21
NH heuk sarang Co., Ltd.	303	-	-	508	-	-	-
Nisso-namhae Agro Co., Ltd.	14	-	-	13,941	-	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	43	-	-	5,102	-	-	102
Agricultural Corporation Nonghyup Food Grain Inc.	9,813	-	32	100	-	-	-
Nonghyup Moguchon Inc.	36,787	-	27	1,324	-	-	-
Nonghyup Logistics Service Inc.	18,497	-	4	1,478	-	-	1,490
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	93	-	-	3,039	-	-	17
Nonghyup Feed Inc.	279,022	-	484	8,449	3,344	-	-
Other related parties:							
Nonghyup-Agro	10	-	-	69	-	-	-
Nonghyup Hanaro Mart Inc.	399	-	-	8,408	-	-	7,548
Korea Agriculture Cooperative Marketing Inc.	201	-	-	6,184	-	-	2,044
NH Information System Co., Ltd.	1,895	-	1	39,040	-	-	155
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	2,297	-	2	259	-	-	474
NongHyup Chemical Co., Ltd.	30,589	-	29	411	-	-	-
NongHyup RedGinseng. Co., Ltd.	33,691	-	188	2,178	-	-	75
NH Hyupdong Planning	154	-	-	3,276	-	-	424
NH Development, Ltd.	868	-	3	17,033	-	-	748
NH Trading Co., Ltd.	5,168	344	30	2,336	13	-	-
Nonghyup foundation	3,495	-	1	62,919	-	-	380
Agricultural Cooperative Asset Management Co., Ltd.	158,436	-	53	1,104	-	-	936
Kongyoung Homeshopping Co., Ltd.	63	-	2	-	-	-	-
NH Futures	105	-	-	9,619	-	-	37
NH Savings Bank	203	-	-	-	-	-	-
Magic Holdings Ltd.	-	-	-	15	-	-	-
Tongyang Magic Inc.	50,510	-	11	-	-	-	-
Tongyang Magic Service Co, Ltd.	69	-	-	1	-	-	-
Resom construction Co, Ltd.	3	-	-	-	-	-	-
NH-CA (NH Futures) PEF Best 30 12-6th and 21 others	4	-	-	-	-	-	25,195
Others (*1):							
TAPEX Inc.,	3,654	-	-	554	-	-	-
Yoesu Green Energy Co., Ltd.	22	-	-	2,401	-	-	1
CHANGMYUNG SHIPPING Co., Ltd.	77,213	-	12,044	9,321	-	-	-

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

	December 31, 2015						
Company	Receivables	Derivative assets	Allowances	Deposits	Derivative liabilities	Debentures	Other liabilities
Ultimate parent company:							
NACF	₩ 1,015,224	₩ 72,642	₩ 178	₩ 1,586,472	₩ 2,628	₩ -	₩ 75
Parent company:							
NH Financial Group Inc.	375	-	14	30,031	-	-	71
Associates:							
Nanumlotto	234	-	1	8,973	-	-	-
Korea Credit Bureau	-	-	-	4,762	-	-	43
NH Agri-Best 1st PEF	-	-	-	3,082	-	-	-
NH - KOLON Green 1st PEF	-	-	-	349	-	-	1
STX offshore & shipbuilding Co., Ltd.	821,953	-	582,213	3,832	-	-	-
NH SG PEF No.2	-	-	-	20	-	-	-
NH-AJUIB Growth 2013 PEF	268	-	-	-	-	-	-
NH-QCP Global Partnership PEF	81	-	-	-	-	-	-
IBK-NH Smallgiant PEF	322	-	-	-	-	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	2,489	1,079	1	918,789	2,316	150,046	7,284
NH NongHyup Capital Co., Ltd.	688	-	1	8,890	-	-	548
NH-CA Asset Management Co., Ltd.	178	-	6	81,808	-	-	642
Nongwoo BIO CO., Ltd.	10,668	-	7	3,587	-	-	-
NH Life Insurance Co., Ltd.	2,263	16,937	2	26,644	3,085	-	3,480
NH Property and Casualty Insurance Co., Ltd.	1,430	2,456	1	6,210	73	-	-
NH Agribusiness Group Inc.	24,571	-	2	224,795	-	-	12
Namhae Chemical Corporation	34,607	-	39	41,233	33	-	71
NH heuk sarang Co., Ltd.	1,578	-	2	526	-	-	-
Nisso-namhae Agro Co., Ltd.	17	-	-	68	-	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	26	-	-	5,094	-	-	57
Agricultural Corporation Nonghyup Food Grain Inc.	11	-	-	2,963	-	-	-
Nonghyup Moguchon Inc.	31,419	-	10	1,353	-	-	-
Nonghyup Logistics Service Inc.	72	-	-	16,357	-	-	1,202
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	121	-	-	8,163	-	-	49
Nonghyup Feed Inc	227,001	56	778	680	419	-	-
Other related parties:							
Nonghyup-Agro	14	-	-	1	-	-	-
Nonghyup Hanaro Mart Inc.	797	-	-	4,198	-	-	3,245
Korea Agriculture Cooperative Marketing Inc.	225	-	-	33,191	-	-	1,786
NH Information System Co., Ltd.	1,482	-	-	44,546	-	-	84
Agricultural cooperative Chungbuk Marketing Co., Ltd.	53	-	-	585	-	-	344
NongHyup Chemical Co., Ltd.	15,573	-	17	199	-	-	-
NongHyup RedGinseng. Co., Ltd.	13,954	-	66	609	-	-	107
NH Hyupdong Planning	161	-	6	4,143	-	-	933
NH Development, Ltd.	1,226	-	4	6,797	-	-	1,022
NH Trading Co., Ltd.	1,999	91	12	16,948	11	-	-
Nonghyup foundation	38	-	1	-	-	-	-
Agricultural Cooperative Asset Management Co., Ltd.	157,557	-	54	449	-	-	620
Maps NH private placed real estate investment trust 1-2th	616	-	-	-	-	-	-
NH-Glenwood 1st PEF	-	-	-	56	-	-	-
NH Futures	745	-	-	9,793	-	-	17
NH Savings Bank	162	-	-	-	-	-	-
Magic Holdings Ltd.	2	-	-	76	-	-	-
Tongyang Magic Inc.	16,818	-	59	-	-	-	-
Tongyang Magic Service. Co, Ltd.	2,302	-	9	-	-	-	-
Yurie (Hanwha) Balance private fund 16th and 45 others	13	-	-	-	-	-	72,520
Sinyoung (Daishin) Private Equity N-34 and 18 investment trusts	4	-	-	-	-	-	58,003
Others (*1):							
Yoesu Green Energy Co., Ltd.	14	-	-	2,700	-	-	2

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

Significant transactions with related parties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Company	For the year ended December 31, 2016						
	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Ultimate parent company:							
NACF	₩ 25,450	₩ 228	₩ 179,248	₩ 127	₩ 1,893	₩ -	₩ 275,864
Parent company:							
NH Financial Group Inc.	-	-	550	2	41	-	-
Associates:							
Nanumlotto	-	1	-	(1)	15	-	-
Korea Credit Bureau	-	-	-	-	114	-	-
NH Agri-Best 1st Private Equity Fund	-	-	-	-	43	-	-
NH - KOLON Green 1st Private Equity Fund	-	-	-	-	2	-	-
NH Agri-Biz Value Creative 1st Private Equity Fund	-	140	-	-	-	-	-
Kyunggi-DSC Superman Investment Fund No. 1	-	2	-	-	20	-	-
Resom Resort	592	-	-	52,867	36	-	-
Other related parties:							
NH Investment & Securities Co., Ltd.	27	15	4,959	-	20,763	168	5,753
NH NongHyup Capital Co., Ltd.	-	16	-	-	7	-	2,460
NH-Amundi Asset Management Co., Ltd.	-	14	-	-	1,243	478	-
Nongwoo BIO CO., Ltd.	300	2	-	1	4	-	-
NH Life Insurance Co., Ltd.	32	16,297	125,552	(1)	6	7	25,239
NH Property and Casualty Insurance Co., Ltd.	4	4,188	8,374	-	7	-	21,807
NH Agribusiness Group Inc.	640	16	-	13	3,428	-	118
Namhae Chemical Corporation	98	377	-	(24)	247	-	48
NH heuk sarang Co., Ltd.	18	1	-	(2)	-	-	19
Nisso-namhae Agro Co., Ltd.	-	1	-	-	11	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	-	-	-	-	92	1	31
Agricultural Corporation Nonghyup Food Grain Inc.	39	6	100	31	-	-	168
Nonghyup Moguchon Inc.	919	5	282	17	1	-	381
Nonghyup Logistics Service Inc.	281	3	554	4	19	4,381	16,920
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	-	27	471	-	37	-	155

37. Related-party transactions (cont'd)

Company	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
	For the year ended December 31, 2016						
Other related parties:							
Nonghyup Feed Inc.	₩ 142	₩ 1,136	₩ 254	₩ (294)	₩ 1	₩ -	₩ 3,344
Nonghyup-Agro	13	-	-	-	16	-	-
Nonghyup Hanaro Mart Inc.	-	1	315	-	6	-	2,728
Korea Agriculture Cooperative Marketing Inc.	1	24	1,284	-	196	-	286
NH Information System Co., Ltd.	-	-	1,323	1	289	-	45,354
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	61	2	-	1	1	-	208
NongHyup Chemical Co., Ltd.	1,153	133	-	12	1	-	-
NongHyup RedGinseng. Co., Ltd.	578	2	12	122	1	-	20
NH Hyupdong Planning	-	34	-	(6)	47	-	26,331
NH Development, Ltd.	8	6	305	(1)	20	-	10,563
NH Trading Co., Ltd.	141	64	399	19	3	-	14
Nonghyup foundation	-	-	-	(1)	3,045	-	214
Agricultural Cooperative Asset Management Co., Ltd.	4,160	10	157	(2)	7	5,458	782
Maps NH private placed real estate investment trust 1-2th	-	-	-	-	-	-	896
NH-Glenwood 1st PEF	-	22	-	-	-	-	-
NH Futures	-	5	-	-	45	542	-
NH Savings Bank	-	207	111	-	-	-	-
Nonghyup TMR Co., Ltd.	-	1	-	-	-	-	-
Magic Holdings Ltd.	-	1	-	-	-	-	-
Tongyang Magic Inc.	468	8	-	(48)	-	-	-
Tongyang Magic Service. Co, Ltd.	15	-	-	(8)	-	-	1
NH-CA(NH Futures) PEF Best 30 12-6th and 21 others	-	15	-	-	57	-	-
NH-CA(NH Futures) Maestro PEF and 3 others	-	30	-	-	237	-	-
Others (*1):							
TAPEX Inc.,	2	-	-	-	-	-	-
Yoesu Green Energy Co., Ltd.	-	-	-	-	18	-	-
CHANGMYUNG SHIPPING CO., LTD.	-	5	-	268,218	3	-	-

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

	For the year ended December 31, 2015						
Company	Interest income	Commission income	Other income	Provision (reversal) of allowance	Interest expenses	Commission expenses	Other expenses
Ultimate parent company:							
NACF	₩ 12,754	₩ 154	₩ 114,677	₩ 124	₩ 551	₩ -	₩ 376,086
Parent company:							
NH Financial Group Inc.	-	-	485	-	71	-	-
Associates:							
Nanumlotto	-	-	-	-	15	-	-
Korea Credit Bureau	-	-	-	-	74	-	-
NH Agri-Best 1st Private Equity Fund	-	1	-	-	51	-	-
NH - KOLON Green 1st Private Equity Fund	-	1	-	-	5	-	-
STX offshore & shipbuilding Co., Ltd.	29,565	4,089	-	515,645	-	-	-
NH SG PEF No.2	-	71	-	-	-	-	-
NH-AJUIB Growth 2013 Private Equity Fund	-	1,031	-	-	-	-	-
NH-QCP Global Partnership PEF	-	320	-	-	-	-	-
IBK-NH Smallgiant PEF	-	225	-	-	-	-	-
Other related parties:							
NH NongHyup Securities Co., Ltd.	30	9	2,556	(2)	39,784	197	3,829
NH NongHyup Futures Co., Ltd.	-	11	-	-	-	243	-
NH NongHyup Capital Co., Ltd.	-	25	-	-	5	-	3,138
NH-CA Asset Management Co., Ltd.	-	13	5	2	972	97	-
Nongwoo BIO CO., Ltd.	366	2	-	5	3	-	1
NH Life Insurance Co., Ltd.	29	26,681	54,796	-	5	25	9,294
NH Property and Casualty Insurance Co., Ltd.	7	3,037	6,256	-	6	-	26,247
NH Agribusiness Group Inc.	191	9	-	2	325	-	154
Namhae Chemical Corporation	132	496	-	(79)	123	-	33
NH heuk sarang Co., Ltd.	15	-	-	2	-	-	66
Nisso-namhae Agro Co., Ltd.	-	-	-	-	-	-	-
Daejeon Agricultural Products Marketing Co., Ltd.	-	-	-	-	52	1	96
Agricultural Corporation Nonghyup Food Grain Inc.	-	14	14	-	2	-	217
Nonghyup Moguchon Inc.	692	2	229	3	29	-	178
Nonghyup Logistics Service Inc.	1	17	25	-	4	-	20,093
Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.	-	108	415	-	248	-	275
Other related parties:							
Nonghyup Feed Inc.	203	1,274	310	(195)	-	-	419
Nonghyup-Agro	1	-	-	-	21	-	-
Nonghyup Hanaro Mart Inc.	-	17	215	-	3	-	3,647
Korea Agriculture Cooperative Marketing Inc.	-	125	1,342	-	578	110	163
NH Information System Co., Ltd.	-	-	297	-	186	-	71,461
Agricultural Cooperative Chungbuk Marketing Co., Ltd.	-	-	-	-	1	3	487
NongHyup Chemical Co., Ltd.	2,039	244	-	(4)	-	-	-
NongHyup RedGinseng. Co., Ltd.	357	38	4	(101)	-	-	68
NH Hyupdong Planning	-	5	-	2	62	-	25,284
NH Development, Ltd.	8	125	306	(2)	1	-	82,353
NH Trading Co., Ltd.	308	63	192	(64)	1	-	11
Nonghyup foundation	-	-	-	1	-	-	-
Agricultural Cooperative Asset Management Co., Ltd.	5,003	15	159	(3)	1	6,387	997
Maps NH private placed real estate investment trust 1-2th	-	-	-	-	-	-	997
NH-Glenwood 1st PEF	-	775	-	-	-	-	-
NH Futures	-	1	1	-	49	91	-
NH Savings Bank	-	100	47	-	-	-	-
Magic Holdings Ltd.	-	5	-	-	3	-	-
Tongyang Magic Inc.	279	-	-	52	-	-	94
Tongyang Magic Service Co, Ltd.	147	-	-	(10)	-	-	-
Kongyoung Homeshopping Co., Ltd.	-	-	-	2	-	-	-
Yurie (Hanwha) Balance private fund 16th and 45 others	-	228	-	-	1,256	-	-
Sinyoung (Daishin) Private Equity N-34 and 18 investment trusts	-	75	-	-	489	-	-
Others (*1):							
Yoesu Green Energy Co., Ltd.	-	-	-	-	84	-	-

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

The Group's acceptances, guarantees and unused credit limits with related parties as at December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016	
Classification	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 3,013,542	NACF
Unused credit limit in Korean won	283	NH Financial Group Inc.
Unused credit limit in Korean won	82,396	NH Life Insurance
Unused credit limit in Korean won	32,073	NH Property and Casualty Insurance
Unused credit limit in Korean won	526,297	NH Investment & Securities Co., Ltd.
Unused credit limit in Korean won	1,490	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won	447	NH Savings Bank
Unused credit limit in Korean won	836	NH-Amundi Asset Management Co., Ltd
Unused credit limit in Korean won	195	NH Futures
Unused credit limit in Korean won	304	Nanumlotto
Unused credit limit in Korean won	83,701	NH Agribusiness Group Inc.
Unused credit limit in Korean won	97	Daejeon Agricultural Products Marketing Co., Ltd
Unused credit limit in Korean won	3,094	NongHyup RedGinseng. Co., Ltd.
Unused credit limit in Korean won	11,140	NH Trading Co., Ltd.
Acceptances and guarantees in foreign currencies	21,782	NH Trading Co., Ltd.
Unused credit limit in Korean won	70	Nonghyup-Agro
Unused credit limit in Korean won	51,017	Korea Agriculture Cooperative Marketing Inc.
Unused credit limit in Korean won	464,868	Namhae Chemical Corporation
Acceptances and guarantees in Korean won	3,643	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	28,517	Namhae Chemical Corporation
Unused credit limit in Korean won	165,355	Nonghyup Chemical Co., Ltd.
Acceptances and guarantees in foreign currencies	9,012	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	402	Agricultural Cooperative Pusan Gyeongnam Marketing Inc.
Unused credit limit in Korean won	5,256	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	906	Nonghyup Logistics Service Inc.
Unused credit limit in Korean won	362,023	Nonghyup Feed Inc.
Acceptances and guarantees in foreign currencies	95,964	Nonghyup Feed Inc.
Unused credit limit in Korean won	89,197	NH Development, Ltd.
Acceptances and guarantees in Korean won	1,000	NH Development, Ltd.
Unused credit limit in Korean won	25,040	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	1,605	NH Information System Co., Ltd.
Unused credit limit in Korean won	1,038	NH heuk sarang Co., Ltd.
Unused credit limit in Korean won	182	Nonghyup foundation
Unused credit limit in Korean won	7,463	NH Hyupdong Planning
Acceptances and guarantees in Korean won	2,683	NH Hyupdong Planning
Unused credit limit in Korean won	26	Nisso-namhae Agro Co., Ltd
Unused credit limit in Korean won	8,964	Nongwoo BIO CO., Ltd
Unused credit limit in Korean won	25	Agricultural Corporation Nonghyup Food Grain Inc.
Unused credit limit in Korean won	113,514	Nonghyup Hanaro Mart Inc.
Unused credit limit in Korean won	1,075	Resom Resort Co., Ltd.
Acceptances and guarantees in Korean won	305	Resom Resort Co., Ltd.
Unused credit limit in Korean won	4	Resom construction Co., Ltd.;
Unused credit limit in Korean won	101	Kongyoung Homeshopping Co., Ltd.
Unused credit limit in Korean won	81	Yoesu Green Energy(*1)
Unused credit limit in Korean won	10,100	TAPEX Inc.,(*1)

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

	December 31, 2015	
Classification	Credit limit	Counterparty
Unused credit limit in Korean won	₩ 3,187,189	NACF
Unused credit limit in Korean won	325	NH Financial Group Inc.
Unused credit limit in Korean won	83,001	NH Life Insurance
Unused credit limit in Korean won	31,570	NH Property and Casualty Insurance
Unused credit limit in Korean won	527,092	NH Investment & Securities Co., Ltd.
Unused credit limit in Korean won	2,812	NH NongHyup Capital Co., Ltd.
Unused credit limit in Korean won	478	NH Savings Bank
Unused credit limit in Korean won	831	NH-Amundi Asset Management Co., Ltd.
Unused credit limit in Korean won	10,266	Nanumlotto
Unused credit limit in Korean won	53,264	STX Offshore & Shipbuilding Co., Ltd.
Acceptances and guarantees in foreign currencies	716,566	STX Offshore & Shipbuilding Co., Ltd.
Unused credit limit in Korean won	101,375	NH Agribusiness Group Inc.
Unused credit limit in Korean won	2,114	Daejeon Agricultural Products Marketing Co., Ltd
Unused credit limit in Korean won	13,953	NongHyup RedGinseng. Co., Ltd.
Unused credit limit in Korean won	32,446	NH Trading Co., Ltd.
Acceptances and guarantees in foreign currencies	4,646	NH Trading Co., Ltd.
Unused credit limit in Korean won	3,566	Nonghyup-Agro
Unused credit limit in Korean won	963	Korea Agriculture Cooperative Marketing Inc.
Unused credit limit in Korean won	464,541	Namhae Chemical Corporation
Acceptances and guarantees in Korean won	10,078	Namhae Chemical Corporation
Acceptances and guarantees in foreign currencies	22,400	Namhae Chemical Corporation
Unused credit limit in Korean won	169,639	Nonghyup Chemical Co., Ltd.
Acceptances and guarantees in foreign currencies	8,695	Nonghyup Chemical Co., Ltd.
Unused credit limit in Korean won	154	Agricultural Cooperative Pusan Gyeongnam Marketing, Inc.
Unused credit limit in Korean won	5,247	Agricultural Cooperative Chungbuk Marketing Co., Ltd.
Unused credit limit in Korean won	2,058	Nonghyup Logistics Service Inc.
Unused credit limit in Korean won	479,778	Nonghyup Feed Inc.
Acceptances and guarantees in foreign currencies	70,935	Nonghyup Feed Inc.
Unused credit limit in Korean won	35,697	Nonghyup Moguchon
Unused credit limit in Korean won	82,186	NH Development, Ltd.
Acceptances and guarantees in Korean won	7,658	NH Development, Ltd.
Unused credit limit in Korean won	23,916	Agricultural Cooperative Asset Management Co., Ltd.
Unused credit limit in Korean won	518	NH Information System Co., Ltd.
Unused credit limit in Korean won	44	NH heuk sarang Co., Ltd.
Unused credit limit in Korean won	162	Nonghyup foundation
Unused credit limit in Korean won	139	NH Hyupdong Planning
Unused credit limit in Korean won	23	Nisso-namhae Agro Co., Ltd
Unused credit limit in Korean won	3,217	Tongyang Magic Inc.
Acceptances and guarantees in foreign currencies	1,386	Tongyang Magic Inc.
Unused credit limit in Korean won	2,248	Tongyang Magic Service Co, Ltd.
Unused credit limit in Korean won	9,854	Nongwoo BIO CO., Ltd
Unused credit limit in Korean won	39	Agricultural Corporation Nonghyup Food Grain Inc.
Unused credit limit in Korean won	102,962	Nonghyup Hanaro Mart Inc.
Unused credit limit in Korean won	96	Goseong Offshore & Shipbuilding Co., LTD.
Unused credit limit in Korean won	86	Yoesu Green Energy(*1)

(*1) Companies in conglomerate group except for parent company, joint controlled entities, associates, and other related parties, are included in others.

37. Related-party transactions (cont'd)

The key management compensations for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Short-term employee benefits	₩	2,209	₩	2,306
Retirement expenses		599		683
	₩	2,818	₩	2,989

38. Commitments and contingencies

Details of agreements that the Group has made as at December 31, 2016 and 2015 as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Loan commitment	₩	61,491,294	₩	62,776,226
Credit guarantee (*1)		1,575,236		929,955
CP purchase agreement (*1)		516,074		219,066
Treasury purchase agreement		896,440		883,590
	₩	64,479,044	₩	64,808,837

(*1) As at December 31, 2016, the Group provided the credit line with the limit of ₩1,575,236 million and made the commercial paper purchase agreement with the limit of ₩516,074 million as collaterals to repay the principals and interests of debentures and commercial papers issued by the JB Woori Capital Auto 6th SPC and 41 other SPCs.

The Group is involved in various pending legal proceedings arising in the normal course of business. As at December 31, 2016, the Group is named as a plaintiff in 271 cases with related aggregate claims amounting to ₩219,614 million, and as a defendant in 237 cases with related aggregate claims amounting to ₩226,743 million. Accordingly, the Group accrued for a litigation-related liability of ₩7,916 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 ₩5,524,203 million and ₩4,086,166 million as at December 31, 2016 and 2015 respectively.

39. Consolidated statements of cash flows

39.1 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 December 31, 2016 and 2015, are adjusted as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Cash and due from banks	₩	8,746,222	₩	14,704,759
Less: Restricted due from bank (refer to Note 6)		(6,442,670)		(11,738,313)
Less: Due from banks with a maturity of three months or more at acquisition		-		(1,027,500)
	₩	2,303,552	₩	1,938,946

39. Consolidated statements of cash flows (cont'd)

39.2 Non-cash transactions

Significant non-cash transactions not included in the consolidated statement of cash flows for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Increase (decrease) in loans due to write off	₩	(2,338,079)	₩	959,618
Decrease in gain on valuation of AFS financial assets		(83,495)		(39,297)
Transfer to land of investment properties from land of tangible assets		123,537		78,030
Increase in investment in associates due to debt-equity swap		-		29,900
Gain on exemption of accounts payable due to liquidation of subsidiaries		27,925		-

40. Operating lease

The Group uses Automatic Teller's Machines through operating lease. The lease term ranges from 12 to 33 months.

Lease expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Classification	For the year ended December 31, 2016		For the year ended December 31, 2015	
Minimum lease payment	₩	16,080	₩	23,393

Expected schedule of lease payment as at December 31, 2016 and 2015 is as follows (Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Less than one year	₩	14,137	₩	13,152
1–5 years		8,652		4,078
	₩	22,789	₩	17,230

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