IMPORTANT NOTICE

IMPORTANT: YOU MUST READ THE FOLLOWING DISCLAIMER BEFORE CONTINUING. The following disclaimer applies to the Offering Circular attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed to Citigroup Global Markets Limited (the "**Arranger**"), Citigroup Global Markets Inc., Commerzbank Aktiengesellschaft, ING Bank N.V., Singapore Branch, MUFG Securities EMEA plc, Société Générale and Standard Chartered Bank (together with the Arranger, the "**Dealers**") that (1) you are not in the United States, you are not a resident in the United States nor a U.S. Person, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), nor acting on behalf of a U.S. Person and, to the extent you purchase the securities described in the attached Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) that you consent to delivery of the attached Offering Circular by electronic transmission.

You have accessed the attached document on the basis that you understand that the materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the Issuer in such jurisdiction. The Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Issuer, the Dealers nor any of their respective affiliates accept any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described therein. You are reminded that the information in the attached document is not complete and may be changed. Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer of the securities or the Dealers to subscribe or purchase any of the securities described therein and access has been limited so that it shall not constitute directed selling efforts (as such term is defined in Regulation S under the Securities Act) in the United States or elsewhere. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein. Any securities to be issued will not be registered under the Securities Act and may not be offered or sold in the United States or to or for the account or benefit of U.S. persons (as such terms are defined in Regulation S under the Securities Act) unless registered under the Securities Act or pursuant to an exemption from such registration.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

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

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

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any 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 MiFID II or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, 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 Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). No key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – The Pricing Supplement in respect of any Notes may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**").

Suhyup Bank will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

YOU ARE NOT AUTHORISED AND YOU MAY NOT DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON.

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 dated 18 January 2019

SUHYUP BANK

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

U.S.$2,000,000,000

Euro Medium Term Note Programme

Under this U.S.$2,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), Suhyup Bank (the "**Issuer**" or the "**Bank**") may from time to time issue notes in bearer and/or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**" and, together, the "**Notes**" which expression shall include Senior Notes and Subordinated Notes (each as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). This Offering Circular supersedes all previous offering circulars and any supplements or amendments thereto. Any Notes issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions herein. This does not affect any Notes issued prior to the date hereof.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$2,000,000,000 (or its equivalent in other currencies calculated 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, which appointment may be for a specific issue or on an ongoing basis (each a "**Dealer**" and together the "**Dealers**"). 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**") 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 to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each tranche of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such tranche.

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of the Notes will be set out in the Pricing Supplement which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST, on or before the date of issue of the Notes of such Tranche.

The Notes of each Series (as defined under "*Terms and Conditions of the Notes*") issued in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**") (collectively, the "**Global Notes**"). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Notes in registered form of one Series. Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee for, one or more clearing systems are referred to as global certificates ("**Global Certificates**"). Global Notes and Global Certificates may be deposited on the relevant issue date with a common depositary on behalf of, and Global Certificates may be registered in the name of a nominee for, Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date, upon certification as to non-U.S. beneficial ownership.

The Programme provides that Notes may be listed or admitted to trading on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from the registration requirements of the Securities Act. Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder (the "**Code**")). For a description of these and other restrictions on transfer, see "*Subscription and Sale and Selling Restrictions*".

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations in respect of the Notes are discussed under "*Investment Considerations*".

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 made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme is rated A by Standard & Poor's Ratings Services and A2 by Moody's Investors Service, Inc. These ratings are only correct as at the date of this Offering Circular. Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes it to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Arranger

Citigroup

Dealers

Citigroup **Commerzbank** **ING** **MUFG** **Société Générale Corporate & Investment Banking** **Standard Chartered Bank**

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information with respect to the Issuer and the Notes which is material in the context of the issue and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any information or the expression of any opinions or intentions in this Offering Circular misleading in any material respect. 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*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

None of the Arranger nor the Dealers are responsible for, or make any representation, warranty or undertaking, express or implied as to the accuracy or completeness of the information contained herein and nothing contained in this Offering Circular is, or should be relied upon as, a promise or representation, whether as to the past or the future. None of the Arranger nor the Dealers accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Dealers or on their behalf in connection with the Issuer or the issue and offering of the Notes. The Dealers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Issuer to give any information or to make any representation which is not contained in or which is not consistent with this Offering Circular or any other information supplied by or on behalf of the Issuer 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 or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

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

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 or where further action for any such purpose is required. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor any of the Dealers represents 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 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, Korea, Singapore and Hong Kong. See "*Subscription and Sale and Selling Restrictions*". 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 or 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.

There are restrictions on the offer and sale of the Notes in the United Kingdom. All applicable provisions of the Financial Services and Market Act 2000 ("**FSMA**") with respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom must be complied with. See "*Subscription and Sale and Selling Restrictions*".

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States (as defined in Regulation S) except pursuant to an exemption from the registration requirements of the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Code). For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Offering Circular, see "*Subscription and Sale and Selling Restrictions*".

CERTAIN DEFINED TERMS AND CONVENTIONS

The Issuer has prepared this Offering Circular using a number of conventions that should be considered when reading the information contained in this Offering Circular. References to "**Suhyup Bank**", the "**Bank**" or the "**Issuer**" are to Suhyup Bank. References to the "**NFFC**" are to the National Federation of Fisheries Cooperatives. References herein to "**MOF**" are to the Ministry of Oceans and Fisheries. References herein to "**KDIC**" are to the Korea Deposit Insurance Corporation. References herein to "**Korea**" are to the Republic of Korea, and references to the "**Government**" are to the Government of Korea.

Until 30 November 2016, the Issuer maintained its financial books and records and prepared its financial statements in Korean Won in accordance with generally accepted accounting principles in Korea ("**Korea GAAP**"). Unless indicated otherwise, the Issuer's financial information for the 11 months ended 30 November 2016 presented in this Offering Circular, including information on its assets and liabilities, are presented on a non-consolidated basis. For a more detailed explanation, please see Note 2 to the Issuer's non-consolidated unaudited financial statements as of and for the 11 months ended 30 November 2016.

Starting from 1 December 2016, the Issuer maintains its financial books and records and prepares its financial statements in Korean Won in accordance with International Financial Reporting Standards as adopted by Korea ("**K-IFRS**"). Unless indicated otherwise, the Issuer's financial information for the one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018 presented in this Offering Circular, including information on its assets and liabilities, are presented on a consolidated basis.

All references in this document to "**Won**" and "**₩**" refer to the currency of Korea, those to "**U.S. Dollars**", "**U.S. dollars**", "**U.S.$**", "**$**" and "**U.S. cents**" refer to the currency of the United States of America (the "**U.S.**" or the "**United States**"), those to "**Sterling**" and "**£**" refer to the currency of the United Kingdom, those to "**S$**" refer to the currency of Singapore and those to the "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise specified, all conversions of Won into U.S. dollars were made at the base rate under the market average exchange rate system, announced by Seoul Money Brokerage Services, Ltd. in Seoul, Korea between U.S. dollars and Won, rounded down to the nearest tenth of one Won (the "**Market Average Exchange Rate**"), in effect on 30 September 2018, which was 1,112.70 to U.S.$1.00. No representation is made that the Won or 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.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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 Issuer's ability to successfully implement its business strategy, the condition of and changes in the Korean, Asian or global economies, future levels of non-performing loans, the Issuer's growth and expansion, including whether the Issuer succeeds in its strategy, changes in interest rates and changes in government regulation and licensing of its 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 "*Investment Considerations*". Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Issuer and the Dealers 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.

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 publicly available consolidated audited annual financial statements and the interim financial statements (if any) of the Issuer for the most recent financial period, see "*General Information*" for a description of the financial statements currently published by the Issuer; and

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

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

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered offices set out at the end of this Offering Circular. The Issuer will, in connection with the listing of the Notes on the SGX-ST, in the event of any material change in the condition of the Issuer which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the SGX-ST.

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

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, 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 Pricing Supplement*".

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$2,000,000,000 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 Pricing Supplement*") 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 Pricing Supplement*") 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 Pricing Supplement*") and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE ARRANGER AND DEALERS DESIGNATED AS THE STABILISATION MANAGER(S) (OR ANY PERSON(S) ACTING FOR IT) (THE "STABILISATION MANAGER(S)") IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER(S) 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 INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED TIME. ANY STABILISATION ACTION OR OVERALLOTMENT MUST BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. Prospective investors are urged to read this entire Offering Circular carefully, including the Bank's financial statements and related notes and "Investment Considerations".

THE BANK

The Bank is a commercial bank in Korea established to assist the NFFC efficiently accomplish its objectives and specialised functions set forth under the Fisheries Cooperatives Federation Act (the "**FCF Act**"). The Bank's shares of the common stock are 100% owned by the credit business special account of NFFC.

The Bank was previously the Credit Business Unit of the NFFC. On 29 May 2016, the FCF Act was amended pursuant to which NFFC's Credit Business Unit would be spun off into a separate entity, with the name of Suhyup Bank (the "**Spin-off**"). Effective as of 1 December 2016, the Bank was spun off from the NFFC and, pursuant to Article 530-9 of the Korean Commercial Code, assumed the liabilities of the Credit Business Unit of the NFFC stipulated as assumed liabilities in the Spin-off plan adopted at the general meeting of the NFFC held on 27 October 2016. See "*Business – History*". The Bank's major business activities include providing policy funds to the fishing industry, taking deposits and providing loans, providing beneficiary certificates, and providing international banking, credit card and bancassurance services, primarily to the fishing industry in Korea.

The Bank provides financial services through 131 branches in urban as well as rural areas, supported by more than 461 mutual saving and finance ("**MSF**") branches. The Bank's presence through its own branches and MSF branches is key to executing the Government's fisheries and marine policies as a commercial bank.

As of 30 September 2018, the total assets, loans receivable (less allowance for possible losses and less deferred loan fees) and deposits of the Bank were ₩35,259.0 billion, ₩28,754.3 billion and ₩25,013.5 billion, respectively. For the nine months ended 30 September 2018 and 2017, the full years ended 31 December 2017 and the one month ended 31 December 2016, the Bank's operating income amounted to ₩273.5 billion, ₩217.7 billion, ₩281.2 billion and ₩20.8 billion, respectively, and the Bank's net income amounted to ₩194.0 billion, ₩153.0 billion, ₩195.2 billion and ₩13.9 billion, respectively. As of 30 September 2018, the Bank's capital adequacy ratio was 14.0 per cent. See "*Description of Assets and Liabilities of the Bank – Capital Adequacy*".

The Bank's headquarters are located at 62, Ogeum-ro, Songpa-gu, Seoul, Korea. The Bank's registration number with the Companies Registry of Korea is 244235-0009895.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "*Form of Pricing Supplement*" *and* "*Terms and Conditions of the Notes*" *shall have the same meanings in this summary.*

*On 4 April 2007, Suhyup Bank as the Credit Business Unit of NFFC ("**Old Issuer**") established a U.S.$1,000,000,000 Euro Medium Term Note Programme and issued an offering circular on that date describing the Programme. The Issuer also issued amended offering circulars dated 30 June 2008, 5 June 2009, 16 September 2011, 20 April 2012 and 8 April 2018. On 16 September 2011, the Old Issuer increased the aggregate nominal amount of the Programme from U.S.$1,000,000,000 to U.S.$2,000,000,000. On 29 May 2016, the FCF Act was amended pursuant to which NFFC's Credit Business Unit would be spun off into a separate entity, with the name of Suhyup Bank. Effective as of 1 December 2016, the Bank was spun off from the NFFC and, pursuant to Article 530-9 of the Korean Commercial Code, assumed the liabilities of the Credit Business Unit of the NFFC stipulated as assumed liabilities in the Spin-off plan (the "Assumed Liabilities") adopted at the general meeting of the NFFC held on 27 October 2016. Accordingly, the Bank assumed obligations and liabilities under the Notes that had been issued under this Programme and were outstanding.*

*On 18 January 2019, the Bank entered into an amended and restated dealer agreement with Citigroup Global Markets Limited as the arranger and other dealers thereto (the "**Dealer Agreement**"), entered into an amended and restated agency agreement with The Bank of New York Mellon, London Branch as fiscal agent and the other agents named thereto (the "**Agency Agreement**") and executed a deed of covenant in relation to the Notes (the "**Deed of Covenant**"), whereby novating the Programme to become the new Issuer thereunder. Any Notes issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions herein.*

Issuer	Suhyup Bank
Legal Entity Identifier	The Legal Entity Identifier for the Issuer is 9884007XHIYD533HQV15.
Description	Euro Medium Term Note Programme.
Arranger	Citigroup Global Markets Limited
Dealers	Citigroup Global Markets Limited Commerzbank Aktiengesellschaft ING Bank N.V. Singapore Branch MUFG Securities EMEA plc Société Générale Standard Chartered Bank and any other Dealers appointed in accordance with the Dealer Agreement.

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 Selling Restrictions*"). **Notes having a maturity of less than one year.** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale and Selling Restrictions*".
Fiscal Agent and Paying Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
Programme Size	Up to U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*"), aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency as may be agreed between the Issuer and the relevant Dealer.
Redenomination	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement, 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.

Form of Notes	The Notes may be issued in bearer form only ("**Bearer Notes**"), in bearer form exchangeable for Registered Notes ("**Exchangeable Bearer Notes**") or in registered form only ("**Registered Notes**"). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "*Summary of the Programme – Selling Restrictions*"), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented on issue by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Individual definitive Notes or Certificates will only be available in certain limited circumstances as described in "*Summary of Provisions Relating to the Notes while in Global Form*".
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 either: (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 at 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 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 ("**FSS**") of Korea or of such other relevant regulatory authorities in Korea, if necessary) or, in the case of Senior Notes, following an Event of Default or, in the case of Subordinated Notes, following a Subordination Event) or that such Notes will be redeemable at the option of the Issuer (only with, in the case of Subordinated Notes, the prior approval of the FSS of Korea or of such other relevant regulatory authorities in Korea, if necessary) and/or (except in the case of the 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.

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, see "*Certain Restrictions – Notes having a maturity of less than one year*" above. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within Korea, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, 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 4.
Cross Default	The terms of the Senior Notes will contain a cross-default provision as further described in Condition 10.
Status of the Senior Notes	The Senior Notes and any relative Receipts and Coupons will constitute direct, general, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer which will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.
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.
Rating	Notes issued under the Programme may be rated, or unrated, as specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. The Programme is rated A by Standard & Poor's Ratings Services and A2 by Moody's Investors Service, Inc. These ratings are only correct as at the date of this Offering Circular. Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes it to be rated, such rating will not necessarily be the same as the rating assigned to the Programme.

Listing	Approval in-principle has been received 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 to the Official List of the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 or its equivalent in other specified currencies. The Notes may also be listed on such other or further stock exchange(s) (other than in respect of listing or an admission to trading on any market in the European Economic Area which has been designated as a regulated market for the purposes of the Prospectus Directive) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law, except for Condition 3(b) which will be governed and construed in accordance with Korean law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Japan, Korea, Singapore, Hong Kong and such other restrictions including the Public Offer Selling Restriction under the Prospectus Directive as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale and Selling Restrictions*". Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(c) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

Pricing Supplement dated [●]

SUHYUP BANK
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$2,000,000,000 Euro 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 set forth in the Offering Circular dated 18 January 2019. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

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**") contained in the Amended and Restated Agency Agreement dated 18 January 2019 and set forth in the Offering Circular dated 18 January 2019, as supplemented or amended. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 18 January 2019, save in respect of the Conditions which are extracted from the Offering Circular dated 18 January 2019 as, supplemented or amended and are attached hereto.

MIFID II product governance/Professional investors and ECPs only target market – 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 appropriate distribution channels.

[PRIIPs Regulation/[Prospectus Directive/] 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 (as amended or superseded, 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 Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**")]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products"]/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and ["Excluded Investment Products"]/["Specified Investment Products"] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).] [*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.*]

[*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 subparagraphs. Italics denote directions for completing the Pricing Supplement.*]

1.		Issuer:	Suhyup 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:	[●]
4.		Aggregate Nominal Amount:	
	[(i)	Series:	[●]
	[(ii)	Tranche:	[●]]
5.	[(i)]	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date] (in the case of fungible issues only, if applicable)]*
	[(ii)	Net Proceeds:	[●] *(Required only for listed issues)]*
6.	[(i)]	Specified Denominations:	[●][1]
	(ii)	Calculation Amount:	[●]

[1] Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive must have a minimum Specified Denomination of €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes and integral multiples of [€1,000] in excess thereof up to and including [€99,000/€199,000]. In such case, no Notes in definitive form will be issued with a denomination above [€99,000]/[€199,000].

7.	[(i)] Issue Date:	[●]
	(ii) Interest Commencement Date:	[Specify/Issue date/Not Applicable]
8.	Maturity Date:	*[(For Fixed Rate Notes) specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] (NB: Subordinated Notes shall have a minimum maturity of five years)*
9.	Interest Basis:	[[●] per cent. Fixed Rate] *[[specify reference rate]* +/-[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other *(specify)]* (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other *(specify)]*
11.	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12.	Put/Call Options:	[Put] [Call] [(further particulars specified below)]
13.	Status of the Notes:	*[Senior/Subordinated]*
14.	Listing:	[Singapore Exchange Securities Trading Limited/Other *(specify)/None]*
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 cent. per annum [payable [annually/semi-annually/quarterly/monthly] 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)]:	[●] per [●] in Calculation Amount
(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]*
(v)	Day Count Fraction (Condition [5(j)]):	[30/360/Actual/Actual (ICMA/ISDA)/other] (Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, unless the client requests otherwise)
(vi)	Determination Date(s) (Condition [5(j)]):	[●] in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*
(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)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)]*
(iv)	Business Centre(s) (Condition [5(j)]):	[●]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)]*
(vi)	Interest Period Date(s):	[Not Applicable/specify *dates] (Not applicable unless different from Interest Payment Date)*
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Calculation Agent]):	[●]
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):–	
	• Relevant Rate:	[●]
	• Interest Determination Date:	[●]
	• Relevant Screen Page:	[●]

(ix) ISDA Determination (Condition [5(b)(iii)(A)]):	
• Floating Rate Option:	[●]
• Designated Maturity:	[●]
• Reset Date:	[●]
• ISDA Definitions: if different from those set out in the Conditions)	[2000/2006]
(x) Margin(s):	[+/-] [●] per cent. per annum
(xi) Minimum Rate of Interest:	[●] per cent. per annum
(xii) Maximum Rate of Interest:	[●] per cent. per annum
(xiii) Day Count Fraction (Condition [5(j)]):	[●]
(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) Amortisation Yield (Condition [6(b)]):	[●] per cent. per annum
(ii) Day Count Fraction (Condition [5(j)]):	[●]
(iii) Any other formula/basis of determining amount payable:	[●]
19. **Index 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) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]

(iv)	Interest Period(s):	[●]
(v)	Specified Interest Payment Dates:	[●]
(vi)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(vii)	Business Centre(s) (Condition [5(j)]):	[●]
(viii)	Minimum Rate of Interest:	[●] per cent. per annum
(ix)	Maximum Rate of Interest:	[●] per cent. per annum
(x)	Day Count Fraction (Condition [5(j)]):	[●]

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 details]
(ii)	Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
(v)	Day Count Fraction (Condition [5(j)]):	[●]

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

(iii) Notice Period[2]: [●]

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[2]: [●]

23. **Final Redemption Amount of each Note** [[●] per Calculation Amount]

24. **Early Redemption Amount**

Early Redemption Amount(s) Calculation Amount payable on redemption for taxation reasons (Condition [6(c)]) or an event of default (Condition [10]) and/or the method of calculating the same (if required or if different from that set out in the Conditions): [●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: [Bearer Notes/Exchangeable Bearer Notes/Registered Notes] *[Delete as appropriate]*

(i) Temporary or permanent Global Note/Certificate: [temporary Global Note/Certificate exchangeable for a permanent Global Note/Certificate which is exchangeable for Definitive Notes/Certificates in the limited circumstances specified in the permanent Global Note/Certificate][3]

[temporary Global Note/Certificate exchangeable for Definitive Notes Certificates/on [●] days' notice]

[permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates in the limited circumstances specified in the permanent Global Note/Certificate][4]

(ii) Applicable TEFRA exemption: [C Rules/D Rules/Not Applicable]

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2 If setting notice periods which are different to those provided in the terms and conditions, issuers are 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 its fiscal agent.

3 Regard should be had to the specific requirements of the relevant clearing system(s), if any.

4 Regard should be had to the specific requirements of the relevant clearing system(s), if any.

26.	Financial Centre(s) (Condition [7(h)]) or other special provisions relating to payment dates:	[Not Applicable/Give *details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) 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 (if any) 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:	[Not Applicable/give *details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
30.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [●] [annexed to this Pricing Supplement] apply]
31.	Consolidation provisions:	[Not Applicable/The provisions [in Condition [●] [annexed to this Pricing Supplement] apply]
32.	Other terms or special conditions:	[Not Applicable/give details]

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable*/give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable*/give names*]
34.	Specify any extra conditions precedent to issue of the Notes for the purposes of Clause 9.2.8 of the Amended and Restated Dealer Agreement:	[●]
35.	If non-syndicated, name of Dealer:	[Not Applicable/give names]
36.	U.S. Selling Restrictions:	Reg. S Category [1/2]; *(In the case of Bearer Notes)* – [TEFRA C/TEFRA D/TEFRA not applicable] *(In the case of Registered Notes)* – TEFRA Not Applicable

37.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] *"packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*
38.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

39.	ISIN Code:	[●]
40.	Common Code:	[●]
41.	Legal Entity Identifier:	9884007XHIYD533HQV15
42.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
43.	Delivery:	Delivery [against/free of] payment
44.	The Agents appointed in respect of the Notes are:	[●]

GENERAL

45.	The aggregate principal amount of Notes issued has been translated into [U.S. dollars] at the rate of [●], producing a sum of (for Notes not denominated in [U.S. dollars]):	[Not Applicable/[U.S.$] [●]]

[**USE OF PROCEEDS**

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

[**LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the [*insert Programme Amount*] Euro Medium Term Note Programme of Suhyup Bank.]

[**STABILISING**

In connection with this issue, [*insert name of Stabilisation Manager*] (the "**Stabilisation Manager**") or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilisation Manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular [and the supplemental Offering Circular] referred to above, contains all information that is material in the context of the issue of the Notes. [The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") assumes no responsibility for any of the statements made or opinions expressed in reports contained in this Pricing Supplement. Approval in-principle from, admission to the Official List of, and listing and quotation of any of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.]

Signed on behalf of the Issuer:

By: ______________________

Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

INITIAL ISSUE OF NOTES

Global Notes and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

Upon the initial deposit of a Global Note with a common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**, **Luxembourg**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relevant Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

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

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

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

EXCHANGE

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

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

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Notes*", in part for Definitive Notes or, if this permanent Global Note is an Exchangeable Bearer Note, Registered Notes:

(i) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Fiscal Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; or

(ii) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

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.

Global Certificates

If the Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the prior consent of the Issuer

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall only be issued in the specified denomination(s) for such Notes.

EXCHANGE DATE

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

AMENDMENT TO CONDITIONS

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

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the

Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vi) and Condition 8(d) will apply to the Definitive Notes only.

Prescription

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

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

Cancellation

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

Purchase

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

Issuer's Option

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

Noteholders' Options

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

Events of Default

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 18 January 2019 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Note(s) in global form representing each Series. Either (i) the full text of these Terms and Conditions together with the applicable Pricing Supplement (or the relevant provisions thereof) or (ii) these Terms and Conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes.

The Notes are issued pursuant to, and have the benefit of, an amended and restated agency agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 18 January 2019 between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent and the other agents named in it and with the benefit of a deed of covenant dated 18 January 2019 (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**", respectively (collectively, the "**Agents**"). The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of, and are entitled to the benefit of, all of the provisions of the Agency Agreement, Deed of Covenant and the applicable Pricing Supplement applicable to them.

References in these Terms and Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme. As used in these Terms and Conditions, "**Tranche**" means Notes which are identical in all respects.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions replace or modify these Terms and Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to this Note.

Copies of the Agency Agreement, the Deed of Covenant and the applicable Pricing Supplement are available for inspection at the specified offices of each of the Paying Agents by prior written request and during normal office hours being (9.00 a.m. to 3.00 p.m.), save that if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholders must provide evidence satisfactory to the relevant agent as to its holding of such Notes and as to its identity.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement shall prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form ("**Bearer Notes**", which expression includes Notes that are specified in the applicable Pricing Supplement to be Exchangeable Bearer Notes), in registered form ("**Registered Notes**") or in bearer form exchangeable for Registered Notes ("**Exchangeable Bearer Notes**") in each case in the Specified Denomination(s) shown in the applicable Pricing Supplement.

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Notes.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note is also a Senior Note or a Subordinated Note, as indicated in the applicable Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

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

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

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

2. EXCHANGES OF EXCHANGEABLE BEARER NOTES AND TRANSFERS OF REGISTERED NOTES

(a) Exchange of Exchangeable Bearer Notes

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

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current Regulations will be made available for inspection by the Registrar to any Noteholder upon request and satisfactory proof of holding to the satisfaction of the Registrar.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

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

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Conditions 2(a), (b) or (c) shall be available for delivery within three (3) business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

Except in the limited circumstances described in the Global Note or the Global Certificate (as the case may be), owners of interests in the Notes evidenced by the Global Note or the Global Certificate (as the case may be) will not be entitled to receive definitive Notes or definitive Certificates (as the case may be) in respect of their individual holdings of the Notes.

(e) Exchange Free of Charge

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar or the relevant Transfer Agent (as the case may be) being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the Registrar or the relevant Transfer Agent (as the case may be) being satisfied that the Regulations have been complied with.

(f) Closed Periods

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

3. STATUS

(a) Status of the Senior Notes

The Senior Notes and the Receipts and Coupons relating to them constitute direct, general, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes and the Receipts and Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

(b) Subordination

This Condition 3(b) applies only to Notes specified in the applicable Pricing Supplement as subordinated (the "**Subordinated Notes**").

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

(i) Provisions relating to Subordinated Notes

(1) 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.

(2) 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).

(3) 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.

(4) 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 three 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.

(5) 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 10 days of receiving notice from the Issuer of the excess payment and (ii) upon the occurrence of a Subordination Event and so long as such Subordination Event continues, such holder shall not exercise any right to set off any liabilities of the Issuer under such Note which become so payable on or after the date on which the Subordination Event occurs against any liabilities of such holder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under such Note become payable pursuant to the proper application of theses subordination provisions.

In 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 the Korean Commercial Code (as amended) in connection with a merger, spin-off, stock swap, stock transfer or other similar transaction of the Issuer.

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 Debtor Rehabilitation and Bankruptcy Act or any successor legislation thereto;

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

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

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

"**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 Debtor Rehabilitation and Bankruptcy Act 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 (1), (2), (3) or (4) above and (ii) those which rank or are expressed to rank *pari passu* with or junior to the Subordinated Notes);

"**Senior Notes**" shall mean Notes whose status is specified in the applicable Pricing Supplement as senior; and

"**Subordination Event**" shall mean any Bankruptcy Event, Rehabilitation Event, Liquidation Event or Foreign Event.

4. Negative Pledge

(a) So long as any Senior Note, Receipt or Coupon remains outstanding (as defined in the Agency Agreement) the Issuer will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure (i) any Relevant Indebtedness or (ii) any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Senior Notes, Receipts and the Coupons (x) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (y) such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Senior Noteholders.

For the avoidance of doubt, notwithstanding the foregoing, under the Act on Issuance of Covered Bonds, which was enacted on January 14, 2014 and became effective on April 15, 2014, in Korea, the 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 Act on Issuance of Covered Bonds 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) Relevant Indebtedness

For the purpose of this Condition, "**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities 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 50 per cent. of the aggregate principal amount of which is initially distributed outside Korea by or with the authorisation of the Issuer; and (ii) for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

5. INTEREST AND OTHER CALCULATIONS

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage), the amount of interest payable shall be determined in accordance with Condition 5(h) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the applicable Pricing Supplement.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes:

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown in the applicable Pricing Supplement as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the applicable Pricing Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Pricing Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified in the applicable Pricing Supplement to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Pricing Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(y) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement, as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(I) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(II) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, **provided that**, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) Rate of Interest for Index Linked Interest Notes

The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Pricing Supplement and interest will accrue by reference to an Index or Formula as specified in the applicable Pricing Supplement.

(c) Zero Coupon Notes

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

(d) Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(e) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(f) Accrual of Interest

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

(g) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:

(i) If any Margin is specified in the applicable Pricing Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the applicable Pricing Supplement, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified in the applicable Pricing Supplement), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(h) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(1) if "**Actual/Actual**" or "**Actual/Actual-ISDA**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that 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);

(2) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 365;

(3) if "**Actual/360**" is specified in the applicable Pricing Supplement, the actual number of days in the Calculation Period divided by 360;

(4) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and "$\mathbf{D_2}$" 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 D_1 is greater than 29, in which case D_2 will be 30.

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

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and "$\mathbf{D_2}$" 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 D_2 will be 30.

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

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and "$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(7) if "**Actual/Actual-ICMA**" is specified in the applicable Pricing Supplement:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year;

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date specified as such in the applicable Pricing Supplement or, if none is so specified, the Interest Payment Date.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

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

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the applicable Pricing Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

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

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the applicable Pricing Supplement.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the applicable Pricing Supplement.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the applicable Pricing Supplement.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Issuer or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon.

"**Specified Currency**" means the currency specified as such in the applicable Pricing Supplement or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the applicable Pricing Supplement and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(l) Benchmark Discontinuation

(i) Independent Advisor

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 5(l)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(l)(iii)) and any Benchmark Amendments (in accordance with Condition 5(l)(iv)).

An Independent Adviser appointed pursuant to this Condition 5(l) shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Issuer, any of the Agents, the Noteholders or the Couponholders 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 5(l).

(ii) Successor Rate or Alternative Rate

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 5(l)(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 5(l)); 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 5(l)(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 5(l)).

(iii) ***Adjustment Spread***

If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) 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).

(iv) ***Benchmark Amendments***

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 5(l) and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (i) that amendments to these Conditions and/or the Agency Agreement 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 5(l)(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.

At the request of the Issuer, but subject to receipt by the Agents of a certificate signed by two directors of the Issuer pursuant to Condition 5(l)(v), the Agents shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Agents in effecting any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Agency Agreement), provided that the Agents shall not be obliged so to concur if in the opinion of the any of the Agents doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Agents in these Conditions or the Agency Agreement (including, for the avoidance of doubt, any supplemental agency agreement) in any way.

In connection with any such variation in accordance with this Condition 5(l)(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) ***Notices, etc.***

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(l) will be notified promptly by the Issuer to the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Agents of the same, the Issuer shall deliver to the Agents a certificate signed by two directors of the Issuer:

(A) confirming (1) that a Benchmark Event has occurred, (2) the Successor Rate or, as the case may be, the Alternative Rate and, (3) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(l); 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 Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. 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) and without prejudice to any of the Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Agents and the Noteholders.

(vi) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(l)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii)(B)(y) and (z) will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread (if applicable) and Benchmark Amendments, in accordance with Condition 5(l)(v).

(vii) Definitions

As used in this Condition 5(l):

"**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 and Couponholders 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:

(i) 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).

(ii) 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).

(iii) 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 to the Reference Rate which the Issuer determines in accordance with Condition 5(l)(ii) 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 5(l)(iv).

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing be published for a period of at least five business days or ceasing to exist; or

(ii) 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

(iii) 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

(iv) 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

(v) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder 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 5(l)(i).

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

"**Relevant Nominating Body**" means, in respect of a Reference Rate:

(i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or

(ii) 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 Reference Rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (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.

6. Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the applicable Pricing Supplement. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the applicable Pricing Supplement at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the applicable Pricing Supplement.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the applicable Pricing Supplement, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such subparagraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the applicable Pricing Supplement.

(ii) ***Other Notes***

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the applicable Pricing Supplement.

(c) Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders and the relevant Paying Agent (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws (or any regulations, rulings or other administrative pronouncements promulgated thereunder) of a Relevant Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of such laws, regulations, rulings or other administrative pronouncements, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, **provided that** (1) in the case of Subordinated Notes, the prior approval of the Financial Supervisory Services of Korea ("**FSS**") or any such other relevant regulatory authority in Korea shall have been obtained, if necessary, and (2) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Fiscal Agent shall be entitled (but shall not be obliged) to accept and rely upon such certificate and opinion as sufficient evidence (without further investigation or query and without liability to the Noteholders or any other person) of the satisfaction of the conditions precedent set out in Condition 6(e), in which event they shall be conclusive and binding on the Noteholders.

(d) Redemption at the Option of the Issuer

If Call Option is specified in the applicable Pricing Supplement, the Issuer may, having given not less than 15 nor more than 30 days' irrevocable notice to the Noteholders and the relevant Paying Agent (or such other notice period as may be specified in the applicable Pricing Supplement) redeem all or, if so provided, some, of the Notes on any Optional Redemption Date **provided**, **however**, **that**, in the case of Subordinated Notes, such redemption shall not be made within five years after the issue date of such Notes and shall be subject to the prior approval of the FSS or any other relevant regulatory authority in Korea pursuant to the laws and regulations in effect at the applicable time relating to, *inter alia*, capital adequacy ratios, replacement capital and (if applicable) interest rates. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount redeemed specified in the applicable Pricing Supplement and no greater than the maximum nominal amount to be redeemed specified in the applicable Pricing Supplement.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) Redemption of the Senior Notes at the Option of Noteholders

If Put Option is specified in the applicable Pricing Supplement, the Issuer shall, at the option of the holder of any such Senior Note, upon the holder of such Senior Note giving not less than 15 nor more than 30 days' notice to the Issuer and the relevant Paying Agent (or such other notice period as may be specified in the applicable Pricing Supplement) redeem such Senior Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

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

(f) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the applicable Pricing Supplement.

(g) Purchases

The Issuer 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 (**provided that** all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, shall not (unless all of the Notes are held by the Issuer or its affiliate) (i) entitle the holder to vote at any meetings of the Noteholders and (ii) be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11.

(h) Cancellation

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

7. PAYMENTS AND TALONS

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and **provided that** the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) Registered Notes

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) Payments in the United States

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

(d) Payments Subject to Fiscal Laws

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) notwithstanding the provisions of Condition 8, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, **provided that** the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) such other agents as may be required by any stock exchange on which the Notes may be listed and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

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

(f) Unmatured Coupons and Receipts and unexchanged Talons:

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes other than Dual Currency Notes or Index Linked Notes), should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

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

(h) Non-Business Days

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" in the applicable Pricing Supplement and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

*Notwithstanding the foregoing, so long as a Global Note or a Global Certificate (as the case may be) is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or an alternative clearing system, each payment in respect of the Global Note or the Global Certificate (as the case may be) will be made to the person shown as the Noteholder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 1 January and 25 December.*

7A. LOSS ABSORPTION UPON A TRIGGER EVENT IN RESPECT OF SUBORDINATED NOTES

(a) Write-off upon a Trigger Event

With respect to any Subordinated Notes, effective as of 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 the Subordinated Notes (such cancelation 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 7A(a) will not constitute an Event of Default (as defined below) under the Notes.

(b) Definitions

For the purposes of this Condition 7A 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 the notice specifying that a Trigger Event has occurred, which shall be issued by the Issuer not more than two (2) 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 14 and which shall state in reasonable detail the nature of the relevant Trigger Event.

8. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Relevant Jurisdiction, unless such withholding or deduction 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 of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) Other connection

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

(b) Presentation more than 30 days after the Relevant Date

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

(c) Payment by another Paying Agent

(except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(d) Payment to Non-Residents

presented for payment by or on behalf of a holder who would not be liable or subject to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by making a declaration of non-residence or other similar claim in the Relevant Jurisdiction.

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

"**Relevant Jurisdiction**" means The Republic of Korea or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

The Agents shall in no event be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer or the Noteholders or any other person to pay such tax, duty, charges, withholding or other payment or be responsible to provide any notice or information in relation to the Notes in connection with payment of such tax, duty, charges, withholding or other payment.

9. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within five (5) years (in the case of principal) or two (2) years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. EVENTS OF DEFAULT

(a) Events of Default relating to Senior Notes

If any of the following events ("**Events of Default**") occurs, the holder of any Senior Note may give written notice to the Fiscal Agent at its specified office that such Senior Note is immediately repayable, whereupon the Early Redemption Amount of such Senior Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable, unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(i) Non-Payment of Principal

The Issuer fails to pay the principal of any of the Senior Notes after the same shall become due and payable in accordance with these Conditions and such failure continues for seven (7) days;

(ii) Non-Payment of Interest

The Issuer fails to pay within 14 days from the due date thereof, any interest on any of the Senior Notes after the same shall become due and payable in accordance with these Conditions;

(iii) Breach of Other Obligations

The Issuer defaults in performance or observance of, or compliance with, any one or more of its other obligations set out in the Senior Notes which default is incapable of remedy or such default is not remedied within 30 days after written notice of such default requiring the Issuer to remedy the same shall have been given to the Issuer by any holder of a Senior Note;

(iv) Cross-Default

(1) any other present or future indebtedness of the Issuer for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (2) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for, or (3) the Issuer fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person **provided that** the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this paragraph (iv) have occurred equals or exceeds U.S.$10,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates);

(v) Enforcement Proceedings

An encumbrancer takes possession or a receiver, manager or similar officer is appointed, or a distress, attachment, execution or other legal process is levied, enforced or sued out upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Issuer and the same is not stayed, discharged, released or satisfied (as the case may be) within 30 days of such taking of possession, appointment, levying, enforcement or suing out (as the case may be);

(vi) Insolvency

The Issuer becomes bankrupt or insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of an administrator, liquidator (except for the purpose of and followed by a voluntary solvent reorganisation, merger, consolidation, amalgamation or other similar arrangement the terms of which have been previously approved by an Extraordinary Resolution of the holders of the Senior Notes) or receiver (or other similar official) of the Issuer, in respect of the whole or any substantial part of the undertakings, property, assets or revenues of the Issuer, or the Issuer stops, suspends or threaten to stop or suspend payment of all or a substantial part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts;

(vii) Security Enforced

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Issuer becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not stayed, terminated or discharged within 30 days of the commencement of such step;

(viii) Winding-up

An order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, or the Issuer ceases or threatens through an official action of the Board of Directors of the Issuer to cease to carry on all or a substantial part of its business or operations (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation, reorganisation or other similar arrangement the terms of which are approved by an Extraordinary Resolution of the holders of the Senior Notes);

(ix) Moratorium and Nationalisation

A moratorium is agreed or declared in respect of any indebtedness of the Issuer or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of the Issuer;

(x) Proceedings against Issuer etc.

Proceedings shall have been initiated against the Issuer under any applicable bankruptcy, insolvency or reorganisation law and such proceedings shall not have been discharged or stayed within a period of 30 days;

(xi) Authorisation and Consents

Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (1) enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior Notes, (2) ensure that those obligations are legally binding and enforceable and (3) make the Senior Notes admissible in evidence in the courts of England is not taken, fulfilled or done;

(xii) Illegality

(1) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Senior Notes; (2) any of the Senior Notes ceases for any reason (or is claimed by the Issuer not) to be the legal and valid obligations of the Issuer, binding upon it in accordance with its terms; (3) any litigation, arbitration or administrative proceeding is current or pending to restrain the exercise of any of the rights and/or the performance or enforcement of or compliance with any of the obligations of the Issuer under any of the Senior Notes; or

(xiii) Analogous Events

Any event occurs which has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of Clause (iv) above, any indebtedness which is in a currency other than U.S. dollars shall be translated into U.S. dollars at the spot rate for the sale of U.S. dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Issuer on any day when the Issuer requests such a quotation for such purposes. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through U.S. dollars of the relevant currencies.

The Issuer shall fully indemnify each holder of Senior Notes from and against any reasonable costs, expenses, liabilities and losses which such holder of Senior Notes may suffer or incur as a direct result of the occurrence of any Events of Default (including, but without limitation, any expenses incurred in connection with legal proceedings to enforce repayment of such Senior Notes).

Notwithstanding any of the above, any merger or reorganization pursuant to an amendment to the National Federation of Fisheries Cooperatives 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 Article 235, 530-9 of the Korean Commercial Code (as amended), shall not be deemed an Event of Default set forth in Conditions 10(a)(v), (vi), (viii), (x) or (xiii) above.

(b) Events of Default relating to Subordinated Notes

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

(ii) Except as expressly provided in this Condition 10(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 claims in the liquidation or other applicable proceedings in respect of the Issuer in Korea (subject to the satisfaction of the relevant requirements of applicable laws).

11. MEETING OF NOTEHOLDERS AND MODIFICATIONS

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than one-half in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the applicable Pricing Supplement, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

(b) Modification of Agency Agreement

The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders. Any determination as to prejudice to the interests of the Noteholders pursuant to this Condition 11(b) shall be made by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determinations. Any modification shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

12. REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

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

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in the conditions of such notes to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14. NOTICES

Notices to the holders of Registered Notes shall be (i) mailed to them at their respective addresses in the Register and deemed to have been given on the seventh day after being so mailed or (ii) published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). Notices to the holders of Bearer Notes shall be valid if published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are for the time being listed.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

So long as the Notes are evidenced by a Global Note or a Global Certificate (as the case may be) and the Global Note or the Global Certificate (as the case may be) is held on behalf of Euroclear Bank SA/NV or Clearstream Banking S.A. or an alternative clearing system, notices to the Noteholders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV or Clearstream Banking S.A. or the alternative clearing system, for communication by it to entitled accountholders, in substitution for notification as required by the Conditions.

15. CURRENCY INDEMNITY

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

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW AND JURISDICTION

(a) Governing Law

The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law except that the Subordinated Notes in Condition 3(b) are governed by, and shall be construed in accordance with, Korean law.

(b) Jurisdiction

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Service of Process

The Issuer irrevocably appoints Woori Bank London Branch at 9th Floor 71 Fenchurch Street London EC3M4BR as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes, including as a source of funding, unless otherwise specified at the time of such issue.

INVESTMENT CONSIDERATIONS

Prospective purchasers of Notes should carefully review the information contained elsewhere in this Offering Circular, including the following matters.

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 ₩229.6 billion as of 30 September 2018 and the ratio of the Bank's substandard or below credits to total credits was 0.8% as of

30 September 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 ₩1,776.0 billion as of 30 September 2018, and its delinquency ratio was 0.61% as of 30 September 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.

In furtherance of the policy to expand the proportion of fixed rate housing loans, the Financial Services Commission ("**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 ₩500 million or less and for houses valued at ₩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.

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.

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

As of 30 September 2018, the Bank's exposure to the 30 largest *Chaebols* was ₩1,571.8 billion, which represented 4.5 per cent. of its total assets. The Bank's largest single credit (based on outstanding balances) to a *Chaebol* member company at that date was ₩306.9 billion, which represented 0.9 per cent. of its total assets. As of 30 September 2018, none of the Bank's 10 largest credits was classified as substandard, one was classified as precautionary and nine were classified as normal. However, if any additional large credits become non-performing, the quality of the Bank's total loan portfolio could be adversely affected and additional provisions would be required.

Many SMEs have close business relationships with *Chaebols*, primarily as suppliers. Although there have been amendments to certain acts in Korea including the Monopoly Regulation and Fair Trade Act and the Fair Subcontract Act to support SMEs from the despotism of *Chaebols*, any difficulties encountered by such *Chaebols* could have an adverse impact on the financial conditions of SMEs, including those with which the Bank does business. As of 30 September 2018, the Bank's total loans to SMEs was ₩14,845.1 billion, which represented 51.1 per cent. of the Bank's total loans.

In addition, given their size and importance to the Korean economy, difficulties experienced by the *Chaebols* are likely to have adverse effects on the Korean economy as a whole which would adversely impact the Bank. Accordingly, in the event that the Bank's loans to one or more *Chaebols* become nonperforming, the quality of the Bank's credit portfolio would be adversely affected and additional provisions would be required.

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

In recent years, substantially all Korean banks have adopted a strategy of reducing large corporate exposure and increasing SME and retail exposure. The Bank's total Won currency loans to SMEs was ₩12,679.5 billion as of 31 December 2016 and ₩14,237.1 billion as of 31 December 2017. As of 30 September 2018, the Bank's total Won currency loans to SMEs amounted to ₩14,153.6 billion. Recently, industry-wide delinquency rates for loans to SMEs remain stable. The Bank's Won currency loans to SMEs that were classified as substandard or below amounted to ₩219.8 billion as of 30 September 2018, representing 0.8 per cent. of the Bank's total Won currency loans to those enterprises as of 30 September 2018.

Financial difficulties experienced by SMEs as a result of, among other things, continued weakness in the Korean economy, as well as aggressive marketing and intense competition among banks to lend to this segment, have led and will continue to lead to a deterioration in the asset quality of the Bank's loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have a material adverse impact on the Bank's financial condition and results of operations.

Financial difficulties of Korean companies in the real estate and construction sector could have an adverse effect on the Bank

As a result of the difficult conditions and volatility of the global economy, a significant number of Korean companies, especially in the real estate and construction sector, have experienced financial difficulties. The Bank estimates that, on a consolidated basis, the Bank had loans of ₩273.9 billion to borrowers in the construction sector as of 30 September 2018, equal to 0.9 per cent. of the Bank's total loans. The continued increase in the corporate restructuring and reorganisations of Korean companies in the construction sector will likely increase the Bank's exposure to non-performing credits from such borrowers. Although the Bank has significantly reduced the amount of non-performing credits from borrowers in such sector in 2017 through debt restructuring such as transfer of assets, amortisation and loan loss provisioning, there can be no assurance that it will not be required to allocate additional reserves for such conditions, or that losses from non-performing credits to such companies will exceed the amounts that it has reserved against such losses, either of which could have a material adverse effect on the Bank.

Competition in the Korean financial services industry has intensified

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 other nationwide commercial banks in Korea. The Bank also faces competition from a number of additional sources including regional banks, development banks, specialised banks and branches of foreign banks operating in Korea, as well as various other types of financial service institutions. See "*The Korean Banking Industry*".

Regulatory reforms and the general modernization of business practices in Korea have also led 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 banks, insurances, mutual finance, loan and card issuances on one page. The "my account at a glance" system became available on mobile channels in February 2016 and expanded its scope of services to include savings banks and securities companies. Since their introduction, the integrated automatic payment transfer management and integrated account management services have gained widespread acceptance, evidenced by the fact that, as of December 2017, approximately 925,000 users have subscribed to the "my account at a glance" system and approximately 320,000 unutilized accounts were terminated through this service. As the reform 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 current 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.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. For example, as online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics, recently 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 April 2017 and July 2017, respectively. Internet-only banks may have advantages over traditional banks as the former can pass savings in labor and overhead costs to their customers by offering higher interest rates on deposit accounts, lower loan costs and reduced service fees. 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.

Recently, following the global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices (including a requirement to maintain a certain ratio of core capital to total risk exposure, which was introduced in January 2018 in order to control excessive leverage), which has had a dampening effect on competition. The FSC implemented the capital requirements of Basel III, whose minimum requirements were phased in sequentially from December 1, 2013 through full implementation by January 1, 2015, based on the guidelines set forth in the amended Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business. In addition, the FSC is currently implementing the Basel III requirements relating to liquidity coverage ratio and capital conservation buffer, each of which will be fully phased in by January 1, 2019. As of January 1, 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 on Banking Supervision (the "**Basel Committee**"), the capital ratio as required by the Basel Committee. 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 January 1, 2016, with such buffer to increase by 0.25% annually to 1.00% by January 1, 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. However, there is no assurance that these measures will have the effect of curbing competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry. For further details on the capital requirements applicable to the Bank, see "Supervision and Regulation – Principal Regulations Applicable to Banks – Capital Adequacy".

If, despite its efforts to adapt to the changing macroeconomic environment and comply with new regulations, the Bank is unable to compete effectively in the changing business and regulatory environment, 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.

The Bank depends upon customer deposits and contributions of the Government to meet its funding requirements

The Bank's funding requirements are met primarily through customer deposits and borrowings from the Government and the public sector. As of 30 September 2018, approximately 81.1 per cent. of the Bank's deposits had maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with the Bank in the case of deposits payable on demand and have been, over time, a stable source of funding. 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 in the case of deposits payable on demand, the Bank's liquidity position could be adversely affected, and the Bank may be required to seek more expensive sources of short-term and long-term funds to finance operations. To the extent the Bank is unable to obtain sufficient funding on acceptable terms, the Bank's financial condition and results of operations may be adversely affected.

The FSC requires each Korean banks to maintain a liquidity coverage ratio (defined as a ratio of high liquidity assets divided by the amount of net cash outflow for the following thirty (30) days) at no less than 100.0 per cent. The FSC also requires each Korean banks to maintain a foreign currency liquidity coverage ratio (defined as a ratio of high liquidity assets to the net cash outflow for the following thirty (30) days with respect to the foreign currency assets and the foreign currency liabilities) at no less than 80.0 per cent; provided, however, if the amount of foreign currency liability is less USD500 million and the ratio of foreign currency liability to total liability is less than 5 per cent. as of the immediately preceding half-year, the above foreign currency liquidity coverage ratio does not apply and such bank is required to maintain (i) a ratio of foreign currency liquid assets due within three months to foreign currency liabilities due within three months at no less than 85.0 per cent. and to make monthly reports to the FSC, (ii) (with respect to those due within a month) a ratio of the amount of foreign currency liabilities exceeding foreign currency assets to such foreign currency assets at no more than 10 per cent. 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. The failure of the Bank to meet any of one of these requirements in the future would likely be considered negatively by the FSC in its annual review of the Bank. See "*The Bank is subject to the Korean regulatory environment applicable to banks which has undergone significant reforms and is subject to continuing changes*".

A significant portion of the Bank's loan portfolio is concentrated in policy loans and loans to churches

Policy loans are low-interest loans supported by the Government designed to promote the development of the Korean fisheries industry. As of 30 September 2018, the Bank had ₩3,934.0 billion of policy loans, equal to 14.2 per cent. of its total Won-denominated loan portfolio as of such date. Although the Bank receives certain forms of financial support from the Government with respect to such loans, if such support was not provided in the future for any reason, the Bank may be subject to decreased interest income from such loans or may face increased delinquencies and impairment of such policy loans, which could have an adverse effect on the Bank's business and results of operations.

In addition, a significant portion of the Bank's loan portfolio is comprised of church loans. As of 30 September 2018, the Bank had ₩938.7 billion of church loans, equal to 3.4 per cent. of its total Won-denominated loan portfolio as of such date. If significant numbers of such borrowers default on such loans, the Bank may be subject to decreased interest income from such loans or may face increased delinquencies and impairment of church loans, which could have an adverse effect on the Bank's business and results of operations.

The Bank may be required to raise additional capital to maintain its capital adequacy ratios, which the Bank may not be able to do on favourable terms or at all

Pursuant to the capital adequacy requirements of the FSC, the Bank is required to maintain a minimum Tier I common equity capital adequacy ratio of 4.5 per cent., Tier I capital adequacy ratio of 6.0 per cent. and a combined Tier I and Tier II capital adequacy ratio of 8.0 per cent. on a consolidated basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100.0 per cent. of Tier I capital. The Bank's capital adequacy ratio was 14.0 per cent. as of 30 September 2018, which exceeded the minimum levels required by the FSC. On 31 December 2018, the Bank increased its capital stock by ₩100 billion and improved its capital adequacy ratio, as NFFC deposited the same amount to the credit business special account of NFFC, which in turn was injected as capital to the Bank.

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. 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 s such capital raising may have a dilutive effect on the Bank's shareholders with respect to their interest in the Bank.

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 30 September 2018, deposits (including certificates of deposit) amounted to ₩24,966.1 billion, on a separate basis, of which 81.3% had maturities of one year or less or were payable on demand. As of 30 September 2018, deposits placed by local governments amounted to ₩20,291.7 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.

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.

Reductions in the Bank's credit ratings could, among other things, increase the cost of borrowing funds and may adversely impact the Bank's ability to raise new funds or refinance maturing debt on commercially acceptable terms

Credit ratings are a component of the Bank's liquidity profile. Among other factors, credit ratings are based on the financial strength, the credit quality of and concentrations in the Bank's loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of its statements of financial position, the availability of a significant base of core and retail deposits, and the ability to access a broad range of funding sources. Any reduction in the Bank's credit ratings could adversely affect its liquidity and competitive position, increase its borrowing costs, and limit its access to the capital markets and funding sources on commercially acceptable terms. Such events could adversely affect the Bank's financial condition and results of operations.

An increase in interest rates could decrease the value of the Bank's debt securities portfolio and raise its funding costs while reducing loan demand and the repayment ability of its borrowers, which, as a result, could adversely affect the Bank

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 1.5%, marking the first time it has increased the base interest rate since 2011, and in November 2018, it further raised the base interest to 1.75%.

All else being equal, an increase in interest rates leads to a decline in the value of the Bank's portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise the Bank's funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require the Bank to re-balance its asset portfolio and its liabilities in order to minimise the risk of potential mismatches and maintain its profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of the Bank's corporate and retail borrowers, which in turn may lead to a deterioration in the Bank's credit portfolio. Since most of the Bank's retail and corporate 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 the Bank's retail and corporate 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 one month ended 31 December 2016 and the year ended 31 December 2017 and the nine months ended 30 September 2018 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 one month ended 31 December 2016, the year ended 31 December 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. See Note 2 of the notes to the Bank's consolidated financial statements as of and for the nine months ended 30 September 2018 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 ₩337.4 billion to ₩360.3 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. See Note 2.1 of the notes to the Bank's consolidated financial statements as of and for the nine months ended 30 September 2018 included elsewhere in this Offering Circular.

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, in July 2017, the Bank suffered distributed denial of service (DDoS) cyber attacks.

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 December 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 August 2018, 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. 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. The FSC conducts periodic audits on the Bank. In July 2018, the FSS began investigation on the Bank for wrongfully calculating loan rates for its consumers. 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 require the MOF to order, among other things, improvement of organisational management, restriction on new investments in another company or investment in fixed assets, 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 and/or 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*".

The Bank's business may be materially and adversely affect by legal claims and regulatory actions against the Bank

The Bank is subject to the risk of legal claims and regulatory actions in the ordinary course of its business, which may expose the Bank to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties and regulatory restrictions on its operations, as well as significant reputational harm. The outcome of current and future legal claims and regulatory actions against the Bank, which the Bank cannot predict with any degree of certainty, may materially and adversely impact its business if such claims and actions are determined against the Bank.

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 25 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 may have limited liquidity

The Notes when issued will constitute a new issue of securities for which there will be no existing trading 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 assurances can be given that a market for the Notes will develop in the future. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- prevailing interest rates;
- the Bank's financial condition, performance and prospects;

- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in Korea; and
- the market conditions for similar securities.

The Notes are unsecured obligations

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

- the Bank enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Bank's 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 that are Subordinated Notes are subordinated and have only limited rights of acceleration

The applicable Pricing Supplement may specify that the Notes will be Subordinated Notes (as defined in Condition 3(b) of the Terms and Conditions of the Notes), which will be subordinated obligations of the Bank. Payments on the Subordinated Notes will be subordinated in right of payment upon the occurrence of a Subordination Event (as defined in Condition 3(b) of the 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 creditors with respect to its other unsubordinated liabilities.

Only those events described herein regarding the Bank's bankruptcy or insolvency will permit a holder of a Subordinated Note to accelerate payment of such Subordinated Notes. In such event, the only action the holder may take in Korea against the Bank is certain actions to cause, or make a claim in, the Bank's liquidation or reorganisation. 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 Subordinated Notes.

The Notes that are Subordinated Notes may be fully written off upon the occurrence of a trigger event, in which case holders of the Subordinated 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 a trigger event tied to the performance and viability of the Bank. A trigger event would occur upon the designation of the Bank as an "insolvent financial institution" pursuant to the Act on the Structural Improvement of the Financial Industry of Korea.

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 ("**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 payments of claims (including deposits) or repayments 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 will not be restored under any circumstances, including where the trigger event ceases to continue, 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 "*Terms and Conditions of the Notes – Loss Absorption upon a Trigger Event in Respect of Subordinated 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 event and loss absorption features of capital instruments such as 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 behaviour with respect to the Subordinated Notes may not follow trading behaviour 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-off and on the market value of the Subordinated Notes.

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) or a financial holding company that becomes an "insolvent or similar financial institution" (including an "insolvency-threatened financial institution"), where the improvement of the financial structure of such company 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 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 company 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.

U.S. Foreign Account Tax Compliance Withholding

In order to receive payments free of U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**"), the Bank and financial institutions through which payments on the Notes are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments in respect of the Notes made after 31 December 2016. This withholding does not apply to payments on Notes that are issued prior to 1 July 2014 (or, if later, the date that is six months after the date on which the final regulations that define "foreign passthru payments" are published) unless the Notes are "materially modified" (as that term is used in FATCA) after the end of the grandfathering period or are characterized as equity for U.S. federal income tax purposes. If a series of Notes are eligible for the grandfathering rule and the Bank issues further Notes in such series after the end of the grandfathering period, this could have a negative impact on the grandfathered status of the grandfathered Notes unless such further issuance qualifies as a "qualified reopening" for U.S. federal income tax purposes. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary for the clearing systems (as bearer or registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*".

Notes carrying an interest rate linked to "benchmarks" may be exposed to any changes to the relevant "benchmark"

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rates or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the United Kingdom Financial Conduct Authority 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 be guaranteed after 2021. On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "a risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts.

Following the implementation of any such potential reforms, the manner of administration of LIBOR, EURIBOR or other benchmark indices may change, with the result that it may perform differently than in the past, or benchmarks could be eliminated entirely, which could have a material adverse effect on the value of any Floating Rate Notes where the interest rate is calculated with reference to the relevant benchmark indices or may have other consequences that cannot be predicted.

Discontinuation of LIBOR in the future may have adverse effect to the value of Notes which reference LIBOR

The Terms and Conditions of the Notes provide that the Rate of Interest in respect of the Notes may be determined by reference to Relevant Screen Page. In circumstances where neither the Relevant Screen Page nor any successor or replacement page is available, due to LIBOR being discontinued, the Terms and Conditions of the Notes provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from the banks whose offered rates would have been used for the purposes of the relevant page had LIBOR not been discontinued.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued, and if LIBOR is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Notes, so that the Notes will, in effect, become fixed rate notes utilising the last available LIBOR rate. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks, and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to this Offering Circular or any Pricing Supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of any Notes.

Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

Modifications and waivers

The Conditions contain provisions for calling meetings of the Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Issuer may only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

A change in English law which governs the Notes may adversely affect Noteholders

The Terms and Conditions of the Notes (except for Condition 3(b) which will be governed and construed in accordance with Korean law) are governed by English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

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

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes and Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (each of Euroclear and Clearstream, Luxembourg, a "**Clearing System**").

Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System will maintain records of the beneficial interests in the Global Notes and the Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes and the Global Certificates.

Holders of beneficial interests in the Global Notes and the Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed

The Notes may be redeemed at the option of the Issuer pursuant to Condition 6(c) and Condition 6(d) of the Terms and Conditions of the Notes. An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes have features which are different from single currency issues

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected; and

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of partly paid Notes may result in an investor losing all of its investment

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market value of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index-Linked Interest Notes issued

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index-Linked Interest Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application may be made to the SGX-ST or another stock exchange for the Notes issued under the Programme to be admitted to listing on the SGX-ST or such other stock exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

The rating of the Programme may be downgraded or withdrawn

The Programme is rated A by Standard & Poor's Ratings Services and A2 by Moody's Investors Service, Inc. These ratings represent the opinion of the rating agencies and their assessment of the ability of the Issuer to perform its obligations under the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. A reduction or withdrawal of the rating may adversely affect the market price of the Notes and the Issuer's ability to access the debt capital markets.

The credit ratings assigned to the Notes may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgement, the circumstances so warrant. The Issuer has no obligation to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may adversely affect the market price of the Notes.

CAPITALISATION

The following table shows the non-consolidated liabilities and capitalisation of the Bank as of 30 September 2018. This information has been extracted from the Bank's unaudited consolidated financial statements as of and for the nine months ended 30 September 2018 included elsewhere in this Offering Circular.

	As of 30 September 2018
	Actual
	(in billions of Won)
Liabilities	
Deposits	25,013.5
Borrowings	1,975.2
Debentures	4,753.6
Other liabilities	997.6
Total liabilities (A)	**32,739.9**
Shareholders' Equity	
Capital stock[(1)]	660.0
Hybrid securities	199.6
Capital surplus	1,159.2
Retained earnings	496.6
Accumulated other comprehensive income	3.7
Total shareholders' equity (B)	**2,519.1**
Total liabilities and equity (A+B)	**35,289.0**

Note (1): On 31 December 2018, the Bank increased its capital stock by ₩100 billion and improved its capital adequacy ratio, as NFFC deposited the same amount to the credit business special account of NFFC, which in turn was injected as capital to the Bank.

SELECTED FINANCIAL INFORMATION

The following tables set forth the Bank's selected financial data. The selected financial data set forth below as of and for the 11 months ended 30 November 2016 have been derived from the Bank's unaudited separate financial statements as of and for the 11 months ended 30 November 2016, which have been prepared in accordance with Korea GAAP. The selected separate financial information of the Bank as of and for the 11 months ended 30 November 2016 set forth below excludes certain amounts related to the Bank's trust business and trust accounts.

The selected financial data set forth below as of and for the one month ended 31 December 2016 and as of and for the year ended 31 December 2017 have been derived from the Bank's audited consolidated financial statements as of and for the one month ended 31 December 2016 and as of and for the year ended 31 December 2017, and the selected financial data set forth below as of and for the nine months ended 30 September 2017 and 2018 were derived from the Bank's unaudited consolidated interim financial statements as of and for the nine months ended 30 September 2017 and 2018, in each case prepared in accordance with K-IFRS.

The selected financial data set forth below should be read in conjunction with the notes to the audited consolidated financial statements and unaudited consolidated interim financial statements and other historical financial information included elsewhere in this Offering Circular.

STATEMENTS OF INCOME INFORMATION

	For the one month ended 31 December(2)	For the year ended 31 December	For the nine months ended 30 September	
	2016	2017	2017	2018
	(in billions of Won)			
Consolidated Statements of Income Information				
Interest income	75.4	951.1	688.0	876.2
Interest expense	(30.8)	(404.5)	(292.5)	(400.2)
Net interest income	44.6	546.6	395.5	476.0
Fees and commissions income	3.9	48.4	52.8	40.2
Fees and commissions expense	(2.3)	15.7)	(11.4)	(12.3)
Net fees and commissions income	1.6	32.7	41.4	27.9
Net gain (loss) on financial instruments at FVTPL	0.2	0.2	0.1	(3.3)
Net gain on financial instruments at FVTOCI	–	–	–	3.1
Net gain on financial instruments held for trading	1.9	8.6	3.6	–
Net gain (loss) on AFS financial instruments	(0.7)	(8.8)	(8.4)	–
Net other operating income (loss)	0.1	(47.6)	(30.2)	(29.9)
Other operating gain and loss	1.5	(47.6)	(34.9)	(30.1)
General and administrative expenses	(22.2)	(248.5)	(166.9)	(181.7)
Net transfers of allowances and provisions	(4.7)	(2.0)	(17.4)	(18.6)
Total operating revenues	**20.8**	**281.2**	**217.7**	**273.5**
Other non-operating income	1.5	5.9	4.1	4.2
Other non-operating expenses	(4.1)	(33.5)	(23.1)	(24.1)
Other non-operating loss	(2.6)	(27.6)	(19.0)	(19.9)
Net income before income tax	18.2	253.6	198.7	253.6
Income tax expense	(4.3)	(58.4)	(45.7)	(59.6)
Net income	**13.9**	**195.2**	**153.0**	**194.0**

	For the 11 months ended 30 November
	2016
	(in billions of Won)
Separate Statements of Income Information	
Interest revenue	741.6
Other operating revenue	382.0
Operating revenue	1,123.6
Interest expense	(352.7)
Operating administrative expenses	(208.8)
Other operating expenses	(480.4)
Operating expenses	(1,041.9)
Operating income	81.7
Non-operating income	7.9
Non-operating expenses	(29.1)
Income before income tax	60.5
Income tax expense	(14.7)
Net income	**45.8**

STATEMENTS OF FINANCIAL POSITION INFORMATION

	As of 31 December 2016	As of 31 December 2017	As of 30 September 2018
	(in billions of Won)		
Consolidated Statements of Financial Position Information			
Assets			
Cash due from banks	692.8	1,283.7	1,132.1
Financial assets at FVTPL	–	–	270.0
Financial assets held for trading	294.6	246.6	–
Financial assets at FVTOCI	–	–	2,517.8
Available for sale financial assets	2,394.2	2,927.3	–
Securities at amortized cost	–	–	1,661.7
Held-to-maturity financial assets	614.0	1,276.3	–
Loans at amortized cost	–	–	28,754.3
Loans, net	22,497.8	25,323.7	–
Tangible assets	86.4	88.4	90.7
Other assets	1,083.7	884.4	832.4
Total assets	**27,663.5**	**32,030.4**	**35,259.0**
Liabilities			
Deposits	16,771.4	21,279.9	25,013.5
Borrowings	2,150.5	1,933.3	1,975.2
Debentures	5,402.6	5,224.6	4,753.6
Other liabilities	1,054.4	1,139.8	997.5
Total liabilities	**25,378.9**	**29,577.6**	**32,739.8**

	As of 30 November 2016
	(in billions of Won)
Separate Statements of Financial Position Information	
Assets	
Cash and cash equivalents due from banks	683.9
Trading securities	483.3
Available for sale securities	2,282.8
Held-to-maturity securities	601.3
Loans, net	22,362.6
Tangible assets	67.7
Other assets	1,448.1
Total assets	**27,929.7**
Liabilities	
Deposits	16,420.4
Borrowings	3,169.8
Debentures	5,596.6
Other liabilities	1,584.5
Total liabilities	**26,771.3**

SELECTED RATIOS

Except as otherwise indicated, the following ratios are calculated using the Bank's consolidated financial statements as of and for the year ended 31 December 2017 and the nine months ended 30 September 2018 included elsewhere in this Offering Circular

	As of and for the year ended 31 December	As of and for the nine months ended 30 September
	2017	2018
Average return on assets(1)	0.7	0.8
Average return on equity(2)	8.2	10.8
Equity/total assets(3)	7.7	7.2
Non-performing loans/total loans(4)	0.6	0.6
Net interest margin(5)	1.7	1.8
Delinquency ratio(6)	0.4	0.4
Coverage ratio(7)	126.6	125.3
Risk-weighted (Tier 1 and Tier 2) capital ratio(8)	14.6	14.0
Core capital (Tier 1) ratio(9)	12.0	11.9

(1) Defined as net income divided by the daily average balance of total assets (calculated in accordance with FSS reporting guidelines) for the respective periods.

(2) Defined as net income divided by the quarterly average balance of total equity (calculated in accordance with FSS reporting guidelines) for the respective periods.

(3) Represents the ratio of total equity to total assets.

(4) Non-performing loans, total loans and allowance of the Bank excluding the trust accounts (calculated in accordance with FSS reporting guidelines).

(5) Net interest income divided by average daily interest earning assets of the Bank excluding the trust accounts (calculated in accordance with FSS reporting guidelines).

(6) Defined as loans which are in arrears for one month or more divided by total loans (calculated in accordance with FSS reporting guidelines).

(7) Represents the ratio of allowance for non-performing loans to the sum of non-performing loans and "sub-standard" rating loans (calculated in accordance with FSS reporting guidelines).

(8) "Risk-weighted capital ratio" means the ratio of Tier 1 and Tier 2 capital to risk-weighted assets (calculated in accordance with FSS reporting guidelines).

(9) "Core capital (Tier 1) ratio" means the ratio of core capital (Tier 1) to risk-weighted assets (calculated in accordance with FSS reporting guidelines).

BUSINESS

INTRODUCTION

The Bank is a commercial bank in Korea established to assist the NFFC efficiently accomplish its objectives and specialised functions set forth under the Fisheries Cooperatives Federation Act (the "**FCF Act**"). The Bank's shares of the common stock are 100% owned by the credit business special account of NFFC.

The Bank was previously the Credit Business Unit of the NFFC. On 29 May 2016, the FCF Act was amended pursuant to which NFFC's Credit Business Unit would be spun off into a separate entity, with the name of Suhyup Bank (the "**Spin-off**"). Effective as of 1 December 2016, the Bank was spun off from the NFFC and, pursuant to Article 530-9 of the Korean Commercial Code, assumed the liabilities of the Credit Business Unit of the NFFC stipulated as assumed liabilities in the Spin-off plan adopted at the general meeting of the NFFC held on 27 October 2016. See "*Business – History*". The Bank's major business activities include providing policy funds to the fishing industry, taking deposits and providing loans, providing beneficiary certificates, and providing international banking, credit card and bancassurance services, primarily to the fishing industry in Korea.

The Bank provides financial services through 131 branches in urban as well as rural areas, supported by more than 461 mutual saving and finance ("**MSF**") branches. The Bank's presence through its own branches and MSF branches is key to executing the Government's fisheries and marine policies as a commercial bank.

As of 30 September 2018, the total assets, loans receivable (less allowance for possible losses and less deferred loan fees) and deposits of the Bank were ₩35,259.0 billion, ₩28,754.3 billion and ₩25,013.5 billion, respectively. For the nine months ended 30 September 2018 and 2017, the full years ended 31 December 2017 and the one month ended 31 December 2016, the Bank's operating income amounted to ₩273.5 billion, ₩217.7 billion, ₩281.2 billion and ₩20.8 billion, respectively, and the Bank's net income amounted to ₩194.0 billion, ₩153.0 billion, ₩195.2 billion and ₩13.9 billion, respectively. As of 30 September 2018, the Bank's capital adequacy ratio was 14.0 per cent. See "*Description of Assets and Liabilities of the Bank – Capital Adequacy*".

The Bank's headquarters are located at 62, Ogeum-ro, Songpa-gu, Seoul, Korea. The Bank's registration number with the Companies Registry of Korea is 244235-0009895.

HISTORY

The NFFC was established pursuant to the Constitutional Law of Korea and the NFFC Law, enacted on 20 January 1962, and was incorporated on 1 April 1962 to act as an umbrella organisation of fisheries cooperatives in Korea. The purpose of the Law was to improve the economic, social and cultural status of fishermen on the basis of their autonomous cooperatives and to enhance the standard of living for fishermen by strengthening the competitiveness of the Korean fishing industry, which would contribute to the balanced development of the national economy. The NFFC is a non-profit organisation that plays an important part and engages in a wide variety of roles as an institution through which the Government is able to implement its fisheries policies.

After the Bank experienced financial difficulties stemming from the Asian financial crisis beginning in 1997, the Law was amended in December 2000 to enable the Government to provide ₩1,158.1 billion of financial support to the Bank so that it could continue to carry out its role of supporting the Korean fisheries industry. The amendment to the Law also reorganised the NFFC into two separate business units (the "**Business Units**"), comprised of the Credit Business Unit and the Guidance and Economy Business Unit, in order to protect each Business Unit from the other Business Units' liabilities.

The Guidance and Economy Business Unit of the NFFC provides guidance, information and direction to the fisheries industry, for example, acting as a conduit of information from, to and within the fisheries community and industry, publicising fisheries policies, conducting surveys and research, engaging in public relations activities and educating fisheries cooperatives members on development in the industry. It also directly promotes the fisheries business, including facilitating sales of marine products, providing price support, utilising and processing marine products, providing and subsidising fishing equipment and materials, maintaining, improving and expanding distribution networks and maintaining and building processing and storage facilities.

The Government provided financial support through the Ministry of Economy and Finance ("**MOEF**"), which through its subsidiary, KDIC, made an equity investment of ₩1,158.1 billion in 2001 in the Old Issuer, which resulted in KDIC becoming the sole equity holder of the Old Issuer.

The Old Issuer operated independently from the NFFC's other Business Units. Under the amended Law, creditors of the NFFC's other Business Units could not lay claim to the assets of the Old Issuer, and conversely the Old Issuer could not claim the assets of the other Business Units. Furthermore, under the terms of the Management Rehabilitation Plan ("**MRP**") entered into between KDIC and the Old Issuer in connection with the ₩1,158.1 billion equity investment from KDIC, the Old Issuer has agreed not to use its retained earnings to support the other Business Units of the NFFC.

On 29 May 2016, the FCF Act was amended pursuant to which NFFC's Credit Business Unit would be spun off into a separate entity, with the name of Suhyup Bank. Effective as of 1 December 2016, the Bank was spun off from the NFFC and, pursuant to Article 530-9 of the Korean Commercial Code, assumed the liabilities of the Credit Business Unit of the NFFC stipulated as assumed liabilities in the Spin-off plan adopted at the general meeting of the NFFC held on 27 October 2016. The Bank, after the Spin-off, became a commercial bank the common shares of which were 100% owned by the credit business special account of NFFC. The Bank was established to assist the NFFC efficiently accomplish its objectives and specialised functions set forth under the FCF Act and focuses on raising funds for supply to the fisheries industry, providing depository and lending services to the fisheries industry and providing other banking-related services.

GOVERNMENT SUPPORT

The Government has historically provided the NFFC, and since 2001 the Bank, with significant levels of funding to assist it in carrying out the Government's fisheries policies. Set forth below is a table illustrating the outstanding balance of financial support provided by the Government to the Bank as of and for dates indicated.

	As of and for the one month ended 31 December,	As of and for the year ended 31 December,	As of and for the nine months ended 30 September,
	2016	**2017**	**2018**
		(in billions of Won)	
Subsidies	51.1	60.8	45.9
Lending	681.1	665.5	612.3
Total	**732.2**	**726.3**	**658.2**

The Government provides financial support in the form of low-interest loans to the Bank, which constitutes a substantial portion of the Bank's funding. As of 30 September 2018, the Bank had ₩612.3 billion of low-interest Government loans outstanding, equal to 1.9 per cent. of the Bank's total funding as of such date.

The Government also provides an array of direct and indirect support to enable the Bank to provide so-called "**policy loans**", which are loans designed to promote the development of the Korean fisheries industry. The Bank provides policy loans to borrowers in the Korean fisheries industry pursuant to eligibility guidelines set by the Government. Policy loans outstanding as of 31 December 2017 was ₩3,756.2 billion of, equal to 15.3 per cent. of the Bank's outstanding Won-denominated loans, compared to ₩3,726.9 billion as of 31 December 2016, equal to 17.5 per cent. of the Bank's outstanding Won-denominated loans. The Bank's policy loans outstanding as of 30 September 2018 amounted to ₩3,934.0 billion, equal to 14.2 per cent. of the Bank's outstanding Won-denominated loans. Policy loans comprise, and are likely to continue to comprise, a significant portion of the Bank's loan portfolio.

As the Bank typically earns interest on such policy loans at a rate below the market rate for similar commercial loans, the Government pays to the Bank the difference between the rate of interest applicable to policy loans and the commercial rate of interest, which is set at the average interest rate of the loans comprising the largest proportion of the Bank's loan portfolio. The Bank received payments of ₩60.8 billion in 2017 and ₩51.1 billion in 2016. For the nine months ended 30 September 2018, the Bank received payments of ₩45.9 billion to cover such interest rate shortfalls on policy loans.

The Government guarantees the full repayment of policy loans through two special funds managed by the Government, namely the Agricultural Fisheries Credit Guarantee Fund (the "**Credit Guarantee Fund**") and the Bad Debt Reserve Fund (the "**Reserve Fund**"). A substantial portion of the Credit Guarantee Fund is funded by the Government, with the Bank and NongHyup Bank, an organisation similar to the NFFC acting as an umbrella organisation for agricultural cooperatives, together contributing a small fraction of the funding through fees on loans and other incidental charges. For the nine months ended 30 September 2018, a total of ₩6,225.4 billion had been contributed to the Credit Guarantee Fund, of which 64.6 per cent. had been funded by the Government, and the remaining 35.4 per cent. had been mainly funded by the Bank and NongHyup Bank. The Credit Guarantee Fund is available to the Bank and NongHyup Bank to compensate against write-offs on loans to workers in agriculture, forestry, and fisheries industries. As of 30 September 2018, the outstanding balance of loans guaranteed by Credit Guarantee Fund was ₩14,520.1 billion. The Reserve Fund is a secondary guarantee fund designed to cover remaining losses on policy loans. It has been primarily funded by NongHyup Bank, with the Bank and the Forestry Cooperatives providing the remaining funding. As of 30 September 2018, the Reserve Fund had total capitalisation of ₩86.5 billion. For the nine months ended 30 September 2018, a total of ₩1.3 billion had been contributed to the Reserve Fund, of which approximately 61.5 per cent. was funded by NongHyup Bank, approximately 7.7 per cent. was funded by the Bank and approximately 30.8 per cent. was funded by others. In practice, because 100 per cent. of policy loans are ultimately covered by the two funds, the actual credit losses of the Bank on policy loans are approximately equivalent to the Bank's annual contribution expenses to the Credit Guarantee Fund and Reserve Fund, which aggregated to ₩288.0 billion for the nine months ended 30 September 2018.

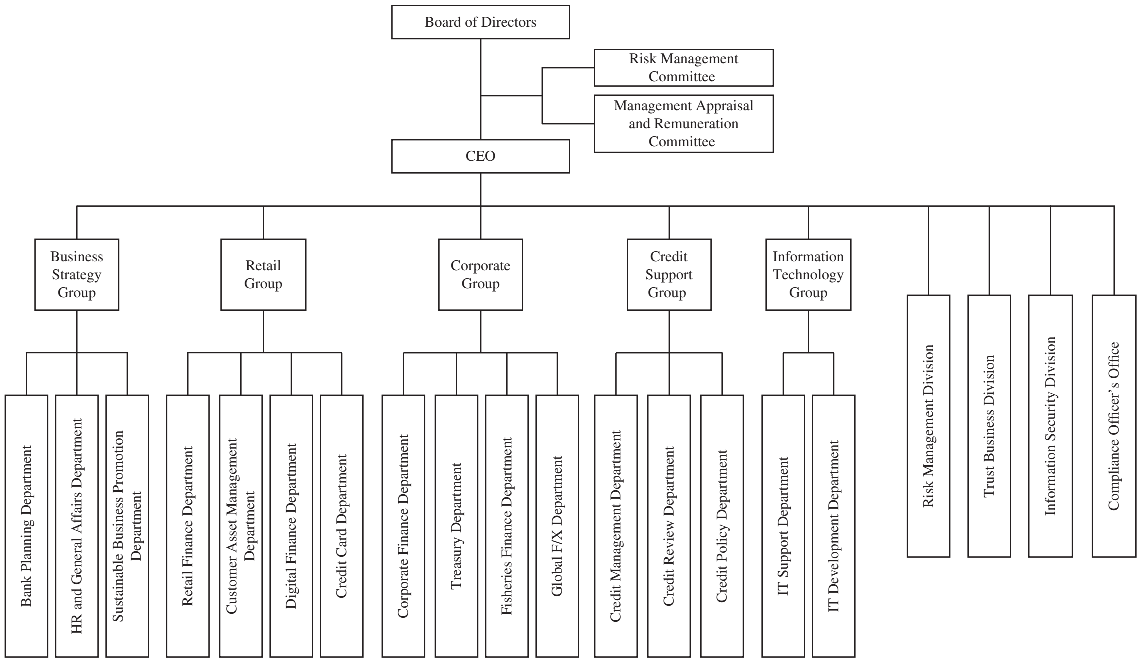
The Government is required under Article 9-1 of the Law to provide assistance to NFFC. Pursuant to Articles 4-1 and 12 of the Agricultural Fisheries Credit Guarantee Act, if a fisheries cooperative receives a loan from a financial institution which becomes non-performing, the Credit Guarantee Fund will perform and discharge the obligations on behalf of that fisheries cooperative. Pursuant to Article 7 of the Agricultural Fisheries Policy Fund Bad Debt Reserve Regulation, the Reserve Fund is designed to cover losses on policy loans of fisheries cooperatives from financial institutions.

In addition, pursuant to Article 141-6 of the Act, the Bank may generally borrow funds from the Government for its business purpose. Likewise, pursuant to Article 153 of the Act, if there is a weakening in the Bank's financial condition, the Government may purchase either shares in the Bank or certain types of debt securities issued or held by the Bank. Furthermore, Articles 156 and 159 of the Act expressly state that the Bank may issue debt securities which may be guaranteed by the Government.

The Bank has also received the benefit of a revision to the Law in 2004 which stipulates that the Bank may classify liabilities for funding received from the Government in the form of Government loans as subordinated debt. This change to the law has enabled the Bank to maintain its BIS ratio and increase its Tier 2 Bank Capital without issuing additional subordinated fisheries financial bonds. As a result, as of 30 September 2018, the Bank's BIS ratio was approximately 14.0 per cent. and the Bank decreased its costs of issuing fisheries financial bonds, which would otherwise have imposed significant funding costs on the Bank. On 31 December 2018, the Bank increased its capital stock by ₩100 billion and improved its capital adequacy ratio, as NFFC deposited the same amount to the credit business special account of NFFC, which in turn was injected as capital to the Bank.

ORGANISATION OF THE BANK

The organisational chart below illustrates how the Bank is structured from an operational perspective.



As of 30 September 2018, the Bank was composed of five business groups, 20 departments, one office, 64 teams and 131 branches (including seven sub-branches and five corporate financial centres).

CORPORATE BANKING

The Bank's corporate banking business is further divided into general corporate banking, maritime investment and finance and international banking.

General Corporate Banking

The general corporate banking business develops and markets financial products and services to large corporates and SMEs, including deposit products, corporate loans, overdraft facilities, trade-related financing, payment remittances and issuances of letters of credit and guarantees.

Corporate loans consist principally of the following:

- working capital loans which are, in general, loans used for general working capital purposes with a maturity of one year or less;
- facility and equipment loans, which includes port facility financing loans and ship financing loans;
- specialised loan products for churches and child care centres;
- acquisition financing;
- loans to certain companies for the purchase of supplies; and
- loans to borrowers for the purchase of land pursuant to arrangements with Korea Water Resources Corporation and Korea Land & Housing Corporation.

Historically, the Bank has provided substantially more corporate loan services to SMEs than to large corporates. As of 30 September 2018, the Bank had total loans to SMEs of ₩14,845.1 billion compared to loans to large corporates equal to ₩732.7 billion.

The Bank also provides policy loans to the Korean fisheries industry, which are designed to promote the development of the Korean fisheries industry. The Bank provides policy loans to borrowers pursuant to eligibility guidelines set by the Government. Policy loans take the form of either direct loans to fishermen or loans to fishermen through member cooperatives, for which credit risk is borne by the member cooperatives. Policy loans constitute a significant portion of the Bank's loan portfolio, comprising 14.2 per cent. of the Bank's Won-denominated loan portfolio as of 30 September 2018. Policy loans have comprised a decreasing proportion of the Bank's loan portfolio, primarily due to an increase in demand for commercial loans, relative to stable demand for policy loans. See "*Description of Assets and Liabilities of the Bank – Loan Portfolio*". The Bank also receives significant Government support in connection with providing policy loans. See "– *Government Support*" above.

The Bank's corporate banking business is highly focused on monitoring and controlling the lending rate, fee structure, and credit limits for its corporate clients, as well as conducting thorough reviews and credit checks in connection with providing corporate loans. See "*Description of Assets and Liabilities of the Bank – Credit Policies and Approval Procedures*".

Maritime Investment and Finance

The Bank created a maritime investment financial department in 2005 as part of the Bank's initiative to expand its operations into maritime investment finance. The strategy for the Bank's maritime investment financial department is to actively take part in investment activities, diversify investments and generate repeat business with maritime investment clients through active syndication and taking project-leading roles.

The Bank's maritime investment and finance business is currently focused on three areas of maritime investment and finance:

- *Ship finance* – provide financial services to purchase ships; make financial investments in, and provide loan support to, shipping companies; and provide financing for Government initiatives to refurbish ships; and

- *Investment finance* – arrange and participate in the financing of social overhead capital projects, real estate projects and mergers and acquisitions and investments in the maritime sector.

International Banking

The Bank arranges and participates in various types of international financings, foreign currency transactions and trade financing. In the one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2017 and 2018, the net income of the Bank's international banking business was ₩5.8 billion, ₩12.6 billion, ₩8.6 billion and ₩11.1 billion, respectively. The Bank plans to further increase the international banking business' contribution to the Bank by improving its foreign currency exchange and wire-transferring capacity, recruiting and training additional foreign currency specialists and developing new foreign currency service products tailored to serve the shipping and fishery businesses.

RETAIL BANKING

The Bank's retail banking business provides financial products and services to retail customers. Such products and services include deposits, consumer loans, electronic banking, bancassurance and credit cards.

Deposits

The Bank offers many deposit products that target different market segments with features tailored to each segment's financial profile and other characteristics. The Bank's deposit products principally include the following:

- demand deposits;
- time deposits;
- certificate of deposits;
- repurchase agreement deposits;
- certificate bills; and
- deposits in foreign currencies.

The Bank offers varying interest rates on its deposit products depending on market interest rates, the rates of return on its earning assets and interest rates paid by other commercial banks.

Consumer Loans

The Bank offers a variety of consumer loans to individuals and households that are differentiated according to different factors, including the customer's age, loan purpose, collateral requirements and the length of time the borrower has been a customer of the Bank. Consumer loans consist principally of the following:

- mortgage loans, which are loans made to customers to finance home purchases, construction, improvements or rentals;
- home equity loans, which are loans made to the Bank's customers secured by their homes to ensure loan repayment, as well as overdraft loans in connection with its home equity loans; and
- other consumer loans including overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with the Bank in excess of the amount in such accounts up to a limit established by the Bank.

The Bank prices its consumer loan products by adding to the prime rate or base rate a spread calculated based on various factors, including type of collateral, borrower credit status and loan maturity.

As with its corporate loans, the Bank also focuses on maintaining strict credit approval procedures in reviewing and approving consumer loans, performing credit checks and controlling credit limits, and operating the consumer credit evaluation system.

A significant portion of the Bank's loans are to churches. The Bank has sought to maintain the amount of loans to churches due to their relatively low delinquency rates. The Bank's proportion of its church loans accounted for 3.2 per cent. of the Bank's total loan portfolio as of 30 September 2018, a decrease from 3.9 per cent. of the total loan portfolio as of 31 December 2017.

Bancassurance

The Bank's retail banking business markets and sells insurance products ('gong-je' in Korean) which are developed and priced by the Guidance and Economy Business Unit. These products include guarantee insurance, annuity insurance, deposit insurance and insurance against different types of loss. The Bank's bancassurance business is subject to less restrictive regulation than for other Korean banks because it is an institution established under the NFFC Law. As a result, it is not regulated under the Korean Insurance Business Act. Unlike other Korean commercial banks which are supervised by the FSS, the Bank's insurance business is supervised by MOF. This enables the Bank's bancassurance business to operate under less onerous regulations. In addition, as the Bank is not regulated under the Korean Insurance Business Law, all of its employees are permitted to sell insurance policies.

Credit Cards

The Bank launched its credit card business in April 1990. As of 30 September 2018, the Bank had approximately 834,000 cardholders enrolled under its credit card programme, which accounted for approximately 0.2 per cent. of the Korean credit card market. In order to expand its current market share, the Bank offers additional credit card services such as discounts at certain gas stations, public transportation functionality and airline mileage programmes. As of 30 September 2018, the delinquency rate (calculated as delinquent credit card loans and receivables divided by total credit card loans and receivables) in the Bank's credit card business was 1.8 per cent., an increase from the delinquency rate of 1.1 per cent. as of 31 December 2017.

Online Banking

The Bank began providing online banking services to its retail customers in September 2002. The Bank's on-line banking service system has not experienced any system disruption since the service was first introduced. The Bank has continued to improve its online banking system service by making continuous investments in hardware and software. In 2017 and the nine months ended 30 September 2018 the Bank invested ₩5.5 billion and ₩4.8 billion, respectively, for system maintenance and ₩12.6 billion and ₩15.5 billion, respectively, for system development. In 2018, the Bank reorganized its internal divisions to create a digital finance team within the retail banking business. Additionally, a new digital development team was created within the IT division.

TRUST BUSINESS

The Bank's trust business office manages and operates the Bank's trust accounts. These trust accounts are primarily money trusts and property trusts. The money trusts in Korea are a form of discretionary trust which (except in the case of specified money trusts) gives the trustee broad discretion in investing the assets of the trust. The specified money trusts and the property trusts, which are individually managed, are established on behalf of individual customers who specifically direct the Bank as to the investment of trust assets. Trust account customers of the Bank are typically individuals seeking higher rates of return than those offered by bank account deposits.

Trust accounts are regulated by the Trust Act and the FSCMA, and most nation-wide commercial banks offer similar trust account products. The Bank reduced the size of its trust business after the Indirect Investment Asset Management Business Act (now replaced by the FSCMA) became effective in January 2004. The Indirect Investment Asset Management Business Act prohibited and the FSCMA now prohibits banks, including the Bank, from offering unspecified money trust products, which forms a significant part of its trust business. Accordingly, the Bank currently only offers specified money trust products, pension trust products and property trust products, including real estate trust, money bond trust and security trust products.

As of 30 September 2018, the Bank had total trust assets of ₩5,024.0 billion comprised principally of money receivables of ₩1,693.9 billion and real estate of ₩2,129.8 billion and securities investments of ₩75.8 billion. As of 30 September 2018, the balance of the money trusts managed by the Bank was ₩1,180.2 billion and the Bank had total property in trust of ₩3,825.8 billion. Loans made by trust accounts are similar in type to those made by the Bank from its bank accounts. However, trust account loans are made only in Won.

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. The Bank made no transfers from its bank accounts to cover such deficiencies for the one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018. There can be no assurance that such transfers will not be required in the future.

Under Korean law, the assets of the Bank's trust accounts are segregated from its banking account assets and are not available to satisfy the claims for any of the Bank's potential creditors. In order to comply with such law, the Bank has taken the following steps:

- established a separate trust business office to operate the Bank's trust businesses;
- prohibits members of its trust business office from being involved in the banking accounts businesses;
- maintains the trust account management information only within the trust business office; and
- records and manages the financial statements for trust accounts independent of the financial statements for banking accounts by excluding such financial statements from the Bank's non-consolidated audited financial statements.

The Bank earns income from trust account management services in the form of management fees, which generally comprise a percentage of the total assets under management by the trust. For the one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018, the Bank earned trust management fees of ₩0.5 billion, ₩6.4 billion and ₩5.5 billion, respectively.

COMPETITION

The Bank competes in its credit and banking businesses principally with nation-wide commercial banks in Korea but also faces competition from other financial institutions, including regional banks and specialised banks and branches of foreign banks operating in Korea as well as various other types of financial service institutions.

General regulatory reforms in the Korean banking industry have increased competition among banks. The FSCMA, which came into effect in February 2009, comprehensively regulates securities and derivatives, and the operations of indirect investment asset, trust and any other financing businesses other than banking and insurance businesses. The FSCMA also permits financial institutions which are investment banks to engage in various types of financial business. As such financial institutions will be able to provide settlement and remittance services, the Bank may face increased competition, leading to difficulties in increasing or retaining its deposits, which in turn may result in an increase in the Bank's cost of funding, and a decrease in its settlement and remittance service fee revenue. With the FSCMA now in effect, it is expected that (i) the size of the Korean capital market will expand, (ii) the number of large-scale specialised financial institutions will increase and (iii) various new financial products will be introduced, which could result in more intense competition within the Korean banking industry including existing banks, insurance companies, securities companies and other financial institutions, and may lead to significant changes in the current Korean financial market.

PROPERTIES

The Bank leases its principal office located at 62, Ogeum-ro, Songpa-gu, Seoul, Korea. The Bank owns or leases various land and buildings for its branches Certain of the Bank's properties are subject to security interests and encumbrances in favour of third parties, arising in the ordinary course of its business. However, the Bank does not consider these security interests and encumbrances to be material to its or their business. The Bank maintains standard insurance on real estate assets owned by it on an annual basis. For the year ended 31 December 2017 and the nine months ended 30 September 2018, the Bank made insurance payments aggregating to ₩150.1 million and ₩106.8 million, respectively on its real estate assets.

LEGAL PROCEEDINGS

The Bank is involved in various legal actions arising in the normal course of its business. As of the date of this Offering Circular, the Bank is not involved in any material litigation, arbitration or administrative proceeding relating to claims which may have a significant effect on the financial condition or results of operations of the Bank.

DESCRIPTION OF ASSETS AND LIABILITIES OF THE BANK

The following discussion describes the assets and liabilities of the Bank.

AVERAGE BALANCES, INTEREST AND RATES

The following table set forth the average balances of assets and liabilities of the Bank, on a separate basis, for the periods indicated and, for interest-earning assets and interest-bearing liabilities, provide the amount of interest earned or paid and the average rate of such interest. For the purposes of these tables, average balances have been determined based upon daily average balances.

	As of and for the one month ended 31 December,			As of and for the year ended 31 December,			As of and for the nine months ended 30 September,		
	2016			2017			2018		
	Average Balance	Interests	Rates %	Average Balance	Interest	Rates %	Average Balance	Interest	Rates %
	(in billions of Won, except percentages)								
Interest-earning assets:									
Loans	₩22,593.0	₩68.1	3.56	₩24,575.4	₩854.9	3.48	₩27,483.6	₩785.4	3.82
Due from banks	89.6	0	0.25	207.4	1.8	0.86	119.5	1.3	1.45
Securities	3,264.0	4.6	1.67	3,604.6	62.4	1.73	4,314.1	62.2	1.93
Total interest earning assets	₩25,946.6	₩72.7	3.31	₩28,387.4	₩919.1	3.24	₩31,917.2	₩848.9	3.56
Interest-bearing liabilities:									
Deposits	₩16,439.4	₩20.7	1.49	₩19,195.7	₩296.3	1.54	₩22,931.2	₩310.3	1.81
Borrowings	2,303.6	2.5	1.29	2,151.2	29.8	1.38	1,969.0	23.1	1.57
Debentures	5,427.6	8.7	1.89	5,229.2	95.4	1.82	5,136.8	80.6	2.10
Other	145.0	0.5	3.86	84.6	5.8	6.85	117.8	5.4	6.11
Total interest bearing liabilities	**₩24,315.6**	**₩32.4**	**1.57**	**₩26,660.7**	**₩427.3**	**1.60**	**₩30,154.8**	**₩419.4**	**1.86**

(1) Figures in this table are derived from the Bank's separate basis financial information, which excludes, among others, certain amounts related to the Bank's trust business and trust accounts.

LOAN PORTFOLIO

The following table sets forth the Bank's loan portfolio by category as of and for the one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018.

	As of and for the one month ended 31 December,	As of and for the year ended 31 December,	As of and for the nine months ended 30 September,
	2016	2017	2018
		(in billions of Won)	
Loans in Won	₩21,250.8	₩24,499.8	₩27,755.6
Loans in foreign currencies	603.8	442.7	424.0
Bills bought in foreign currencies	355.6	318.6	394.5
Credit card loans	109.2	103.4	111.6
Other loans	590.9	280.8	371.4
Total loans[(1)]	**₩22,910.3**	**₩25,645.3**	**₩29,057.1**

(1) Total loans represent amounts prior to deduction of reserve provisions.

The Bank's total loan portfolio amounted to ₩29,057.1 billion which accounted for 82.4 per cent. of the Bank's total assets as of and for the nine months ended 30 September 2018. As of and for the nine months ended 30 September 2018, loans denominated in Korean Won accounted for 95.5 per cent. of its total loan portfolio, and loans denominated in foreign currencies (including offshore loans) accounted for 1.46 per cent. of its total loan portfolio.

The table below sets forth a summary of the Bank's Won-denominated loan portfolio by type of borrower as of and for one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018.

	As of and for the one month ended 31 December,		As of and for the year ended 31 December,		As of and for the nine months ended 30 September,	
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
			(in billions of Won, except percentages)			
Corporations	₩ 1,069.1	5.0	₩ 194.8	0.8	₩ 175.8	0.6
SMEs	12,679.5	59.7	14,237.1	58.1	14,153.7	51.0
Households	5,212.0	24.5	7,906.3	32.3	11,419.0	41.1
Public and Others	2,290.2	10.8	2,161.6	8.8	2,007.1	7.3
Total	**₩21,250.8**	**100.0**	**₩24,499.8**	**100.0**	**₩27,755.6**	**100.0**

The size of the Bank's general loan portfolio has increased due to improved marketing activities and increased customer contact through branch offices specifically established for corporate banking customers. As of and for nine months ended 30 September 2018, loans to corporations and to households was 0.6 per cent. and 41.1 per cent., respectively, of the Won-denominated loan portfolio.

A significant proportion of the Bank's loans are policy loans to the fishery industry. Of a Won-denominated loan portfolio of ₩27,755.6 billion as of and for nine months ended 30 September 2018, ₩3,934.0 billion, or 14.2 per cent. of the Bank's Won-denominated loan portfolio, was comprised of policy loans, a decrease from 15.3 per cent. and 17.5 per cent. of the Won-denominated loan portfolio as of and for one year ended 31 December 2017 and the one month ended 31 December 2016, respectively.

The following table sets forth the Bank's loan portfolio by industry sector, as of and for one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018.

	As of and for the one month ended 31 December,		As of and for the year ended 31 December,		As of and for the nine months ended 30 September,	
	2016*		2017*		2018	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Finance	₩ 2,739.1	12.17	₩ 2,401.7	9.48	₩ 2,622.5	9.03
Construction	463.1	2.06	364.8	1.44	273.9	0.94
Wholesale and retail	1,595.0	7.09	1,430.4	5.65	1,448.1	4.98
Real estates and lease business	4,394.3	19.53	5,271.3	20.82	5,441.7	18.73
Lodging and restaurant business	1,394.2	6.20	1,456.5	5.75	1,416.9	4.88
Households	5,228.6	23.24	7,931.6	31.32	11,472.0	39.48
Others	6,683.6	29.71	6,467.5	25.54	6,382.0	21.96
Total	**₩22,497.9**	**100.00**	**₩25,323.8**	**100.00**	**₩29,057.1**	**100.00**

(*) Shown net of incidental profit from deferred loans and allowance for bad debts.

A significant portion of the Bank's loan portfolio is comprised of church loans, which constitute 46.8 cent. of the Bank's total loans to the public services sector as of and for nine months ended 30 September 2018. Of a total general loan portfolio of ₩29,057.1 billion as of and for nine months ended 30 September 2018, ₩938.7 billion, or 3.2 per cent., were church loans. Commercial loans, which are all of the Bank's loans other than policy loans, amounted to ₩19,183.4 billion, ₩21,889.1 billion and ₩25,123.1 billion, respectively, as of and for one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018, which represented 83.7 per cent., 85.4 per cent. and 86.5 per cent., respectively, of the Bank's total loan portfolio.

CUSTOMER LOAN CONCENTRATION

Under the Banking Act, the sum of large exposures by a bank, that is, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10.0 per cent. of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of its Tier I and Tier II capital (less any capital deductions). Beginning as of 1 April 1999, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and regulated accordingly.

Beginning on 1 January 2000, subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities in the nature of a credit and such other transactions which directly or indirectly create credit risk) to a single individual or juridical person in excess of 20.0 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions), and no bank may grant credit in excess of 25.0 per cent. of the sum of its 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 of Korea. As of and for nine months ended 30 September 2018, the Bank had no loans in excess of 25 per cent. limit.

As of and for nine months ended 30 September 2018, the Bank's 20 largest Won-denominated credits totalled approximately ₩1,741.2 billion, which represented 4.9 per cent. of the Bank's total assets as of such date. The Bank's largest single credit (based on outstanding balances) at 30 September 2018 was ₩237.1 billion, which represented 0.7 per cent. of total assets.

The following table illustrates the distribution of the Bank's Won-denominated loans by number of accounts and aggregate loan balance for different loan amounts outstanding as of and for nine months ended 30 September 2018.

Loan Amount	**Number of Accounts**	**Balance**	**% of Total Loan Balance**
	(in billions of Won, except percentages)		
Corporate loans			
Up to 10 million	2,040	₩ 4.7	0.02
10 million to 100 million	3,144	183.6	0.66
100 million to 1 billion	8,259	3,167.8	11.43
1 billion to 10 billion	2,787	6,952.3	25.09
Above 10 billion	159	3,983.2	14.37
Sub-Total	**16,389**	**₩14,291.5**	**51.57**
Consumer loans			
Up to 10 million	2,497	8.8	0.03
10 million to 100 million	20,069	1,203.2	4.34
100 million to 1 billion	28,895	7,753.1	27.98
1 billion to 10 billion	2,031	4,149.0	14.97
Above 10 billion	23	307.6	1.11
Sub-Total	**53,515**	**13,421.7**	**48.43**
Total	**69,904**	**₩27,713.2**	**100.00**

LOAN MATURITY PROFILE

The following table sets forth an analysis of the Bank's loan portfolio by current maturity as of and for nine months ended 30 September 2018.

	Due in 3 months or less		Due between 3 months and 6 months		Due between 6 months and 1 year		Due between 1 year and 2 years		Due after 2 years		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)											
Won-denominated	₩3,848.8	98.2	₩3,189.0	97.6	₩6,935.5	98.1	₩4,424.6	99.1	₩9,357.7	99.0	₩27,755.6	98.5
Foreign currency-denominated	70.5	1.8	79.9	2.4	136.8	1.9	41.6	0.9	95.2	1.0	424.0	1.5
Total	**₩3,919.3**	**100.0**	**₩3,268.9**	**100.0**	**₩7,072.3**	**100.0**	**₩4,466.2**	**100.0**	**₩9,452.9**	**100.0**	**₩28,179.6**	**100.0**

As of and for nine months ended 30 September 2018, approximately 50.6 per cent. of the Bank's loan portfolio had maturities of one year or less, which is intended to reduce the Bank's credit risk by allowing the Bank to re-evaluate the creditworthiness of the borrower on a frequent basis. Historically, certain loans with initial maturities of one year have been renewed at maturity.

Approximately 82.9 per cent. of the Bank's loans denominated in Won as of and for nine months ended 30 September 2018 carried floating rates of interest based generally on the Bank's prime rate or on a market rate. Rates for such Won-denominated loans are generally between 1.0 per cent. and 4.0 per cent. over the market rate.

Most of the Bank's loans in foreign currencies as of and for nine months ended 30 September 2018 were denominated in U.S. dollars and Japanese Yen and most such loans carry floating rates of interest based on market standard financial indexes.

SECURED LOANS

As of and for nine months ended 30 September 2018, the Bank's loan portfolio totalled ₩29,057.1 billion, 75.7 per cent. of which, equal to ₩22,001.1 billion, represented secured loans. As of and for nine months ended 30 September 2018, 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 ships, real estate, personal property, marketable securities, deposits and payment guarantees from other banks or institutions. Depending on the type and the risk of the collateral or guarantees, loans are disbursed up to a maximum proportion (generally between 40 per cent. to 60 per cent.) of the appraised value (which at the time of the appraisal is 10 per cent. to 20 per cent. below fair market value) of the collateral or guarantees. The value of the collateral is reassessed at the time of a loss of the collateral or a significant drop in its value. The value of collateral is also reassessed from time to time depending on market conditions by independent appraisers or when the underlying loan is reclassified into a new category under loan classification or when the Bank makes loan loss provisions for such loans. When the Bank decides that the repayment of the loan is in doubt, it generally requires further security or prepayment of a considerable portion of the loan to the extent that such actions are feasible.

The following table sets forth the Bank's loan portfolio by type of collateral, as of and for one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2018.

	As of and for the one month ended 31 December,		As of and for the year ended 31 December,		As of and for the nine months ended 30 September,	
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Real estate and property[(1)]	₩10,996.4	48.0	₩11,924.7	46.5	₩14,325.3	49.3
Securities	1,475.2	6.4	2,172.3	8.5	2,016.8	6.9
Deposits	133.9	0.6	174.6	0.7	170.4	0.6
Guarantees	2,448.1	10.7	4,635.0	18.1	5,488.6	18.9
Others	472.6	2.1	0.3	0.0	0.1	0.0
Unsecured	7,384.1	32.2	6,738.4	26.3	7,055.9	24.3
Total	**₩22,910.3**	**100.0**	**₩25,645.3**	**100.0**	**₩29,057.1**	**100.0**

(1) Includes farmland, fish farms and fisheries-related facilities, boats and equipment.

A very high proportion of the Bank's secured loans are secured by real estate and other property such as commercial estates, farmland, fish farms and fisheries-related facilities, boats and equipment as collateral. Of a total loan portfolio of ₩29,057.1 billion as of and for nine months ended 30 September 2018, ₩14,325.3 billion, or 49.3 per cent., were loans secured by real estate and other property. The proportion of loans secured by real estate and property to the Bank's total loan portfolio has not fluctuated significantly from 31 December 2016 to 30 September 2018.

CREDIT POLICIES AND APPROVAL PROCEDURES

The Bank formulates and implements its credit policies in compliance with relevant regulations issued by the FSC. The Bank's fundamental credit policies are established by the Bank's Risk Management Committee, and are set forth in the Bank's credit regulations. The Bank implements its credit policies based upon detailed criteria set forth in its internal guidelines.

LOAN APPROVAL PROCEDURES AND LOAN APPROVAL LIMITS

The Bank's loan approval process is designed to reduce the risk of deterioration in the Bank's asset quality and maintain its asset portfolio risk at acceptable levels. Applications for the Bank's corporate and consumer loans are made through the Bank's branches. Depending on the credit rating, loan amount, size and type of collateral and size of corporate borrower, a loan application is reviewed by and approved at either the branch or headquarters level.

Applications at the branch level are reviewed by the branch managers. Depending on whether a borrower is required to be annually audited by an independent auditor or not, the loan approval limits for each credit rating score range vary. Based on such loan approval limits, the manager at the branch approves or denies the loan application.

At the headquarters level, the loan application is reviewed by a certified loan officer who prepares an application review report for initial review by a loan review committee, which makes the decision as to whether to approve or reject the loan application. In making its decision, the loan review committee, which is composed of three certified loan officers, takes into consideration the application review report, loan amount, collateral, loan approval ratio according to collateral, credit level, and other relevant factors. Prospective borrowers are informed of the loan review committee's decision through the branch where the application was originally submitted. Depending on the size of the loan, credit rating and level of collateralisation, the loan application may be subject to further review by higher levels of loan review councils within the Bank, such as the chief loan review committee, loan review council or extended loan review council.

The chief loan review committee is composed of three credit review team leaders and six different team leaders from the treasury team, loan management team, corporate banking strategy team, private banking strategy team, marine investment financial planning team and fishery finance planning team. This council is permitted to approve loans of up to ₩26.0 billion.

The loan review council is composed of loan review team leader, head of household loan review team, head of corporate loan review team, head of investment finance review team, head of investment finance strategy team, head of loan management team, head of loan support team and one of the relevant credit review team leader. This council is permitted to approve loans of up to ₩40.0 billion.

If the loan amount exceeds ₩40.0 billion, the extended loan review council reviews the loan application. The extended loan review council is composed of a standing director in charge of the credit review, head of credit review department, customer support department, treasury department, loan management department, maritime investment financial department and relevant credit review team leader.

The Bank has been able to increase the efficiency and reliability, and enhance the consistency and effectiveness, of its loan approval process through the implementation of CRMS which is a computerised, on-line system for conducting all of the Bank's routine loan approval processes. CRMS generates a credit score for each loan application on a scale of 1 to 10. Loan applications with a credit score greater than six are automatically denied. Otherwise, loan applications are subject to review at the branch or headquarters level as described above, subject to a loan limit, which is the maximum size of loan permitted for each credit score. Loan limits vary depending on whether the loan is being reviewed at the branch or headquarters level, as well as whether the borrower is a company audited by an independent auditor. In order to improve management efficiency and service qualities, the Bank upgraded the CRMS in August 2012 by enhancing its corporate credit rating systems and retail credit rating systems, respectively, and establishing financial analysis systems in preparation for its implementation of IFRS.

The table below sets forth the loan limits according to the Bank's loan reviewing authority and the type of borrower.

	Headquarters Level			
Credit Score	Loan Review Council	Chief Loan Review Committee	Loan Review Committee	Branch Level
	(in billions of Won)			
Audited Borrower				
1 – 2	40.0	26.0	15.0	5.0
3 – 4	32.0	22.0	13.0	4.0
5 – 6	24.0	18.0	11.0	3.5
Unaudited Borrower				
1 – 2	24.0	20.0	10.0	4.0
3 – 4	20.0	16.0	9.0	3.5
5 – 6	16.0	12.0	8.0	3.0

For a detailed discussion of CRMS, see "*Risk Management – Credit Risk Management*".

CREDIT REMEDIATION

Recognition of problem loans generally begins when an interest or principal payment is late. The Bank produces weekly reports containing arrears information from the headquarters as well as the branches and notifies the relevant borrowers of late payment based upon such reports. The Bank also monitors information provided on a real-time basis by a computer network system operated by the Korean Federation of Banks, which contains information on borrowers who have declared bankruptcy and borrowers who have received warnings indicative of arrears exceeding three months and six months, respectively, from any Korean bank. The Bank also monitors a weekly report containing similar information from other financial institutions through a computer network system. Any borrower that receives a certain warning from any bank generally will have their banking services terminated by all banks. The Bank also monitors information provided by a computer network operated by a Korean credit information company in taking appropriate remedial actions. The Bank's loan management department is responsible for managing non-performing credits, including collecting on such credits, managing court receivership and related legal matters. To strengthen the collection and management process of non-performing credits, the Bank established a task force team in the Loan Management Department that includes members of the Bank's management.

ASSET QUALITY

Loan Classifications and Provision for Loan Losses

The FSC requires banks in Korea (including the Bank) to analyse and classify their assets by quality into one of five categories. 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 capacity to repay and not solely past performance.

The five categories of credits in Won and foreign currency and the criteria for each category currently are as follows:

Normal . . . . Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, do not raise concerns regarding their ability to repay the credits. Reserves of 0.85 per cent. (or 0.9 per cent. in the case of normal credits comprising loans to the borrowers in the following industries as classified under Korea Industry Classification Standard: construction (F), wholesale and retail (G), accommodation and restaurant (H), real estate and leasing (L)) per cent. (or, in the case of household loans, 1 per cent. and in the case of credit card loans from 1.1 per cent to 2.5 per cent.) or more are required.

Precautionary . . . . Credits extended to customers (i) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although any immediate risks of default in repayment have not occurred; or (ii) which are in arrears for one month or more but less than three months. Reserves of 7 per cent. (or, in the case of household loans, 10 per cent. and in the credit card loans, from 40 per cent. to 50 per cent.) or more are required.

Substandard . . . . (i) Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred considerable risks for default in repayment as the customers' ability to repay has deteriorated; or (ii) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) extended to customers which are judged to have incurred serious risks due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of "Doubtful Customers" or "Estimated-loss Customers" (each as defined below). Reserves of 20 per cent. (or, in the case of credit card loans, from 60 per cent. to 65 per cent. and in the case of assets with which banks have priority repayment rights pursuant to the Fourth CRPA (defined below) or Debtor Rehabilitation and Bankruptcy Law ("**Priority Repayment Assets**"), 10 per cent.) or more are required.

Doubtful	That portion of credits in excess of the amount expected to be collected of total credits extended to (i) customers ("**Doubtful Customers**") which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred serious risks of default in repayment due to noticeable deterioration in their ability to repay; or (ii) customers which have been in arrears for three months or more but less than 12 months. Reserves of 50 per cent. (or, in the case of household loans and Priority Repayment Assets, 55 per cent. and 25 per cent., respectively, and in the case of credit card loans, 75 per cent.) or more are required.
Estimated Loss	That portion of credits in excess of the amount expected to be collected of total credits extended to (i) customers ("**Estimated-loss Customers**") which, in consideration of their business and operations, financial condition 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; (ii) customers which have been in arrears for 12 months or more; or (iii) customers which are judged to 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. Reserves of 100 per cent. (or, in the case of Priority Repayment Assets, 50 per cent.) are required.

Under FSC guidelines, credits in the substandard or below categories are considered to be nonperforming credits.

Different criteria are applicable for other types of credits such as Government directed and policy loans, foreign bills of exchange bought and certain receivables.

The Bank believes that its method of classifying credit exposures and providing reserves for credit losses meets the FSC guidelines described above.

The table below summarises the changes in the Bank's allowance for loan losses in the one month ended 31 December 2016, the year ended 31 December 2017 and the nine months ended 30 September 2017 and 2018.

	As of and for the one month ended 31 December,	As of and for the year ended 31 December,	As of and for the nine months ended 30 September,
	2016	2017	2017
	(in billions of Won, except percentages)		
Allowance at beginning of the period	₩444.7	₩427.8	₩427.8
Loans written off and others	(5.8)	(70.5)	(63.1)
Recovery of bad debt and others	0.5	8.3	5.6
Provision for possible loan losses	4.0	0.7	18.0
Debt-to-equity swap bond	(2.8)	(12.1)	(5.2)
Disposal of loans	(8.3)	(6.2)	(4.8)
Other	(4.5)	(11.4)	(7.6)
Allowance at end of the period	427.8	336.6	370.7
Allowance for loan losses(1) as a percentage of:			
total substandard or below loans	154.8	145.5	160.1
total substandard or below loans and precautionary loans	91.6	46.4	42.7
total loans	1.9	1.3	1.5

(1) Based on year-end substandard or below loans for each of the periods indicated.

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
	(in billions of Won, except percentages)			
Beginning balance(1)	₩ 73.5	₩121.0	₩154.1	₩348.6
Transfer to 12-month expected credit losses	3.7	(3.7)	–	–
Transfer to lifetime expected credit losses	(18.6)	18.6	–	–
Transfer to credit-impaired financial assets	(13.8)	(25.2)	39.0	–
Loans written off and others	–	–	(25.5)	(25.5)
Recovery of bad debts and others	–	–	1.8	1.8
Provision for allowance	61.5	(0.8)	(46.6)	14.1
Disposal of loans	–	(0.1)	(3.8)	(3.9)
Debt-to-equity swap bond	–	–	(3.7)	(3.7)
Others	(3.5)	(1.9)	5.5	0.1
Ending balance	**₩102.8**	**₩107.9**	**₩120.8**	**₩331.5**
Allowance for loan losses(2) as a percentage of:				
total substandard or below loans				**144.4**
total substandard or below loans and precautionary loans				**38.7**
total loans				**1.1**

(1) It has been restated in accordance with IFRS 9.

(2) Based on year-end substandard or below loans for each of the periods indicated.

Provisions for loan losses which are required to be made by the FSC are tax deductible up to the amount required under the FSC guidelines.

Until 2004, the Bank only provided allowance for possible losses from confirmed acceptances and guarantees which were classified as substandard, doubtful or estimated loss. However, pursuant to the amended Supervisory Regulation of Banking Business, the Bank provides allowance for possible losses from not only confirmed acceptances and guarantees but also unconfirmed acceptances and guarantees (including endorsed notes), which are classified as normal, precautionary, substandard, doubtful or estimated loss, based on the minimum rate of loss provision prescribed by the FSS and the cash conversion factor of the exposures.

As a result of improved credit valuation systems and an expansion of FLC, asset quality has been constantly improving despite a significant increase in asset volume. The Bank's allowance for loan losses as a percentage of total substandard or below loans reserve ratio was 144.4 per cent. as of and for nine months ended 30 September 2018.

SUBSTANDARD OR BELOW LOANS

The table below sets forth a summary of the Bank's loan portfolio (excluding call loans, interbank loans and bonds sold under repurchase agreements), classified according to normal, precautionary and substandard or below status.

	As of and for the one month ended 31 December,		As of and for the year ended 31 December,		As of and for the nine months ended 30 September,	
	2016		2017		2018	
	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans	Principal Amount	% of Total Loans
	(in billions of Won, except percentages)					
Normal	₩22,239.7	98.0	₩24,915.6	97.2	₩28,117.2	97.0
Precautionary	190.7	0.8	493.8	1.9	628.0	2.2
Substandard or below loans:	276.4	1.2	231.4	0.9	229.6	0.8
Substandard	112.6	0.5	107.0	0.4	116.8	0.4
Doubtful	30.0	0.1	28.1	0.1	25.3	0.1
Estimated loss	133.8	0.6	96.3	0.4	87.5	0.3
Total loans[(1)]	**₩22,706.8**	**100.0**	**₩25,640.8**	**100.0**	**₩28,974.8**	**100.0**

(1) Total figures in the table are calculated on a present value basis.

As of and for nine months ended 30 September 2018, the ratio of loans with a normal loan classification to total loans was 97.0 per cent. As of and for nine months ended 30 September 2018, the Bank's largest outstanding non-performing loan was ₩17.7 billion, which accounted for 0.1 per cent. of the Bank's total loan portfolio, and the 10 largest non-performing loans totalled ₩85.6 billion. Of the total amount of the 10 largest nonperforming loans at 30 September 2018, the Bank valued the collateral and/or guarantees of such loans at approximately ₩38.3 billion.

SECURITIES INVESTMENTS

The securities portfolio of the Bank is managed primarily by its Treasury Department. As of and for nine months ended 30 September 2018, the Bank's total investment in securities amounted to ₩4,449.5 billion, representing 12.6 per cent. of the total assets of the Bank at such date. 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. Financial institution bonds, corporate bonds and government and public bonds accounted for ₩1,443.4 billion, ₩164.7 billion and ₩2,811.2 billion, respectively, representing 32.4 per cent., 3.7 per cent. and 63.2 per cent., respectively, of the total securities held by the Bank as of and for nine months ended 30 September 2018. See Note 6 of the notes to the Bank's consolidated financial statements as of and for the nine months ended 30 September 2018 included elsewhere in this Offering Circular for the the classification guidelines and methods of valuation for financial assets including securities.

The following table sets forth the book value and fair value of the securities portfolio of the Bank at the dates indicated according to the accounting policy then in effect.

	As of December 31,			
	2016		2017	
	Book value	Fair value	Book value	Fair value
	(in billions of Won)		(in billions of Won)	
Financial assets held for trading				
Equity securities	₩ 1.4	₩ 1.4	₩ 26.4	₩ 26.4
Debt securities	293.0	293.0	220.2	220.2
Beneficiary certificate	0.1	0.1	0.1	0.1
	294.5	294.5	246.7	246.7
Financial assets designated at FVTPL				
Equity securities	0.1	0.1	0.1	0.1
Beneficiary certificates	40.2	40.2	–	–
	40.3	40.3	0.1	0.1
AFS financial assets				
Equity securities	35.7	35.7	14.3	14.3
Debt securities	2,358.5	2,358.5	2,913.0	2,913.0
	2,394.2	2,394.2	2,927.3	2,927.3
HTM financial assets	614.0	619.8	1,276.3	1,096.4
Total	₩3,343.0	₩3,348.8	₩4,450.4	₩4,270.5

	As of September 30,	
	2018	
	Book value	Fair value
	(in billions of Won)	
Financial assets at FVTPL		
Equity securities	₩ 2.7	₩ 2.7
Debt securities	241.9	241.9
Beneficiary certificate	25.4	25.4
	270.0	270.0
Financial assets at FVTOCI		
Equity securities	16.7	16.7
Debt securities	2,501.0	2,501.0
	2,517.7	2,517.7
Securities at amortized cost	1,661.7	1,666.2
Total	₩4,449.4	₩4,453.9

The Bank's investments in debt securities are primarily in finance debentures and corporate bonds. 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.

The Bank's securities investments are also subject to a number of limitations prescribed under the Bank Act. Under such limitations, banks must limit their investments in both equity securities and in bonds with a maturity in excess of three years (other than bonds issued by the Government and Monetary Stabilisation Bonds) to an amount not exceeding 100 per cent. 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 in more than 15 per cent. of the 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.

FUNDING

The Bank's sources of funding include deposits and borrowed funds. Deposits include demand deposits, time and savings deposits, repurchase agreement deposits, certificate bills and certificates of deposit.

Historically, virtually all of the Bank's funding has been denominated in Won.

The following table sets forth the principal sources of the Bank's funding as a percentage of total funding sources (based on daily average balances) for the periods indicated.

	As of and for the one month ended 31 December,		As of and for the year ended 31 December,		As of and for the nine months ended 30 September,	
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Deposits	₩16,525.3	65.4	₩19,281.0	70.0	₩23,018.7	73.9
Borrowings	2,302.9	9.1	2,151.1	7.8	1,969.0	6.3
Debentures	5,408.9	21.4	5,203.9	18.9	5,116.5	16.4
Other	1,029.8	4.1	911.6	3.3	1,046.0	3.4
Total	**₩25,266.9**	**100.0**	**₩27,547.6**	**100.0**	**₩31,150.2**	**100.0**

The following table sets forth the principal sources of the Bank's funding (based on daily average balances) and the average interest rate paid as of and for dates indicated.

	As of and for the one month ended 31 December,			As of and for the year ended 31 December,			As of and for the nine months ended 30 September,					
	2016			2017			2017			2018		
	Average Amount	Interest	Average Rate	Average Amount	Interest	Average Rate	Average Amount	Interest	Average Rate	Average Amount	Interest	Average Rate
Deposits in Won:												
Demand deposits	₩ 4,392.2	₩ 1.8	0.49%	₩ 4,488.3	₩ 21.6	0.48%	₩ 4,490.0	₩ 16.3	0.49%	₩ 4,990.6	₩ 21.5	0.58%
Time and savings deposits	9,113.8	12.6	1.32%	11,324.6	188.9	1.67%	10,733.0	132.2	1.65%	14,652.6	215.3	1.96%
Mutual instalments . . .	754.8	1.8	2.87%	727.8	21.9	3.00%	735.6	16.4	2.98%	691.9	16.6	3.20%
Negotiable certificates of deposit	1,932.4	2.6	1.59%	2,151.5	34.8	1.62%	2,086.1	24.9	1.60%	2,190.2	31.9	1.95%
Deposits in foreign currency	332.1	0.2	0.74%	588.9	5.6	0.95%	605.5	4.1	0.91%	493.4	5.5	1.49%
Total deposits	**₩16,525.3**	**₩19.0**	**1.36%**	**₩19,281.1**	**₩272.8**	**1.41%**	**₩18,650.2**	**₩193.9**	**1.39%**	**₩23,018.7**	**₩290.8**	**1.69%**
Borrowings[1]												
Won	₩ 1,621.2	₩ 2.1	1.56%	₩ 1,340.9	₩ 21.3	1.59%	₩ 1,408.4	16.8	1.59%	₩ 1,123.7	₩ 13.3	1.59%
Foreign currency	681.7	0.4	0.66%	810.2	8.4	1.04%	825.1	6.2	1.01%	845.3	9.8	1.55%
Debentures[2]												
Won	4,626.7	6.8	1.73%	4,680.5	82.6	1.76%	4,650.4	60.3	1.73%	4,726.0	71.2	2.02%
Foreign currency	782.2	1.9	2.90%	523.4	12.9	2.46%	565.5	10.6	2.50%	390.5	9.3	3.19%
Other												
Won	1,029.8	0.5	0.55%	911.6	12.5	1.38%	906.0	9.5	1.40%	1,046.0	6.9	0.89%
Foreign currency	–	–	–	–	–	–	–	–	–	–	–	–
Total funding	**₩25,266.9**	**₩30.7**	**1.43%**	**₩27,547.7**	**₩410.5**	**1.49%**	**₩27,005.6**	**₩297.3**	**1.47%**	**₩31,150.2**	**₩401.3**	**1.72%**

(1) Includes offshore borrowings.

(2) Includes offshore debentures.

As of 30 September 2018, approximately 95.0 per cent. of the Bank's deposits had current maturities of one year or less or were payable on demand.

The following table summarises the Bank's deposits by maturity as of and for nine months ended 30 September 2018.

	Demand Deposits		Time Deposits		Certificates Deposits		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)							
Due in 3 months or less	₩5,276.9	100.0	₩ 6,868.2	37.5	₩ 699.1	49.6	₩12,844.1	51.3
Due between 3 months and 6 months	–	–	3,385.7	18.5	304.1	21.6	3,689.7	14.8
Due between 6 months and 1 year	–	–	6,832.6	37.3	400.8	28.4	7,233.4	28.9
Due between 1 year and 3 years	–	–	948.4	5.2	5.3	0.4	953.8	3.8
Due after 3 years . . .	–	–	292.4	1.5	–	–	292.5	1.2
Total	**₩5,276.9**	**100.0**	**₩18,327.3**	**100.0**	**₩1,409.3**	**100.0**	**₩25,013.5**	**100.0**

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 Bank of Korea.

The Bank's borrowings and debentures are generally short-term in maturity with approximately 31.2 per cent. of such borrowings and debentures at 30 September 2018 maturing within six months. Most of the Bank's borrowings in foreign currencies are in U.S. dollars and Japanese Yen and have maturities of less than five years.

The Bank is required by the FSC to maintain a ratio at no less than 80.0 per cent. (defined as a ratio of high liquidity assets to the net cash outflow for the following thirty (30) days) unless the amount of foreign currency liability is less than USD500 million and the ratio of foreign currency liability to total liability is less than 5 per cent. as of the immediately preceding half-year; in such case other requirements are applied by the FSC. As of and for nine months ended 30 September 2018, such ratio was 151.9 per cent.

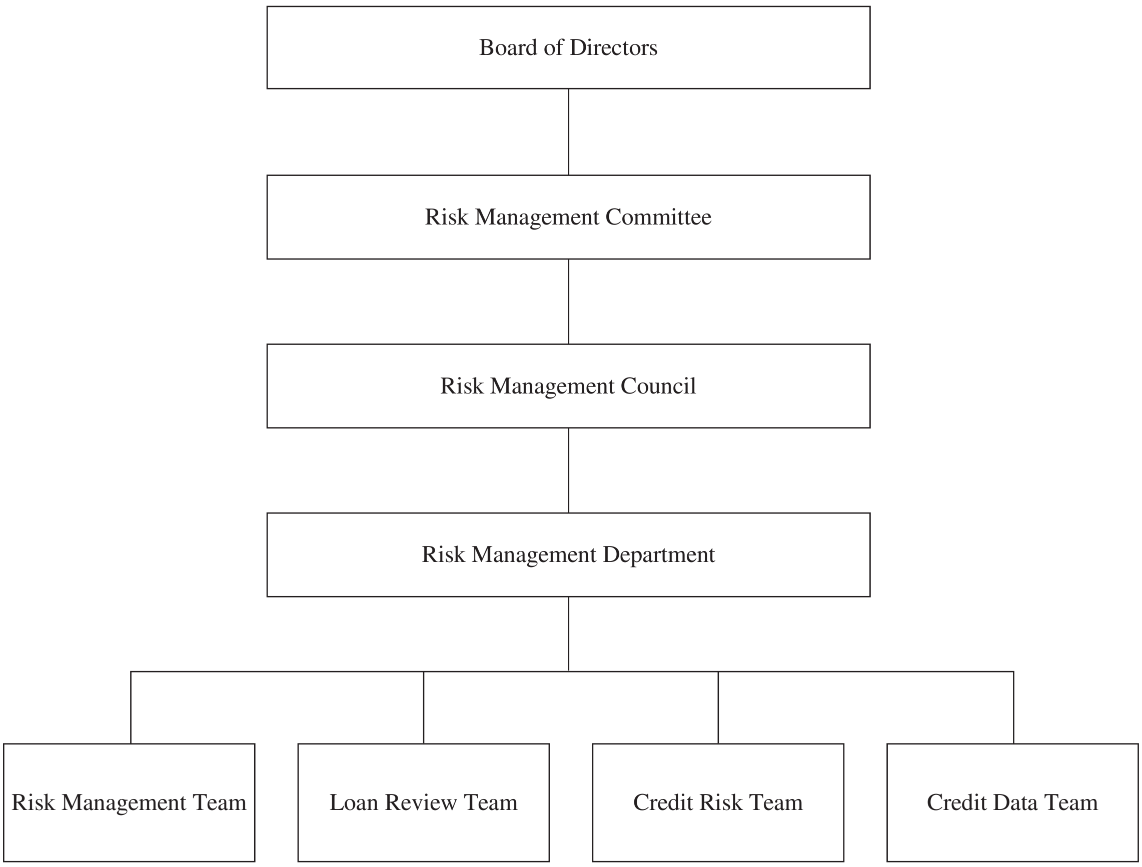
In its foreign currency funding, the Bank is required to make reports to the MOEF regarding borrowings in excess of U.S.$50.0 million with maturities over one year. As of and for nine months ended 30 September 2018, the Bank's foreign currency borrowings and debentures amounted to ₩1,246.0 billion.

RISK MANAGEMENT

Managing market risk and credit risk has become an increasingly important function of the Bank. The Bank continues to develop new methods of assessing credit risk. The Bank has a range of measures in place to monitor risk across all significant area including market risk, interest rate risk, liquidity risk, currency risk and counterparty credit risk.

RISK MANAGEMENT ORGANISATION

Set forth below is an organisational chart relating to the Bank's risk management units.



The Board of Directors is composed of the Bank's CEO as chairman, two standing directors and five non-standing directors as members and the credit planning manager as secretary. The Board of Directors is primarily responsible for recognising, supervising and controlling overall risk in the Bank. In addition, it oversees the Risk Management Committee to manage risk management-related matters.

The Risk Management Committee, which has a meeting at least once every quarter, is composed of the Bank's CEO as chairman, two standing directors, two non-standing directors and the head of risk management department as secretary. The committee's main role is approving the basic policies related to risk management and reviewing risk limits and policy compliance. The committee is also responsible for making and revising the Bank's risk, related regulations and planning of the basic risk management policies, such as establishing a risk tolerance limit.

The Risk Management Council, which is required to have a meeting at least once every month, is composed of the head of risk management department as chairman and the heads of the banking planning department, treasury department, customer support department, loan management department, credit review department and maritime investment financial department as members. The Risk Management Council's primary role is to oversee the operation of the Bank's risk management procedures. The Risk Management Council is also responsible for risk analysis, development of risk management solutions, implementation of detailed risk limits and making decisions on applicable interest rates.

The Risk Management Department is comprised of the Risk Management Team, the Loan Review Team, the Credit Risk Team and the newly formed Credit Data Team. The Risk Management Team implements the policies approved by the Risk Management Committee, plans risk management strategies and policies for the credit business, and administers BIS capital adequacy requirements. The Loan Review Team is responsible for comprehensive management of works related to all loan reviews, including those approved by the Bank's headquarter and branch offices. The Credit Risk Team is responsible for reviewing and managing the credit risk associated with potential delinquent accounts, total credit exposure, asset classification, loss provisioning among other risks and validation. The newly established Credit Data Team is responsible for managing and improving data quality related to credit risks, recognition of same persons and management of asset classification (retail, non-retail), defining default and management of default data, collecting defaulted asset and billing and cost record management, amongst other things.

Additionally, the Bank maintains and operates the following independent councils and office in relation to its risk management:

- The Interest Rate Risk Business Council is composed of the Head of the Business Management Team as chairman and four team leaders of interest rate-related divisions as members. The Interest Rate Risk Business Council's major role is to hold meetings in relation to interest rates. The meetings are held every month, with additional meetings held as required.

- The Credit Risk Business Council is composed of the head of the Credit Risk Team as chairman and six team leaders of credit risk-related departments as members. Its main role is to hold credit risk meetings every quarter, with additional meetings held as required.

- The Compliance Office defines internal control rules and compliance procedures and develops guidelines for compliance failure prevention, ethical management practices, and money laundry prevention, while advising on legal issues and controlling the legal risks involved in the Bank's business.

TOTAL EXPOSURE MANAGEMENT

The Bank's Risk Management Committee sets tolerance limits, and limits the Bank's total exposure to loans in excess of ₩10 billion to not more than 500 per cent. of the equity capital of the Bank. Maximum tolerance limits are managed by industry type (within 25 per cent. of equity capital) and by corporate type (within 15 per cent.). Maximum tolerance limits for financial institutions, construction companies and real estate project financing loans are 30 per cent., 10 per cent. and 3 per cent., respectively, of equity capital. No loan was over the limit as of 30 September 2018.

MARKET RISK MANAGEMENT

Market risk is a risk of financial losses due to a change of interest rate, exchange rate or stock price. The Bank manages its market risks by setting limits, such as investment limits, position limits, trade limits and risk approval limits, on a Value-at-Risk ("**VaR**") basis and monitoring strict compliance with these limits and stop-loss rules through a person in charge of the risk management in each department. The Bank's Risk Management Department independently monitors the compliance with such limits by the sales department and reports to the Bank's management and the Risk Management Council of the status. In addition, in order to manage market risk more efficiently, the Bank has implemented guidelines on investment standards, investment policies and investment portfolios.

In assessing market risk, the Bank uses VaR, which is a statistical measurement of the maximum possible value of loss caused by a change in market conditions. In addition to relying on VaR models, in order to minimise the risk of loss resulting from adverse changes in the economic environment, such as the Asian financial crisis in 1997, the Bank frequently conducts stress tests, which helps the Bank prepare for emergency economic conditions.

CREDIT RISK MANAGEMENT

Credit risk is a risk of financial losses caused by a credit rating drop or a non-performance of financial obligations of a borrower or a counterparty.

The Bank manages credit risk at many levels, including its sales branches, loan management and credit review department, risk management department and internal audit department. The sales branches and the loan management and credit review department are responsible for improving credit assessment accuracy for individual loans, risk management of investment assets and efficient asset management within risk asset limits. The risk management department is responsible for the allocation and management of risk assets within the Bank as well as management of the asset portfolio. The internal audit department is responsible for monitoring the Bank's total credit risk management operation.

The Bank's primary tool for managing credit risk for corporate and retail loans and other credits is its CRMS architecture, which is a computerised, on-line system for conducting all of the Bank's routine loan approval processes. Both corporate and retail loan applications are entered electronically into CRMS. Based on the data in the loan application, CRMS generates a credit score for each loan application on a scale of 1 to 10, based on factors such as loan amount, credit rating, credit history, size and type of collateral, size of corporate borrower, borrower's financial situation and other relevant factors. Loan applications with a credit score greater than six are automatically denied. Otherwise, loan applications are subject to review at the branch or headquarters level, subject to a loan limit, which is the maximum size of loan permitted for each credit score. Loan limits vary depending on whether the loan is being reviewed at the branch or headquarters level, as well as whether the borrower is a company audited by an independent auditor. For a detailed description of the loan approval process and loan limits, see "*Credit Policies and Approval Procedures – Loan Approval Procedures and Loan Approval Limits*".

CRMS also provides other functionalities, including enabling the Bank to electronically monitor and manage collateral, track a borrower's repayment and performance history over the life of a loan, and process applications for credit guarantees.

In addition to utilising CRMS and other credit risk management processes, the Bank generally follows conservative lending policies, as it follows guidelines set out in KDIC's MRP. Similar to other Korean banks, the Bank is permitted to lend up to 25 per cent. of its capital base in accordance with the MRP. However, loans that exceed 10 per cent. of the Bank's capital base is subject to the approval of the special loan review committee, which is composed of two standing directors and the respective heads of the two business divisions. The Bank's Risk Management Committee decides ceilings by industry and company. The Bank uses corporate ratings of local rating agencies, credit information provided by bank associations, and models driven by internal rating systems, imposing a minimum BBB credit rating for all corporate borrowers.

Even though the Bank is required to provide policy loans to the fisheries industry in line with its primary purpose of improving the social, cultural and economic status of fishermen in Korea, in line with guidance from MOF as to eligibility criteria and scope of such loans, the Bank applies its credit risk management process to policy loans as well to ensure that it maintains an acceptable level of credit risk.

LIQUIDITY RISK MANAGEMENT

Liquidity risk arises from situations in which the Bank has insufficient funds due to a mismatch between fund management and fund procurement periods or unexpected outflows of funds from the Bank. In such cases, the Bank has a risk of financial loss because the Bank may be required to sell assets or borrow funds on unfavourable terms in order to finance such liquidity shortfalls.

The Bank focuses its liquidity risk management effort on managing its reserves of Won-denominated assets, foreign currency-denominated assets and operation of funding levels. The Bank assesses liquidity risk by measuring the liquidity ratio and liquidity gap ratio after three months of accumulation for foreign currency-denominated assets and after one month of accumulation for Won-denominated assets. The Bank manages liquidity risk by setting out and measuring the allowance limit on a regular basis, reviewing and adopting a contingency plan and maintaining an emergency credit line.

INTEREST RATE RISK MANAGEMENT

The interest rate risk exists where there is a risk that a change in market interest rates will have an impact on the Bank's interest income, assets or liabilities. Based on various mechanisms suggested by the BIS Committee on Banking Regulation and Supervisory Practices, the Bank measures its earnings at risk, net interest income and VaR levels on a regular basis. Based on the results of such measurements, the Bank allocates its risk assets in order to manage interest rate risk.

FOREIGN EXCHANGE RISK MANAGEMENT

The Bank's exposure to foreign exchange risk is relatively low, as its foreign currency exposure is limited to its foreign currency-denominated loans, which amounted to only ₩424.0 billion as of and for nine months ended 30 September 2018, equal to 1.5 in per cent. of its total loan portfolio. The Bank manages the foreign exchange risk that it does have by matching the size and tenor of its foreign currency-denominated loans or other credits with its foreign currency-denominated sources of funding. As a result, the Bank does not engage in any significant derivatives transactions to hedge against foreign exchange risk.

Capital Adequacy

The Bank Act requires nationwide banks to maintain a minimum paid-in capital of ₩100 billion and regional banks, such as the Issuer, to maintain a minimum paid-in capital of ₩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 per cent. 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 Detailed Regulation on the Supervision of the 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) common equity Tier I capital, including paid-in capital, capital surplus and retained earnings related to common equity and accumulated other comprehensive gains and losses, and (ii) additional Tier I capital, including paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital and are subordinated to subordinated debt. 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 loans 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 the 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 of 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 were required to meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8 per cent. Commencing in July 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 common equity Tier I capital to risk-weighted assets of 3.5 per cent. and Tier I capital to risk-weighted assets of 4.5 per cent. from 1 December 2013, which minimum ratios were increased to 4.0 per cent. and 5.5 per cent., respectively, from 1 January 2014 and increased further to 4.5 per cent. and 6.0 per cent., 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 per cent., which remains unchanged. The amended regulations also require an additional capital conservation buffer of 0.625 per cent. starting in 2016, with such buffer to increase in stages to 2.5 per cent. by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5 per cent. by 2019, which is determined on a quarterly basis by the FSC.

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 for calculating credit risk capital requirements, a risk-weight ratio of 35 per cent. (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50 per cent. or 70 per cent.; and

(2) for those banks which adopted an internal ratings-based approach 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 Regulation on the Supervision of the Banking Business.

The following table sets out a summary of the Bank's capital base and its capital adequacy ratios as of and for the nine months ended 30 September 2018.

	As of and for the nine months ended 30 September 2018 (in billions of Won, except ratios)
Tier I capital	
Paid-in capital	₩ 1,819
Hybrid	200
Retained earnings	497
Special reserve for trust	–
Accrued corporate tax	–
Losses on valuation of investment securities	–
Others	(33)
Total	**₩ 2,483**
Tier II capital	
Reserve for possible loan losses	180
Gains on valuation of investment securities	–
Subordinated debt	252
Reserve for insurance	–
Total	**₩ 432**
Overtaking Subordinate ABS (-)	
Total risk-adjusted capital	₩ 2,915
Total risk-weighted assets	₩20,814
BIS capital ratio (%)	14%

Note (1): On 31 December 2018, the Bank increased its capital stock by ₩100 billion and improved its capital adequacy ratio, as NFFC deposited the same amount to the credit business special account of NFFC, which in turn was injected as capital to the Bank.

MANAGEMENT

The Bank is managed by its Board of Directors and CEO.

The Bank's Board of Directors is comprised of the CEO, four Outside Directors and two Non-Standing Directors. The CEO is elected by the general shareholders meeting after nomination by the CEO nomination committee. The Outside Directors are composed of one director nominated by the MOEF, one director nominated by MOF, one director nominated by FSC and one director nominated by NFFC. The Non-Standing Directors are composed of one director nominated by KDIC and one director nominated by NFFC.

The Bank's Board of Directors is responsible for making major decisions in connection with the Bank's management and operations, which include decisions regarding the following matters:

- business policies and objectives;
- plan for general business and funding including budget estimation and settlement;
- business operation structure; acquisition and disposal of real estate and other significant assets; and
- risk management.

Meetings of the Bank's Board of Directors are normally held on a quarterly basis.

As of the date of this Offering Circular, the Board of Directors consisted of the following persons.

Name	Director Since	Position	Termination Date
Dong Bin LEE	25 October 2017	CEO and Chairperson	24 October 2020
Yoon Suk KIM	1 December 2018	Outside Director	30 November 2020
Kwang Hee LIM	1 December 2016	Outside Director	30 November 2018
Don Sun YANG	1 December 2018	Outside Director	30 November 2020
Pan Ho CHOI	1 December 2018	Outside Director	30 November 2020
Mi Young LEE	1 December 2018	Non-Standing Director	30 November 2020
Man Hwa CHUNG	28 February 2017	Non-Standing Director	27 February 2019
Myung Suk KANG	1 December 2016	Standing Auditor	30 November 2019

Brief biographies of the members of the Bank's Board of Directors are set forth below:

Mr. *Dong Bin LEE*, age 58, has served as our CEO and Chairperson of our Board of Directors since 25 October 2017. Prior to serving as our CEO and Chairperson, he worked as a director of the Corporate Banking Division of Woori Bank. Mr. Lee received an Executive MBA from Sogang University.

Mr. *Yoon Suk KIM*, age 65, has served as an Outside Director since 1 December 2018. Prior to serving as our Outside Director, he was the vice mayor for economic affairs of Gwangju Metropolitan City. Mr. Kim has a B.A. degree from Korea National Open University in public administration.

Mr. *Kwang Hee LIM*, age 62, has served as an Outside Director since 1 December 2016. Prior to serving as our Outside Director, he was the director of the Business Planning division of Korea Fisheries Resources Agency. Mr. Lim has a B.A. degree from Korea National Open University in public administration.

Mr. *Don Sun YANG*, age 67, has served as an Outside Director since 1 December 2018. Prior to serving as our Outside Director, he worked as an Executive Director of Korea Money Brokerage Corporation. Mr. Yang has a Ph. D. degree from Kyonggi University Graduate School.

Mr. *Pan Ho CHOI*, age 66, has served as an Outside Director since 1 December 2018. Prior to serving as our Outside Director, he was the branch manager of Busan branch at Shinhan Bank. Mr. Choi has a B.A. degree from Pukyong National University in fisheries business administration.

Ms. *Mi Young LEE*, age 51, has served as a Non-Standing Director since 1 December 2018. Prior to serving as our Non-Standing Director, she was the Director-General of Korea Deposit Insurance Corporation. Ms. Lee has a masters degree from the University of Michigan.

Mr. *Man Hwa CHUNG*, age 62, has served as a Non-Standing Director since 28 February 2017. Prior to serving as our Non-Standing Director, he was the President of Weihai Suhyup International Trading Company. Mr. Chung has a Ph.D. degree from the National Fisheries University of Busan (now known as Pukyong National University) in fisheries business administration.

Mr. *Myung Suk KANG*, age 58, has served as our Standing Auditor since 1 December 2016. Prior to serving as our Standing Auditor, he was the Standing Director of the NFFC. Mr. Kang has a Ph.D. degree from Hoseo University in business administration.

Each member of the board of directors is paid a base monthly salary. Bonuses are determined and paid on an annual basis based on the performance evaluation results. If the evaluation system produces the result for a director to receive a "negative-bonus", such amount is deducted from the director's base salary in the following year. If there is no base salary from which the negative-bonus amount can be deducted, such amount is deducted from the director's severance indemnity. This system is designed to eliminate guaranteed fixed severance indemnities and establish greater management transparency.

No members of the Bank's Board of Directors or senior management hold any securities, including stock options, of the Bank or the NFFC.

EMPLOYEES

As of 30 September 2018, the Bank had 1,921 employees, of which 1,794 were full-time employees. The Bank believes that it has an excellent relationship with its employees. As of 30 September 2018, 1,794 full-time employees were members of the Bank's labour union, a member of the Korean Financial Industry Union and the Federation of Korean Labor Unions. The Bank has never experienced a work stoppage or other labour action. Every year the union and the Bank's management negotiate and enter into a new collective bargaining agreement.

The Bank, like most other Korean banks, grants its full-time employees annual increases in basic wages and pays periodic bonuses and overtime. For the nine months ended 30 September 2018, the Bank, on average, aside from increases due to promotions, increased salaries of its full time employees by 4.2 per cent. For the nine months ended 30 September 2018, salaries and employee benefits of the Bank's employees comprised approximately 61.4 per cent. of the total operating administrative expenses of the Bank. The Bank also provides a wide range of fringe benefits to all of its full-time employees, including housing subsidies, medical care assistance and educational and self-development subsidies.

The Bank also employs a significant number of personnel on a fixed-term basis. As of 30 September 2018, the Bank had 127 fixed-term employees. The Bank grants its fixed-term employees increases in basic wages based on annual work performance assessments. The Bank provides a more limited range of fringe benefits to its fixed-term employees than it does to its full-time employees.

In accordance with the Korean National Pension Law, the Bank contributes an amount equal to 4.5 per cent. of full-time employees' wages which are deducted from such wages, into each national pension account. In accordance with the Bank's policy and the Korean Labour Standard Law, full-time employees with one year or more of service are entitled, upon termination of employment, to receive a lump sum severance payment based upon the length of their service and the average of the last three months' wages. The Bank makes provisions for accrued severance indemnities based upon the assumption that all of the Bank's full-time employees terminate their employment with the Bank at the same time and in accordance with Suhyup GAAP, which permit Korean banks, including the Bank, to provide for such provisions on a phase-in basis. As of 31 December 2017 and 30 September 2018, the provisions for accrued severance indemnities were ₩115.7 billion and ₩126.9 billion, respectively.

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 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 Nonghyup Bank and the Bank 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 non-banking 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.

TAXATION

KOREAN TAXATION

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.

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

INCOME TAX AND CORPORATION TAX ON INTEREST

Interest on the Notes paid to Non-Residents (excluding payments to their Permanent Establishment in Korea) is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Tax Exemption and Limitation Law (the "**TELL**"), subject to the tax consequences with respect to Index Linked Notes set out in the applicable Pricing Supplement, so far as the Notes are "foreign currency denominated bonds" under the TELL which are issued outside of Korea. The term "foreign currency denominated bonds" in this context is not defined under the TELL. In this regard, the Korean tax authority issued a ruling on 1 September 1990 to the effect that "Notes Issuance Facility, USCP, Euro CP and Banker's Acceptance, etc." are not treated as the "foreign currency denominated bonds".

If not exempt under TELL, the rate of income tax or corporation tax applicable to interest or any premium on the Notes, for a Non-Resident without a Permanent Establishment in Korea, is currently 14 per cent. In addition, a tax surcharge, called a local income tax is imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

The tax is withheld by the payer of the interest. A non-resident that was subject to withholding of Korean tax on interest is generally entitled to claim a refund on over-withheld tax directly from the Korean tax authorities effective on refund claims made on or after 1 January 2009.

The tax rates may be reduced or exempted by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the interest. The relevant tax treaties are discussed 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 TELL, **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 per cent. (including local income surtax) 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 per cent. (including local income surtax) of the 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 the 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 per cent. 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 10th day of the month following the month in which the sale of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, either as a seller of Notes or 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.

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 resided 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 per cent. to 50 per cent. according to the value of the relevant property and the identity of the parties involved.

Under the Korean inheritance and gift tax laws, 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. A securities transaction tax will not be imposed on the transfer of Notes.

TAX TREATIES

At the date of this Offering Circular, Korea has tax treaties with *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 under the rate of withholding tax on interest is reduced, generally to between 5 and 16.5 per cent. (including local income surtax), and the tax on capital gains is often eliminated.

Each Non-Resident Noteholder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer a certificate as to his residence. In the absence of sufficient proof, the Issuer must undertake to withhold taxes in accordance with the above discussion.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder should submit to the payer of such Korean source income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for exemption" under a tax treaty along with a certificate of the non-resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("**BO Application**"). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) ("**OIV**"), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

At present, Korea has not entered into any tax treaties regarding its inheritance or gift tax.

EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. A number of third countries and territories including Switzerland have adopted similar measures to the EU Directive.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

The discussion of tax matters in this Offering Circular is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal, state or local tax penalties, and was written to support the promotion or marketing of offerings under the Programme. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a **foreign financial institution**, or "**FFI**" (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA. The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "grandfathering date", which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership," or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States has announced an intention to enter into an intergovernmental agreement with Korea.

If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA.

Whilst the Notes are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, Definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Securities.

SUBSCRIPTION AND SALE

The Dealers have in the amended and restated dealer agreement, dated 18 January 2019 (as amended or supplemented 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 Pricing Supplement*" and "*Terms and Conditions of the Notes*" above. In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may 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 brokerdealers 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 discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager named in the applicable Pricing Supplement and must end no later than the earlier of 30 days following the Issue Date of the relevant Tranche of Notes and 60 days following the date of the allotment of the relevant Tranche of Notes.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of the Dealer is a license broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the issuer in such jurisdictions.

CERTAIN RELATIONSHIPS

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with, and perform services for, the Issuer or its affiliates in the ordinary course of business. The Dealers and certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers and their respective affiliates may purchase Notes for their own accounts and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Issuer or its subsidiaries or associates, at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

SELLING RESTRICTIONS

United States of America: *Regulation S Category 1 or 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

Category 1

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States. In addition, until 40 days after the commencement of any offering, an offer or sale of Notes from that offering within the United States by any dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

Category 2

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. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal 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 Fiscal 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, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

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 or superseded, 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 or superseded, 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 203 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, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer severally but not jointly has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to severally but not jointly represent, warrant and agree, that it has not offered or sold any Notes or caused such Notes to be 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 (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) 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 or securities-based derivatives contracts (each term as defined in Section 2(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, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

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

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

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

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

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.

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 such sale.

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.

GENERAL INFORMATION

AUTHORISATION

Each issue of Notes under the Programme will be authorised by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

LISTING OF NOTES ON THE SGX-ST

Approval in-principle has been received 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 to the Official List of the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 or its equivalent in other specified currencies.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that any Global Note is exchanged for definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore where the Notes may be presented or surrendered for payment or redemption and make an announcement of such exchange through the SGX-ST, and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

DOCUMENTS AVAILABLE

From the date hereof and 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:

(i) the constitutional documents (together with English translations) of the Issuer;

(ii) the review report and unaudited separate financial statements of the Old Issuer in respect of the 11 months ended 30 November 2016;

(iii) the auditors' report and the audited consolidated financial statements of the Issuer in respect of the one month ended 31 December 2016;

(iv) the auditors' report and the audited consolidated financial statements of the Issuer in respect of the year ended 31 December 2017;

(v) the unaudited consolidated interim financial statements of the Issuer in respect of the nine months ended 30 September 2017 and 2018;

(vi) the most recently published consolidated audited financial statements of the Issuer and the most recently published interim financial statements of the Issuer;

(vii) the Dealer Agreement, the Agency Agreement, the Deed of Covenant, the forms of the Global Notes, the Global Certificates, the Notes in definitive form, the Certificates, the Receipts, the Coupons and the Talons;

(viii) a copy of this Offering Circular;

(ix) 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 this Offering Circular and any other documents incorporated herein or therein by reference; and

(x) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

BEARER NOTES

Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

CLEARING SYSTEMS

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg 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 specified in the applicable Pricing Supplement.

AUDITORS

The current auditors of the Issuer are Deloitte Anjin LLC.

LEGAL ENTITY IDENTIFIER

The Legal Entity Identifier for the Issuer is 9884007XHIYD533HQV15.

INDEX TO FINANCIAL STATEMENTS

THE BANKING SERVICE ACCOUNTS OF THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED FINANCIAL STATEMENTS AS OF NOVEMBER 30, 2016, AND DECEMBER 31, 2015, AND FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

ATTACHMENT: INDEPENDENT ACCOUNTANTS' REVIEW REPORT

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

Deloitte.

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Independent Accountants' Review Report

English Translation of Independent Accountants' Report Originally Issued in Korean on March 17, 2017.

To the Board of Directors and the Shareholder of
The Banking Service Accounts of the National Federation of Fisheries Cooperatives:

Report on the non-consolidated financial statements

We have reviewed the accompanying non-consolidated financial statements of the Banking Service Accounts (the "Bank") of the National Federation of Fisheries Cooperatives ("NFFC"), which comprise the non-consolidated statements of financial position as of November 30, 2016, and December 31, 2015, and the related non-consolidated statement of income, non-consolidated statement of changes in shareholder's equity and non-consolidated statement of cash flows, all expressed in Korean won, for the 11 months ended November 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the *NFFC Act* and the related accounting principles and standards, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent accountants' responsibility

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

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

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying non-consolidated financial statements of the Bank are not presented fairly, in all material respects, in conformity with the *NFFC Act* and related accounting principles and standards applied by the Bank.

Emphasis

As explained in Note 2 to the non-consolidated financial statements, pursuant to the *Applicability of and Exceptions to Korean International Financial Reporting Standards* ("K-IFRSs") of the *Regulations on Supervision of Banking Business*, promulgated by the Financial Services Commission on November 5, 2010, the Bank prepares its financial information for the fiscal period beginning on or after January 1, 2011, in conformity with the *Accounting Standards for Banking Business*, the *Detail Standards Established by Superintendent of Financial Supervisory Service,* the *Accounting Standards for Foreign Exchange Accounts*, and the derecognition standards of financial instruments under K-IFRS 1039, "*Financial Instruments: Recognition and Measurement.*" The derecognition standards of financial instruments under the K-IFRS 1039 adopted by the Bank, as required by the Detailed Regulations on Supervision of Banking Business Article 5 Appendix 4-2, have been applied for the transactions entered into on or after January 1, 2010. On the other hand, as noted in Note 1 and Note 24, the Bank has divided into simple physical divisions in which NFFC acquires the total number of new company shares as of November 30, 2016.

Others

We audited the non-consolidated statement of financial position as of December 31, 2015, and the related non-consolidated statement of income, non-consolidated statement of changes in shareholder's equity and non-consolidated statement of cash flows (not presented in the accompanying non-consolidated financial statements), all expressed in Korean won, for the year ended December 31, 2015, in accordance with the *NFFC Act* and related accounting principles and standards applied by the Bank. We expressed an unqualified opinion in our independent auditors' report dated March 14, 2016. The non-consolidated statement of financial position as of December 31, 2015, presented for comparative purposes in the accompanying non-consolidated financial statements, does not differ, in all material respects, with the audited non-consolidated statement of financial position as of December 31, 2015.

Deloitte Anjin LLC

March 17, 2017

Notice to Readers

This report is effective as of March 17, 2017, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying non-consolidated financial statements and may result in modifications to the accountants' review report.

THE BANKING SERVICE ACCOUNTS (the "Bank") OF THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES ("NFFC")

NON-CONSOLIDATED FINANCIAL STATEMENTS AS OF NOVEMBER 30, 2016, AND DECEMBER 31, 2015, AND FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

The accompanying non-consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Bank of NFFC.

YI WON-TAE
CHIEF EXECUTIVE OFFICER
THE BANKING SERVICE ACCOUNTS OF THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

Headquarters: (Road Name and Address) 62 Ogeum-ro, Songpa-gu, Seoul
(Phone Number) 1588-1515

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF NOVEMBER 30, 2016, AND DECEMBER 31, 2015

	November 30, 2016		December 31, 2015	
	(Korean won in millions)			
ASSETS:				
Cash and due from banks (Notes 3, 17 and 23)	₩	683,919	₩	622,312
Securities (Notes 4 and 17)		3,367,364		2,743,202
Loans, net (Notes 5 and 17)		22,362,613		19,789,677
Tangible assets (Note 6)		67,691		68,767
Other assets (Notes 7, 18 and 21)		1,448,083		1,087,291
Total assets	₩	27,929,670	₩	24,311,249
LIABILITIES:				
Deposits (Notes 8 and 17)	₩	16,420,407	₩	13,700,783
Borrowings (Notes 9 and 17)		8,766,379		7,734,888
Other liabilities (Notes 10, 11, 12, 13, 14, 15 and 18)		1,584,524		1,753,665
Total liabilities		26,771,310		23,189,336
SHAREHOLDER'S EQUITY (Notes 1 and 19):				
Equity investment		1,158,100		1,158,100
Accumulated other comprehensive income		(3,731)		5,630
Accumulated deficit		3,991		(41,817)
Total shareholder's equity		1,158,360		1,121,913
Total liabilities and shareholder's equity	₩	27,929,670	₩	24,311,249

See accompanying notes to non-consolidated financial statements.

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED STATEMENT OF INCOME

FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

		For the 11 months ended November 30, 2016
		(Korean won in millions)
Interest on due from banks	₩	230
Interest on securities		47,378
Interest on loans		637,611
Other interest income		56,370
Interest income		741,589
Gain on valuation of trading securities		4
Gain on disposal of trading securities		2,892
Gain on disposal of available-for-sale securities		12,495
Gain on valuation and disposal of securities		15,391
Gain on disposal of loans (Note 5)		6,341
Foreign exchange trading income		13,470
Commission income		37,909
Guarantee income		3,079
Other commission income		251
Commission		41,239
Fees and commission from trust accounts		10,266
Dividends income		30
Gain on financial derivatives		284,638
Reversal of provision for unused credit commitments		2,889
Others		7,806
Other operating revenue		295,333
Operating revenues		1,123,659

(Continued)

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED STATEMENT OF INCOME (CONTINUED)

FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

		For the 11 months ended November 30, 2016
		(Korean won in millions)
Interest on deposits	₩	202,066
Interest on borrowings		20,841
Interest on debentures		112,302
Other interest expenses		17,459
Interest expenses		352,668
Loss on valuation of trading securities		902
Loss on disposal of trading securities		2,048
Loss on disposal of available-for-sale securities		1,209
Impairment loss on available-for-sale securities		3,674
Loss on retirement of held-to-maturity securities		6
Loss on valuation and disposal of securities		7,839
Provision for possible loan losses		113,916
Loss on disposal of loans		4,517
Loss on valuation and disposal of loans (Note 5)		118,433
Foreign exchange trading losses		10,112
Commission expenses		11,515
Commissions paid on credit card		2,851
Commission		14,366
General and administrative expenses (Note 22)		208,768
Loss on financial derivatives		283,482
Contributions to public funds		24,896
Insurance expense for deposits		17,539
Provision for acceptances and guarantees		247
Provision for other possible losses		197
Others		3,384
Other operating expenses		329,745
Operating expenses		1,041,931

(Continued)

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED STATEMENT OF INCOME (CONTINUED)

FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

		For the 11 months ended November 30, 2016 (Korean won in millions)
Operating income	₩	81,728
Non-operating income		7,865
Non-operating expense		29,103
Net income before income tax expense		60,490
Income tax expense (Note 21)		14,682
Net income	₩	45,808

(Concluded)

See accompanying notes to non-consolidated financial statements.

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

	Equity investment	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Total
			(Korean won in millions)			
As of January 1, 2016	₩ 1,158,100	₩ -	₩ -	₩ 5,630	₩ (41,817)	₩ 1,121,913
Net income	-	-	-	-	45,808	45,808
Valuation of available-for-sale securities	-	-	-	(9,361)	-	(9,361)
As of November 30, 2016	₩ 1,158,100	₩ -	₩ -	₩ (3,731)	₩ 3,991	₩ 1,158,360

See accompanying notes to non-consolidated financial statements.

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NON-CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

		For the 11 months ended November 30, 2016
		(Korean won in millions)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩	45,808
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation		9,265
Amortization		19,151
Loss on disposition of tangible assets		588
Provision for possible loan losses		113,916
Loss on valuation of trading securities, net		898
Impairment loss on available-for-sale securities		3,674
Gain on valuation derivatives, net		(695)
Adjustment by the effective interest rate method, net		4,130
Provision for acceptances and guarantees		247
Reversal of unused credit commitments		(2,889)
Provision for other possible losses		197
Severance benefits		15,400
		163,882
Changes in assets and liabilities resulting from operations:		
Net increase in due from banks		(45,781)
Net increase in trading securities		(102,191)
Net increase in available-for-sale securities		(221,497)
Net increase in held-to-maturity securities		(297,253)
Net increase in loans		(2,699,290)
Net increase in accounts receivable		(433,594)
Net decrease in accrued income		12,283
Net increase in prepaid expenses		(1,301)
Net increase in deferred income tax assets		(16,609)
Net increase in exchange receivable		(9,839)
Net decrease in derivative assets		35,752
Net decrease in sundry assets		56,014
Net increase in accounts payable		457,531
Net increase in accrued expenses		10,705
Net increase in income tax payable		3,278
Net decrease in unearned income		(140)
Net decrease in derivative liabilities		(32,225)
Net decrease in acceptances and guarantees		(2)
Net decrease in unused credit commitment allowances		(18)
Net decrease in allowance for other possible losses		(620)
Net decrease in sundry liabilities		(682,227)
Payment of severance benefits		(2,708)
Increase in transfers to National Pension Fund		(48)
Decrease in severance insurance deposits		259
		(3,969,521)
Net cash used in operating activities		(3,759,831)

(Continued)

**THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES**

NON-CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

		For the 11 months ended November 30, 2016
		(Korean won in millions)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of tangible assets	₩	(8,778)
Acquisition of intangible assets		(7,354)
Net decrease in guarantee deposits received		(2,022)
Net cash used in investing activities		(18,154)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits		2,719,624
Net increase in call money		190,713
Net increase in bills sold		4
Net increase in borrowings		881,701
Increase in debentures		3,113,416
Decrease in debentures		(3,149,628)
Net decrease in bonds sold under repurchase agreements		(1,213)
Net increase in due to trust accounts		68,854
Net increase in deposit for letter of guarantees		810
Net decrease in domestic exchange obligation payable		(30,470)
Net cash provided by financing activities		3,793,811
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,826
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD		110,314
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (Note 23)	₩	126,140

(Concluded)

See accompanying notes to non-consolidated financial statements.

THE BANKING SERVICE ACCOUNTS OF
THE NATIONAL FEDERATION OF FISHERIES COOPERATIVES

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

AS OF NOVEMBER 30, 2016, AND DECEMBER 31, 2015,
AND FOR THE 11 MONTHS ENDED NOVEMBER 30, 2016

1. BANK INFORMATION:

The National Federation of Fisheries Cooperatives ("NFFC") was established on April 1, 1962, under the *NFFC Act* of the Republic of Korea to provide guidance and supervision for the businesses of member cooperatives to improve the mutual beneficiary relationship among them and to ensure sound growth. In order to achieve these objectives, NFFC provides banking services as part of a profit-oriented division within NFFC.

The Banking Service Accounts (the "Bank") provides various banking services, such as loan lending, receiving of deposits, foreign currency exchanges, credit cards, trust management, securities trading and investments and other related banking activities. According to Korean banking laws and regulations, the Bank of NFFC is considered a financial institution.

In June 2015, Moody's Investors Service assigned the Bank an "A2(S)" rating. In November 2015, Standard & Poor's assigned the Bank an "A-(S)" rating and Korean credit rating agency assigned the Bank "AAA" rating. On December 31, 2000, NFFC allocated all of its total capital contribution from the member cooperatives as paid-up capital of the guidance service accounts within NFFC pursuant to the revised *NFFC Act*. As a result, the Bank was separated from the non-banking services within NFFC and was injected with new capital from Korea Deposit Insurance Corporation ("KDIC") amounting to ₩1,158,100 million in 2001. As of November 30, 2016, the Bank is wholly owned by KDIC.

On the other hand, as noted in Note 24, by the revised *NFFC Act* and the Commercial Act on the reporting date, the Bank was divided into a new company and simple physical divisions in which NFFC acquires the total number of new company shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Bank maintains its official accounting records in Korean won and prepares non-consolidated financial statements in conformity with the *NFFC Act*, the Regulations on Supervision of Banking Business and the related accounting principles and standards applied by the Bank prior to the adoption of Korean International Financial Reporting Standards ("K-IFRSs"), in the Korean language (Hangul). Accordingly, the non-consolidated financial statements are intended for use by those who are informed about above accounting principles, standards and Korean practices. Pursuant to the *Applicability of and Exceptions to K-IFRSs of the Regulations on Supervision of Banking Business*, promulgated by the Financial Services Commission on November 5, 2010, the Bank will fully adopt and apply K-IFRSs to the first fiscal year that begins after December 1, 2016, or earlier, as permitted by the Bank's election.

Prior to the full adoption of K-IFRSs, the Bank will apply the above accounting principles and standards that were effective as of December 31, 2010, except for the derecognition standards of financial instruments under K-IFRS 1039, *"Financial Instruments; Recognition and Measurement."*

The accompanying non-consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language non-consolidated financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, operating results, changes in shareholder's equity or cash flows is not presented in the accompanying non-consolidated financial statements.

The accounting policies that have been applied as of and for the 11 months ended November 30, 2016, are not materially different from those applied in prior year.

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Classification	Financial institution	Annual interest rate	November 30, 2016	December 31, 2015
Cash and cash equivalents		-	₩ 126,140	₩ 110,314
Due from banks in Korean won:				
Reserve on deposit with the Bank of Korea ("BOK")	BOK	-	496,703	286,759
Customer deposits - beneficiary	The Bank	-	863	1,570
Others	Other banks	-	72	85
	Other financial institutions	-	7	-
	Subtotal		497,645	288,414
Due from banks in foreign currencies:				
Reserve on deposit with BOK	BOK	-	15,664	6,671
Others	Other banks	0.00%–0.20%	44,470	216,913
	Subtotal		60,134	223,584
	Total		₩ 683,919	₩ 622,312

(2) Restricted due from banks in Korean won and foreign currencies as of November 30, 2016, and December 31, 2015, consists of the following (Unit: Korean won in millions):

Classification	November 30, 2016	December 31, 2015	Reason for restriction
Due from banks in Korean won:			
Reserve on deposit with BOK	₩ 496,703	₩ 286,759	Deposits for the purpose of liquidity management required under *BOK Act*
Customer deposit - beneficiary	863	1,570	Required under *Financial Investment Services and Capital Markets Act*
Subtotal	497,566	288,329	
Due from banks in foreign currencies:			
Reserve on deposit with BOK	15,664	6,671	Deposits for the purpose of liquidity management required under *BOK Act*
Total	₩ 513,230	₩ 295,000	

(3) Term structures of due from banks in Korean won and foreign currencies as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016		
Classification	Due from banks in Korean won	Due from banks in foreign currencies	Total
Within three months	₩ 497,645	₩ 60,134	₩ 557,779

	December 31, 2015		
Classification	Due from banks in Korean won	Due from banks in foreign currencies	Total
Within three months	₩ 288,414	₩ 223,584	₩ 511,998

4. SECURITIES:

(1) Securities as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Classification	November 30, 2016 Face value	Acquisition cost (*1)	Adjusted by effective interest rate method	Book value
Trading securities:				
Government and public bonds	₩ 221,000	₩ 225,351	₩ 223,949	₩ 223,625
Financial institution bonds	260,000	260,372	260,246	259,676
Subtotal	481,000	485,723	484,195	483,301
Available-for-sale securities:				
Equity securities	-	21,979	-	25,422
Equity investments	-	2,587	-	2,587
Beneficiary certificates	-	50,000	-	49,496
Government and public bonds	470,000	481,123	480,376	475,746
Financial institution bonds	860,000	859,949	859,663	857,381
Corporate bonds	866,552	877,864	873,079	872,130
Subtotal	2,196,552	2,293,502	2,213,118	2,282,762
Held-to-maturity securities:				
Government and public bonds	70,295	70,370	71,105	71,105
Financial institution bonds	104,361	157,425	156,960	156,960
Corporate bonds	422,197	374,100	373,236	373,236
Subtotal	596,853	601,895	601,301	601,301
Total	₩ 3,274,405	₩ 3,381,120	₩ 3,298,614	₩ 3,367,364

Classification	December 31, 2015 Face value	Acquisition cost (*1)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 225	₩ -	₩ 301
Government and public bonds	220,000	224,186	223,569	223,805
Financial institution bonds	160,000	160,665	160,430	160,481
Subtotal	380,000	385,076	383,999	384,587
Available-for-sale securities:				
Equity securities	-	28,413	-	18,280
Equity investments	-	1,162	-	1,162
Beneficiary certificates	-	50,087	-	49,631
Government and public bonds	220,000	223,702	223,460	224,038
Financial institution bonds	780,000	780,182	779,831	780,406
Corporate bonds	969,400	981,075	978,140	981,027
Subtotal	1,969,400	2,064,621	1,981,431	2,054,544
Held-to-maturity securities:				
Government and public bonds	76,950	75,530	76,562	76,562
Financial institution bonds	33,440	34,025	33,924	33,924
Corporate bonds	191,160	193,814	193,585	193,585
Subtotal	301,550	303,369	304,071	304,071
Total	₩ 2,650,950	₩ 2,753,066	₩ 2,669,501	₩ 2,743,202

(*1) Acquisition cost of a security is the security's book value before valuation and adjustment from the effective interest rate method during the period.

The fair value of trading and available-for-sale debt securities is determined by averaging the base prices as of November 30, 2016, provided by Korea Asset Pricing Corporation and KIS Pricing Inc.

The fair value of non-marketable equity securities and equity investments is determined based on prices obtained from reputable independent pricing services in Korea. The fair value is determined based on more than one of the following valuation models: Discounted cash flow model, discounted free cash flow to equity model, comparable company analysis, dividend discount model and net asset value approach depending on the type of equity securities.

Non-marketable equity securities and equity investments are measured by acquisition cost in the non-consolidated financial statements if the fair value of the securities is not reliably determinable.

(2) Details of equity securities and equity investments among available-for-sale securities as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016			
Classification	Acquisition cost	Accumulated impairment loss	Accumulated other comprehensive income	Fair value /book value
Equity securities:				
Marketable equity securities	₩ 7,801	₩ (6,013)	₩ 1,142	₩ 2,930
Non-marketable equity securities (*1)	25,351	(5,160)	2,301	22,492
Subtotal	33,152	(11,173)	3,443	25,422
Equity investments (*1)	7,928	(5,341)	-	2,587
Total	₩ 41,080	₩ (16,514)	₩ 3,443	₩ 28,009

(*1) Non-marketable equity securities and investments of ₩1,948 million are recognized at acquisition cost as their fair value cannot be reliably determined.

	December 31, 2015			
Classification	Acquisition cost	Accumulated impairment loss	Accumulated other comprehensive income	Fair value /book value
Equity securities:				
Marketable equity securities	₩ 10,829	₩ (6,834)	₩ 1,598	₩ 5,593
Non-marketable equity securities (*1)	17,584	(7,144)	2,247	12,687
Subtotal	28,413	(13,978)	3,845	18,280
Equity investments (*1)	1,162	-	-	1,162
Total	₩ 29,575	₩ (13,978)	₩ 3,845	₩ 19,442

(*1) Non-marketable equity securities and investments of ₩3,141 million are recognized at acquisition cost as their fair value cannot be reliably determined.

(3) Equity securities that are restricted for disposal as of November 30, 2016, and December 31, 2015, are summarized as follows (Unit: Korean won in millions):

Classification	November 30, 2016 Number of shares	Book value		Disposal restriction period
Daiyang Metal Co., Ltd.	36,600	₩	153	Up to October 31, 2017
Samho International Co., Ltd.	92,000		1,592	Up to December 31, 2016
Total		₩	1,745	

Classification	December 31,2015 Number of shares	Book value		Disposal restriction period
Daiyang Metal Co., Ltd.	36,600	₩	152	Up to October 31, 2017
Samho International Co., Ltd.	92,000		1,573	Up to December 31, 2016
Osunglst Co., Ltd.	2,201,332		2,752	Up to December 31, 2017
Total		₩	4,477	

(4) Details of private beneficiary certificates and discretionary investing contracts as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016 Discretionary investing contracts Korea Investment & Trust Suhyup Bank 1st	
Short-term financial instruments	₩	574
Stocks		9,032
Others		24
Total assets		9,630
Total liabilities		135
Net assets	₩	9,495

	December 31, 2015					
	Private beneficiary certificates		Discretionary investing contracts			
Classification	Chamshinhan High-Yield 3rd		Korea Value Suhyup Bank 3rd		Total	
Short-term financial instruments	₩	8	₩	1,184	₩	1,192
Stocks		11		8,385		8,396
Others		-		19		19
Total assets		19		9,588		9,607
Total liabilities		-		80		80
Net assets	₩	19	₩	9,508	₩	9,527

(5) The portfolio of securities by industry as of November 30, 2016, and December 31, 2015, is as follows (Unit: Korean won in millions):

By industry type	November 30, 2016 Amount	November 30, 2016 Percentage	December 31, 2015 Amount	December 31, 2015 Percentage
Trading securities:				
Public sector	₩ 423,301	87.59%	₩ 364,325	94.73%
Financial services	60,000	12.41%	19,961	5.19%
Others	-	-	301	0.08%
Subtotal	483,301	100.00%	384,587	100.00%
Available-for-sale securities:				
Public sector	1,468,511	64.34%	1,305,924	63.56%
Financial services	541,417	23.72%	502,339	24.45%
Manufacturing	471	0.02%	3,513	0.17%
Communication services	-	-	20	0.00%
Construction	2,383	0.10%	2,854	0.14%
Others	269,980	11.82%	239,894	11.68%
Subtotal	2,282,762	100.00%	2,054,544	100.00%
Held-to-maturity securities:				
Public sector	301,763	50.18%	214,267	70.47%
Financial services	155,072	25.79%	44,057	14.49%
Others	144,466	24.03%	45,747	15.04%
Subtotal	601,301	100.00%	304,071	100.00%
Total	₩ 3,367,364		₩ 2,743,202	

(6) The portfolio of securities by security type as of November 30, 2016, and December 31, 2015, is as follows (Unit: Korean won in millions):

By security type	November 30, 2016 Amount	November 30, 2016 Percentage	December 31, 2015 Amount	December 31, 2015 Percentage
Trading securities:				
Stocks	₩ -	-	₩ 301	0.08%
Fixed-rate bonds	483,301	100.00%	384,286	99.92%
Subtotal	483,301	100.00%	384,587	100.00%
Available-for-sale securities:				
Stocks and equity investments	28,009	1.23%	19,442	0.95%
Fixed-rate bonds	2,185,335	95.73%	1,965,536	95.66%
Floating-rate bonds	19,922	0.87%	19,935	0.97%
Beneficiary certificates	49,496	2.17%	49,631	2.42%
Subtotal	2,282,762	100.00%	2,054,544	100.00%
Held-to-maturity securities:				
Fixed-rate bonds	591,301	98.34%	294,071	96.71%
Floating-rate bonds	10,000	1.66%	10,000	3.29%
Subtotal	601,301	100.00%	304,071	100.00%
Total	₩ 3,367,364		₩ 2,743,202	

(7) Changes in accumulated other comprehensive income (loss) of available-for-sale securities for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016 Beginning balance (*1)	Increase (decrease)	Disposal	Deferred income tax	Ending balance
Equity securities	₩ 3,845	₩ 1,304	₩ (1,706)	₩ (833)	₩ 2,610
Government bonds	577	(2,246)	(2,960)	1,120	(3,509)
Finance bonds	575	(1,487)	(1,370)	552	(1,730)
Corporate bonds	2,887	(2,153)	(1,684)	230	(720)
Beneficiary certificates	(456)	161	(209)	122	(382)
Total	₩ 7,428	₩ (4,421)	₩ (7,929)	₩ 1,191	₩ (3,731)

Classification	December 31, 2015 Beginning balance (*1)	Increase (decrease)	Disposal	Deferred income tax	Ending balance
Equity securities	₩ 8,576	₩ 223	₩ (4,954)	₩ (930)	₩ 2,915
Government bonds	977	578	(978)	(140)	437
Finance bonds	2,479	426	(2,330)	(139)	436
Corporate bonds	5,691	1,270	(4,074)	(699)	2,188
Beneficiary certificates	284	(440)	(300)	110	(346)
Total	₩ 18,007	₩ 2,057	₩ (12,636)	₩ (1,798)	₩ 5,630

(*1) Beginning balance does not include deferred income tax effect.

(8) The term structures of debt securities included in available-for-sale securities and held-to-maturity securities as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016		December 31, 2015	
	Acquisition cost	Fair value	Acquisition cost	Fair value
Available-for-sale securities:				
Within one year	₩ 688,365	₩ 684,246	₩ 603,934	₩ 603,328
After one year, but no later than five years	1,524,571	1,514,907	1,375,026	1,376,014
After five years, but no later than 10 years	5,700	5,790	5,699	5,815
After ten years	300	314	300	314
Total	₩ 2,218,936	₩ 2,205,257	₩ 1,984,959	₩ 1,985,471

Classification	November 30, 2016		December 31, 2015	
	Acquisition cost	Fair value	Acquisition cost	Fair value
Held-to-maturity securities:				
Within one year	₩ 174,618	₩ 178,119	₩ 121,418	₩ 121,766
After one year, but no later than five years	427,277	423,182	145,637	145,660
After five years, but no later than 10 years	-	-	36,314	36,645
Total	₩ 601,895	₩ 601,301	₩ 303,369	₩ 304,071

(9) Securities provided as collateral as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016		
Provided to	Book value	Collateral amount	Provided for
Available-for-sale securities:			
BOK	₩ 80,682	₩ 80,000	BOK settlement
BOK	120,427	120,000	Borrowings from BOK
BOK	170,099	170,000	Overdraft
Korea Securities Depository	10,055	10,000	Repurchase agreements
ING Bank N.V. and others	45,788	45,821	Collateral on financial derivative trading
Held-to-maturity securities:			
BOK	70,984	70,000	BOK settlement
BOK	10,000	10,000	Borrowings from BOK
BOK	10,114	10,000	Overdraft
Others	4,720	4,697	Deposits for futures contracts and others
Total	₩ 522,869	₩ 520,518	

	December 31, 2015		
Provided to	Book value	Collateral amount	Provided for
Available-for-sale securities:			
BOK	₩ 50,592	₩ 50,000	BOK settlement
BOK	151,402	150,000	Borrowings from BOK
BOK	171,713	170,000	Overdraft
Korea Securities Depository	10,093	10,000	Repurchase agreements
Australia and New Zealand Banking Group and others	48,373	48,040	Collateral on financial derivative trading
Held-to-maturity securities:			
BOK	58,973	60,000	BOK settlement
BOK	40,262	40,000	Borrowings from BOK
BOK	10,119	10,000	Overdraft
Korea Securities Depository	10,000	10,000	Repurchase agreements
Others	7,283	7,197	Deposits for futures contracts and others
Total	₩ 558,810	₩ 555,237	

5. LOANS:

(1) Loans as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification		November 30, 2016	December 31, 2015
Loans in Korean won:	Corporate loans:		
	Working capital loans	₩ 7,114,459	₩ 7,273,661
	Facilities loans	6,620,741	5,832,343
	Household loans	5,076,664	2,870,925
	Public sector and others	2,312,273	2,434,716
		21,124,137	18,411,645
Loans in foreign currencies		637,412	788,294
Bills bought in Korean won		41	49
Bills bought in foreign currencies		346,158	308,789
Domestic import usance		338,621	313,390
Advance payments on acceptances and guarantees		3,091	7,836
Credit card loans		120,211	137,733
Bonds sold under repurchase agreements		-	100,000
Call loans		151,905	35,160
Privately placed corporate bonds		17,000	9,000
Debt-for-equity swap bond		-	3,925
		22,738,576	20,115,821
Allowance for possible loan loss		(397,607)	(341,634)
Deferred loan origination cost		21,644	15,490
Total		₩ 22,362,613	₩ 19,789,677

(2) Loans classified by borrower type as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016			
By borrower type	Loans in Korean won	Loans in foreign currencies (*1)	Others	Total
Large corporations	₩ 1,163,170	₩ 402,435	₩ 277,068	₩ 1,842,673
Small and medium corporations (*2)	12,572,030	458,899	361,338	13,392,267
Households	5,076,664	87,093	-	5,163,757
Public sector and others	2,312,273	27,606	-	2,339,879
Total	₩ 21,124,137	₩ 976,033	₩ 638,406	₩ 22,738,576

	December 31, 2015			
By borrower type	Loans in Korean won	Loans in foreign currencies (*1)	Others	Total
Large corporations	₩ 1,250,182	₩ 371,542	₩ 267,332	₩ 1,889,056
Small and medium corporations (*2)	11,855,822	516,387	335,160	12,707,369
Households	2,870,925	93,388	-	2,964,313
Public sector and others	2,434,716	120,367	-	2,555,083
Total	₩ 18,411,645	₩ 1,101,684	₩ 602,492	₩ 20,115,821

(*1) Domestic import usance is included in loans denominated in foreign currencies.

(*2) Small and medium corporations are prescribed in *Article 2 of the Small- and Medium-Sized Enterprise Basic Act*.

(3) Loans in foreign currencies and domestic import usance, classified by borrower's country, as of November 30, 2016, and December 31, 2015, are as follows (Unit: U.S. dollars in thousands and Korean won in millions):

	November 30, 2016					
	Loans in foreign currencies		Domestic import usance			
Classification	Loans in U.S. dollars (*1)	Translation into Korean won	Loans in U.S. dollars (*1)	Translation into Korean won	Total	Percentage
Korea	$ 288,729	₩ 337,380	$ 289,791	₩ 338,621	₩ 676,001	69.3%
Others	256,767	300,032	-	-	300,032	30.7%
Total	$ 545,496	₩ 637,412	$ 289,791	₩ 338,621	₩ 976,033	100.0%

	December 31, 2015					
	Loans in foreign currencies		Domestic import usance			
Classification	Loans in U.S. dollars (*1)	Translation into Korean won	Loans in U.S. dollars (*1)	Translation into Korean won	Total	Percentage
Korea	$ 295,009	₩ 345,746	$ 267,398	₩ 313,390	₩ 659,136	59.8%
Others	377,602	442,548	-	-	442,548	40.2%
Total	$ 672,611	₩ 788,294	$ 267,398	₩ 313,390	₩1,101,684	100.0%

(*1) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the basic exchange rate as announced by Seoul Money Brokerage Services, Ltd. at the date of the non-consolidated statements of financial position.

(4) Loans classified by industry as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016		December 31, 2015	
By industry type	Amounts	Percentage	Amounts	Percentage
Financial services	₩ 337,119	1.5%	₩ 354,416	1.8%
Manufacturing	1,339,927	5.9%	1,408,938	7.0%
Construction	746,336	3.3%	696,930	3.5%
Wholesale and retail industries	1,506,028	6.6%	1,495,830	7.4%
Transportation, storage and communication	895,301	3.9%	900,965	4.5%
Real estate rental and business services	4,672,632	20.5%	4,128,260	20.5%
Food and accommodations	1,421,138	6.2%	1,312,195	6.5%
Fishery	3,310,449	14.6%	3,139,901	15.6%
Electricity, gas and water supply	12,378	0.1%	19,944	0.1%
Agriculture, hunting, forestry and mining	33,825	0.1%	33,071	0.2%
Public service	2,178,636	9.6%	2,420,873	12.0%
Others	1,121,050	5.0%	1,240,185	6.2%
Loans to households	5,163,757	22.7%	2,964,313	14.7%
Total	₩22,738,576	100.0%	₩ 20,115,821	100.0%

(5) Loans to financial institutions as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016				
Classification	Loans in Korean won	Loans in foreign currencies	Call loans	Total	Percentage
Bank	₩ -	₩ 27,606	₩ 128,535	₩ 156,141	43.8%
Domestic financial institutions	177,336	-	-	177,336	49.7%
Foreign financial institutions	-	-	23,370	23,370	6.5%
Total	₩ 177,336	₩ 27,606	₩ 151,905	₩ 356,847	100.0%

	December 31, 2015				
Classification	Loans in Korean won	Loans in foreign currencies	Call loans	Total	Percentage
Bank	₩ -	₩ 120,368	₩ 35,160	₩ 155,528	42.6%
Domestic financial institutions	209,495	-	-	209,495	57.4%
Total	₩ 209,495	₩ 120,368	₩ 35,160	₩ 365,023	100.0%

(6) The term structures of loans in Korean won, loans in foreign currencies and domestic import usance as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016		
Classification	Loans in Korean won	Loans in foreign currencies (*1)	Total
Due within three months	₩ 2,648,792	₩ 365,613	₩ 3,014,405
Due from three to six months	3,347,431	240,174	3,587,605
Due from six months to one year	5,227,118	136,734	5,363,852
Due from one year to three years	7,229,992	162,395	7,392,387
Due in three years or more	2,670,804	71,117	2,741,921
Total	₩ 21,124,137	₩ 976,033	₩ 22,100,170

	December 31, 2015		
Classification	Loans in Korean won	Loans in foreign currencies (*1)	Total
Due within three months	₩ 2,558,249	₩ 368,935	₩ 2,927,184
Due from three to six months	2,881,444	284,072	3,165,516
Due from six months to one year	5,018,315	103,267	5,121,582
Due from one year to three years	5,702,194	166,952	5,869,146
Due in three years or more	2,251,443	178,458	2,429,901
Total	₩ 18,411,645	₩ 1,101,684	₩ 19,513,329

(*1) Domestic import usance is included in loans denominated in foreign currencies.

(7) The allowance for possible loan losses as of November 30, 2016, and December 31, 2015, is summarized as follows (Unit: Korean won in millions):

LOANS RECEIVABLE	November 30, 2016					
Account	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Korean won	₩ 20,695,275	₩ 148,144	₩ 165,774	₩ 59,984	₩ 54,960	₩ 21,124,137
Loans in foreign currencies	544,061	29,762	11,390	-	24,594	609,807
Domestic import usance	335,989	69	2,563	-	-	338,621
Bills bought in foreign currencies	334,473	-	-	-	11,685	346,158
Bills bought in Korean won	41	-	-	-	-	41
Advance payments on acceptances and guarantees	-	357	-	545	2,189	3,091
Credit card loans	114,480	906	107	3,198	1,520	120,211
Privately placed corporate bonds	17,000	-	-	-	-	17,000
Others	1	68	482	233	467	1,251
Total loans (*1)	₩ 22,041,320	₩ 179,306	₩ 180,316	₩ 63,960	₩ 95,415	₩ 22,560,317
Ratio to total loans receivable	97.7%	0.8%	0.8%	0.3%	0.4%	100.0%

ALLOWANCE	November 30, 2016					
Account	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Korean won	₩ 197,332	₩ 13,248	₩ 35,974	₩ 34,383	₩ 54,960	₩ 335,897
Loans in foreign currencies	5,528	2,274	2,278	-	24,594	34,674
Domestic import usance	2,926	5	513	-	-	3,444
Bills bought in foreign currencies	2,941	-	-	-	11,685	14,626
Bills bought in Korean won	-	-	-	-	-	-
Advance payments on acceptances and guarantees	-	25	-	272	2,189	2,486
Credit card loans	1,297	370	65	2,399	1,520	5,651
Privately placed corporate bonds	145	-	-	-	-	145
Others	-	5	96	116	467	684
Total	₩ 210,169	₩ 15,927	₩ 38,926	₩ 37,170	₩ 95,415	₩ 397,607
Ratio to total loans receivable	1.0%	8.9%	21.6%	58.1%	100.0%	1.76%

LOANS RECEIVABLE	December 31, 2015					
Account	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Korean won	₩ 17,909,818	₩ 168,839	₩ 258,754	₩ 41,005	₩ 33,229	₩ 18,411,645
Loans in foreign currencies	628,461	35,140	811	3,515	-	667,927
Domestic import usance	307,576	211	5,603	-	-	313,390
Bills bought in foreign currencies	308,778	-	-	-	11	308,789
Bills bought in Korean won	49	-	-	-	-	49
Advance payments on acceptances and guarantees	293	1,305	1,018	2,152	3,068	7,836
Credit card loans	132,875	1,025	1,059	1,203	1,571	137,733
Privately placed corporate bonds	9,000	-	-	-	-	9,000
Others	6	71	457	3,986	302	4,822
Total loans (*1)	₩ 19,296,856	₩ 206,591	₩ 267,702	₩ 51,861	₩ 38,181	₩ 19,861,191
Ratio to total loans receivable	97.2%	1.0%	1.4%	0.2%	0.2%	100.0%

ALLOWANCE	December 31, 2015					
Account	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Korean won	₩ 170,878	₩ 15,467	₩ 62,423	₩ 29,626	₩ 33,229	₩ 311,623
Loans in foreign currencies	6,651	2,885	162	1,758	-	11,456
Domestic import usance	2,686	15	1,120	-	-	3,821
Bills bought in foreign currencies	2,714	-	-	-	11	2,725
Bills bought in Korean won	-	-	-	-	-	-
Advance payments on acceptances and guarantees	3	91	204	1,076	3,068	4,442
Credit card loans	1,502	418	636	902	1,571	5,029
Privately placed corporate bonds	77	-	-	-	-	77
Others	-	6	91	2,062	302	2,461
Total	₩ 184,511	₩ 18,882	₩ 64,636	₩ 35,424	₩ 38,181	₩ 341,634
Ratio to total loans receivable	1.0%	9.1%	24.1%	68.3%	100.0%	1.7%

(*1) Suspense payments are included in loans, but call loans and bonds sold under repurchase agreements and interbank loans are not included.

(8) The allowance for possible loan losses compared to total loans, net of present value discount, is summarized as follows (Unit: Korean won in millions):

Classification	November 30, 2016	December 31, 2015	December 31, 2014
Loans	₩ 22,560,317	₩ 19,861,191	₩ 18,692,774
Allowance for possible loan losses	397,607	341,634	332,146
Percentage	1.76%	1.72%	1.78%

(9) The changes in allowance for possible loan losses for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016	For the year ended December 31, 2015
Beginning balance	₩ 341,634	₩ 332,146
Loans written off and others	(45,883)	(68,506)
Recovery of bad debts and others	2,096	4,681
Provision for possible loan losses	113,916	93,564
Disposal of loans	(10,819)	(16,595)
Others	(3,337)	(3,656)
Ending balance	₩ 397,607	₩ 341,634

(10) Details of restructured loans as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016			
		Loan restructuring		
Classification	Before restructuring	Debt-for-equity swap bond	Present value of discounts	After restructuring
Workout	₩ 31,428	₩ -	₩ (897)	₩ 30,531
Corporate rehabilitation proceeding	12,653	-	(1,229)	11,424
Voluntary agreements	86,987	-	(2,117)	84,870
Others	20,456	-	(1,465)	18,991
Total	₩ 151,524	₩ -	₩ (5,708)	₩ 145,816

Classification	December 31, 2015			
		Loan restructuring		
	Before restructuring	Debt-for-equity swap bond	Present value of discounts	After restructuring
Workout	₩ 36,820	₩ -	₩ (2,130)	₩ 34,690
Corporate rehabilitation proceeding	13,724	(3,925)	(679)	9,120
Voluntary agreements	93,106	-	(3,378)	89,728
Others	20,055	-	(1,943)	18,112
Total	₩ 163,705	₩ (3,925)	₩ (8,130)	₩ 151,650

(11) Changes in present value of discounts that originated from restructured loans are as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016	For the year ended December 31, 2015
Beginning balance	₩ 8,130	₩ 10,158
Increase	1,430	4,605
Amortization by the effective interest method	(3,852)	(6,633)
Ending balance	₩ 5,708	₩ 8,130

(12) Changes in deferred loan origination cost (fee), net, are summarized as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016	For the year ended December 31, 2015
Beginning balance	₩ 15,490	₩ 12,024
Net increase	6,154	3,466
Ending balance	₩ 21,644	₩ 15,490

(13) Details of disposal of loans as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016		
	Book value	Allowance for possible loan losses	Net loss (gain) on disposal of loan
Non-project financing loans:			
Daishin F&I Co., Ltd.	₩ 48,717	₩ 3,897	₩ 563
E&INVESTMENT	2,625	525	(1,809)
Uamco Ltd.	5,018	2,717	(335)
TMF & I Co., Ltd.	16,013	3,679	3,405
	₩ 72,373	₩ 10,818	₩ 1,824

Classification	December 31, 2015		
	Book value	Allowance for possible loan losses	Net loss (gain) on disposal of loan(*1)
Non-project financing loans:			
Grey Bell Libby 1st company	₩ 31,819	₩ 6,578	₩ (1,670)
Uamco Ltd.	63,845	5,028	(2,400)
KEB F&I Co., Ltd.	14,609	2,750	398
Fine Partners Corporation	60,732	2,239	(1,496)
	₩ 171,005	₩ 16,595	₩ (5,168)

(*1) Gain arising from disposal of loans written off is ₩2,720 million.

6. TANGIBLE ASSETS:

(1) The changes in tangible assets for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

	For the 11 months ended November 30, 2016						
Account	Beginning balance	Acquisition	Disposal	Transfer in (out)	Depreciation (*1)	Government subsidies	Ending balance
Land	₩ 28,934	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 28,934
Buildings	15,336	-	-	-	(300)	-	15,036
Equipment and vehicles:							
Equipment	8,422	5,018	(430)	-	(3,148)	-	9,862
Machinery	11,954	2,026	(188)	1,644	(5,201)	327	10,562
Fixtures	2,477	1,168	(41)	-	(943)	-	2,661
Construction in progress	1,644	636	-	(1,644)	-	-	636
Total	₩ 68,767	₩ 8,848	₩ (659)	₩ -	₩ (9,592)	₩ 327	₩ 67,691

(*1) Government subsidies of ₩327 million are offset to depreciation.

	For the year ended December 31, 2015						
Account	Beginning balance	Acquisition	Disposal	Transfer in (out)	Depreciation (*1)	Government subsidies	Ending balance
Land	₩ 29,433	₩ -	₩ (499)	₩ -	₩ -	₩ -	₩ 28,934
Buildings	15,387	101	(145)	320	(327)	-	15,336
Equipment and vehicles:							
Equipment	9,537	2,159	(60)	-	(3,214)	-	8,422
Machinery	12,740	4,592	(63)	7	(5,686)	364	11,954
Fixtures	2,918	654	(17)	-	(1,078)	-	2,477
Construction in progress	8	1,963	-	(327)	-	-	1,644
Total	₩ 70,023	₩ 9,469	₩ (784)	₩ -	₩ (10,305)	₩ 364	₩ 68,767

(*1) Government subsidies of ₩364 million are offset to depreciation.

(2) Tangible assets that have been insured as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016		
Asset insured	Type of insurance	Insured balance	Provider
Buildings	Fire insurance	₩ 20,682	NFFC cooperative insurance service account
Vehicles, furniture and equipment	Fire insurance	34,480	NFFC cooperative insurance service account
Total		₩ 55,162	

	December 31, 2015		
Asset insured	Type of insurance	Insured balance	Provider
Buildings	Fire insurance	₩ 20,514	NFFC cooperative insurance service account
Vehicles, furniture and equipment	Fire insurance	33,589	NFFC cooperative insurance service account
Total		₩ 54,103	

(3) The book value of the Bank's land and the published value of the land based on the *Laws on Disclosure of Land Price and Valuation of Land* as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016	December 31, 2015
Book value	₩ 28,934	₩ 28,934
Published value	38,698	36,549

7. OTHER ASSETS:

(1) Other assets as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Account	November 30, 2016		December 31, 2015	
Guarantee deposits	₩	154,603	₩	152,582
Accounts receivable		642,686		209,092
Accrued income		59,426		71,709
Prepaid expenses		5,555		4,254
Deferred income tax assets		36,495		32,237
Unsettled exchange credit		417,478		407,639
Derivative assets (Note 18)		108,332		118,461
Intangible assets		20,292		32,088
Sundry assets		3,216		59,229
Total	₩	1,448,083	₩	1,087,291

(2) The changes in intangible assets for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

	For the 11 months ended November 30, 2016													
Classification	Beginning balance		Acquisition		Amortization (*1)		Disposal		Transfer in (out)		Government subsidies		Ending balance	
Intangible assets	₩	30,483	₩	3,862	₩	(20,676)	₩	(208)	₩	2,861	₩	1,526	₩	17,848
Construction in process		1,605		3,700		-		-		(2,861)		-		2,444
Total	₩	32,088	₩	7,562	₩	(20,676)	₩	(208)	₩	-	₩	1,526	₩	20,292

(*1) Government subsidies of ₩1,526 million are offset to amortization.

	For the year ended December 31, 2015											
Classification	Beginning balance		Acquisition		Amortization (*1)		Transfer in (out)		Government subsidies		Ending balance	
Intangible assets	₩	49,069	₩	1,734	₩	(22,267)	₩	263	₩	1,684	₩	30,483
Construction in process		86		1,782		-		(263)		-		1,605
Total	₩	49,155	₩	3,516	₩	(22,267)	₩	-	₩	1,684	₩	32,088

(*1) Government subsidies of ₩1,684 million are offset to amortization.

(3) Sundry assets as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Account	November 30, 2016		December 31, 2015	
Suspense payments	₩	1,961	₩	2,658
Due from other business accounts (Note 16)		13		55,356
Others		1,242		1,215
Total	₩	3,216	₩	59,229

8. DEPOSITS:

(1) Details of deposits as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Classification	November 30, 2016		December 31, 2015	
Demand deposits:				
Deposits in Korean won	₩	4,638,399	₩	3,427,254
Deposits in foreign currencies		110,094		66,575
		4,748,493		3,493,829
Time deposits:				
Deposits in Korean won		9,706,064		7,999,114
Deposits in foreign currencies		180,970		109,736
		9,887,034		8,108,850
Certificates of deposit		1,784,880		2,098,104
Total	₩	16,420,407	₩	13,700,783

(2) Deposits with financial institutions, excluding BOK, as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016					
	Bank		Other financial institution		Total	
Demand deposits	₩	965,503	₩	1,342,427	₩	2,307,930
Time deposits		388,532		2,427,394		2,815,926
Certificates of deposit		-		628,849		628,849
Total	₩	1,354,035	₩	4,398,670	₩	5,752,705

Classification	December 31, 2015					
	Bank		Other financial institution		Total	
Demand deposits	₩	226,564	₩	959,940	₩	1,186,504
Time deposits		348,847		1,535,414		1,884,261
Certificates of deposit		-		995,399		995,399
Total	₩	575,411	₩	3,490,753	₩	4,066,164

(3) Term structures of deposits as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016							
	Demand deposits (*1)		Time deposits		Certificates of deposits		Total	
Due in less than three months	₩	4,748,493	₩	3,659,418	₩	1,217,883	₩	9,625,794
Due from three to six months		-		2,899,118		302,053		3,201,171
Due from six months to one year		-		2,663,534		264,889		2,928,423
Due from one year to three years		-		514,791		55		514,846
Due in three years or more		-		150,173		-		150,173
Total	₩	4,748,493	₩	9,887,034	₩	1,784,880	₩	16,420,407

Classification	December 31, 2015			
	Demand deposits (*1)	Time deposits	Certificates of deposits	Total
Due in less than three months	₩ 3,493,829	₩ 2,957,648	₩ 1,261,407	₩ 7,712,884
Due from three to six months	-	2,065,249	689,111	2,754,360
Due from six months to one year	-	2,514,130	124,051	2,638,181
Due from one year to three years	-	394,541	23,535	418,076
Due in three years or more	-	177,282	-	177,282
Total	₩ 3,493,829	₩ 8,108,850	₩ 2,098,104	₩ 13,700,783

(*1) The Bank classifies cash demand deposits that a customer can transfer to an ordinary deposit or current account as demand deposits.

9. BORROWINGS:

(1) Borrowings as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Classification	November 30, 2016	December 31, 2015
Borrowings in Korean won	₩ 2,177,780	₩ 1,116,516
Borrowings in foreign currencies	655,616	835,179
Debentures	5,596,604	5,636,319
Bonds sold under repurchase agreements	-	1,213
Bills sold	166	161
Call money in Korean won	307,000	145,500
Call money in foreign currencies	29,213	-
Total	₩ 8,766,379	₩ 7,734,888

(2) Borrowings in Korean won and borrowings in foreign currencies as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Account	Lender	Annual interest rate (%)	November 30, 2016	December 31, 2015
BOK borrowings	BOK	0.75%	₩ 98,016	₩ 123,403
Financial fund borrowings	Ministry of Strategy and Finance	0.89%–1.04%	123,245	169,100
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00%–2.75%	67,375	82,731
Fisheries development fund borrowings	Fisheries Development Fund	0.00%–4.36%	566,558	528,071
Other borrowings	Small and Medium Business Corporation, etc.	0.00%–3.28%	1,322,586	213,211
Offshore borrowings	Standard Chartered, etc.	London InterBank Offered Rate (“LIBOR”) + 0.58%–1.20%	655,616	835,179
	Total		₩ 2,833,396	₩ 1,951,695

(3) Debentures as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Account	Lender	Annual interest rate (%)	November 30, 2016	December 31, 2015
Debentures in Korean won:				
Hybrid debentures	Financial institutions and others	4.65%–7.36%	₩ 200,000	₩ 300,000
Subordinated debentures	Financial institutions and others	5.15%	150,000	150,000
Other debentures	Financial institutions	1.27%–3.13%	4,490,000	4,450,000
Less: Discounts on debentures			(16,318)	(15,830)
			4,823,682	4,884,170
Debentures in foreign currencies:				
Other debentures	Overseas banks and others	LIBOR + 1.05%	46,740	46,880
		2.60%–3.50%	727,740	707,732
Less: Discounts on debentures			(1,558)	(2,463)
			772,922	752,149
Total			₩ 5,596,604	₩ 5,636,319

(4) Borrowings from banks and other financial institutions as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016			
Account	BOK	Banks in Korea	Other financial institutions	Total
Borrowings	₩ 98,016	₩ 53,736	₩ 2,681,644	₩ 2,833,396
Debentures (*1)	-	-	5,614,480	5,614,480
Other borrowings	-	-	336,379	336,379
Total	₩ 98,016	₩ 53,736	₩ 8,632,503	₩ 8,784,255

	December 31, 2015			
Account	BOK	Banks in Korea	Other financial institutions	Total
Borrowings	₩ 123,403	₩ 213,211	₩ 1,615,081	₩ 1,951,695
Debentures (*1)	-	-	5,654,612	5,654,612
Other borrowings	-	-	146,874	146,874
Total	₩ 123,403	₩ 213,211	₩ 7,416,567	₩ 7,753,181

(*1) Discount on debentures is excluded.

(5) The term structures of borrowings as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016			
	Borrowings	Debentures (*1)	Other borrowings	Total
Due in less than three months	₩ 1,327,273	₩ 600,000	₩ 336,379	₩ 2,263,652
Due from three to six months	272,160	1,210,423	-	1,482,583
Due from six months to one year	199,803	2,240,000	-	2,439,803
Due from one year to three years	532,659	1,143,947	-	1,676,606
Due in three years or more	501,501	420,110	-	921,611
Total	₩ 2,833,396	₩ 5,614,480	₩ 336,379	₩ 8,784,255

Classification	December 31, 2015			
	Borrowings	Debentures (*1)	Other borrowings	Total
Due in less than three months	₩ 397,165	₩ 820,000	₩ 146,839	₩ 1,364,004
Due from three to six months	257,185	900,000	-	1,157,185
Due from six months to one year	360,742	1,460,000	35	1,820,777
Due from one year to three years	356,588	1,622,700	-	1,979,288
Due in three years or more	580,015	851,912	-	1,431,927
Total	₩ 1,951,695	₩ 5,654,612	₩ 146,874	₩ 7,753,181

(*1) Discount on debentures is excluded.

10. OTHER LIABILITIES:

Other liabilities as of November 30, 2016, and December 31, 2015, consist of the following (Unit: Korean won in millions):

Account	November 30, 2016	December 31, 2015
Provision for severance benefits (Note 11)	₩ 93,845	₩ 81,154
Less transfers to National Pension Fund	(88)	(40)
Less severance insurance deposits	(8,226)	(8,485)
Allowance for acceptances and guarantees (Note 12)	1,594	1,349
Deposit for letter of guarantees and others	15,630	14,820
Due to trust accounts	142,387	73,533
Domestic exchange obligation payable	378,775	409,245
Income taxes payable	5,267	1,989
Accounts payable	644,553	187,022
Accrued expenses	147,700	136,995
Unearned revenues	3,928	4,067
Derivative liabilities (Note 18)	101,216	108,512
Allowance for possible losses on unused credit commitments (Note 13)	11,972	14,879
Allowance for other possible losses (Note 14)	1,507	1,929
Sundry liabilities (Note 15)	44,464	726,696
Total	₩ 1,584,524	₩ 1,753,665

11. PROVISION FOR SEVERANCE BENEFITS:

Changes in provision for severance benefits for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016		For the year ended December 31, 2015	
Beginning balance	₩	81,154	₩	71,594
Payments during the period		(2,708)		(3,735)
Severance benefits		15,399		13,295
Ending balance	₩	93,845	₩	81,154

12. ACCEPTANCES AND GUARANTEES:

(1) Acceptances and guarantees as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016		December 31, 2015	
Confirmed acceptances and guarantees in Korean won:				
Collateral for loans	₩	1,835	₩	2,158
Others		67,504		68,616
		69,339		70,774
Confirmed acceptances and guarantees in foreign currencies:				
Acceptances on letters of credit		12,903		13,010
Acceptances for letters of guarantee for importers		4,670		4,989
		17,573		17,999
Contingent acceptances and guarantees:				
Letters of credit and others		296,675		190,205
Bills endorsed		27,872		12,815
Total	₩	411,459	₩	291,793

(2) Details of classification of acceptances and guarantees and allowance for possible losses on acceptances and guarantees as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016				
Classification	Outstanding amount		Allowance		Percentage
Normal	₩	411,039	₩	1,552	0.38%
Precautionary		326		38	11,66%
Substandard		94		4	4.26%
Doubtful loss		-		-	-
Estimated loss		-		-	-
Total	₩	411,459	₩	1,594	0.39%

	December 31, 2015				
Classification	Outstanding amount		Allowance		Percentage
Normal	₩	289,216	₩	1,256	0.43%
Precautionary		442		8	1.81%
Substandard		2,135		85	3.98%
Doubtful loss		-		-	-
Estimated loss		-		-	-
Total	₩	291,793	₩	1,349	0.46%

Historical ratios of allowance for possible losses on acceptances and guarantees to total acceptances and guarantees are as follows (Unit: Korean won in millions):

Classification	November 30, 2016	December 31, 2015	December 31, 2014
Total acceptances and guarantees	₩ 411,459	₩ 291,793	₩ 329,065
Allowance for possible losses on acceptances and guarantees	1,594	1,349	3,071
Percentage	0.39%	0.46%	0.93%

(3) Acceptances and guarantees by industry as of November 30, 2016, and December 31, 2015, are summarized as follows (Unit: Korean won in millions):

	November 30, 2016				
Classification	Confirmed acceptances and guarantees	Contingent acceptances and guarantees	Bills endorsed	Total amount	Percentage
Manufacturing	₩ 11,233	₩ 112,379	₩ 27,872	₩ 151,484	36.8%
Construction	1,076	15,660	-	16,736	4.1%
Wholesale and retail	71,121	137,850	-	208,971	50.8%
Financial services	2	994	-	996	0.2%
Fishery	-	2,621	-	2,621	0.6%
Others	3,480	27,171	-	30,651	7.4%
Total	₩ 86,912	₩ 296,675	₩ 27,872	₩ 411,459	100.0%

	December 31, 2015				
Classification	Confirmed acceptances and guarantees	Contingent acceptances and guarantees	Bills endorsed	Total amount	Percentage
Manufacturing	₩ 12,809	₩ 89,845	₩ 12,815	₩ 115,469	39.6%
Construction	2,405	15,286	-	17,691	6.1%
Wholesale and retail	70,614	73,999	-	144,613	49.6%
Financial services	1,000	396	-	1,396	0.5%
Others	1,945	10,679	-	12,624	4.2%
Total	₩ 88,773	₩ 190,205	₩ 12,815	₩ 291,793	100.0%

(*) All transactions with acceptances and guarantees occurred in Korea.

13. UNUSED CREDIT COMMITMENTS:

(1) Unused credit commitments as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Account	November 30, 2016		December 31, 2015	
Commitments on loans in Korean won, etc.	₩	2,168,800	₩	2,519,800
Commitments on purchase of asset-backed commercial papers ("ABCPs") (*1, *2)		137,067		267,772
Commitments on credit line ABCPs (*1)		171,159		229,273
Total	₩	2,477,026	₩	3,016,845

(*1) The Bank has entered into credit line facilities and ABCP purchase commitments as of November 30, 2016. The Bank has no ABCPs outstanding in connection with these commitments as of November 30, 2016.

(*2) The Bank provided commitments in connection with real estate project financing of ₩16,000 million and ₩34,000 million commitments as of November 30, 2016, and December 31, 2015, respectively.

Historical ratios of allowance for losses on unused credit commitments to total unused credit commitments are as follows (Unit: Korean won in millions):

Classification	November 30, 2016		December 31, 2015		December 31, 2014	
Unused credit commitments	₩	2,477,026	₩	3,016,845	₩	2,814,579
Allowance for possible losses on unused credit commitments		11,972		14,879		15,963
Percentage		0.48%		0.49%		0.57%

14. ALLOWANCE FOR OTHER POSSIBLE LOSSES:

Changes in allowance for other possible losses for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

	For the 11 months ended November 30, 2016					
Classification	Beginning balance		Decrease		Ending balance	
Allowance for card mileage	₩	444	₩	205	₩	649
Others		1,485		(627)		858
Total	₩	1,929	₩	(422)	₩	1,507

	For the year ended December 31, 2015					
Classification	Beginning balance		Decrease		Ending balance	
Allowance for card mileage	₩	497	₩	(53)	₩	444
Others		3,252		(1,767)		1,485
Total	₩	3,749	₩	(1,820)	₩	1,929

15. SUNDRY LIABILITIES:

Details of sundry liabilities as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Account	November 30, 2016		December 31, 2015	
Suspense receipts	₩	2,480	₩	3,475
Taxes and dues withheld		4,895		3,846
Deposits withheld for investment		200		4,000
Agency business withheld		8,982		15,259
Guarantee deposits for agency affairs		23,646		16,496
Due to other business accounts (Note 16)		-		680,017
Others		4,261		3,603
Total	₩	44,464	₩	726,696

16. DUE FROM/TO OTHER BUSINESS ACCOUNTS:

Details of due from and due to other business accounts as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016		December 31, 2015	
Due from other business accounts:				
Exchange settlement fund	₩	13	₩	13
Special account:				
Marketing service special account		-		55,343
Total	₩	13	₩	55,356
Due to other business accounts:				
General service accounts	₩	-	₩	14,024
Special accounts:				
Economic service special account		-		-
Cooperative insurance service special account		-		57,256
Mutual credit service special account		-		508,999
Guidance service special account		-		99,738
Total	₩	-	₩	680,017

17. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions or U.S. dollars in thousands):

Account	November 30, 2016 Amount (*1)	November 30, 2016 Korean won equivalent	December 31, 2015 Amount (*1)	December 31, 2015 Korean won equivalent
Assets:				
Cash on hand	$ 18,545	₩ 21,671	$ 16,514	₩ 19,354
Due from banks	51,462	60,134	190,773	223,584
Securities	91,222	106,591	50,915	59,672
Loans in foreign currencies	521,870	609,807	569,908	667,927
Interbank loans	23,626	27,605	102,703	120,367
Bills bought in foreign currencies	296,241	346,158	263,471	308,789
Call loans	130,000	151,905	30,000	35,160
Domestic import usance	289,791	338,621	267,398	313,390
Others	400,313	467,771	102,427	120,043
Total	$ 1,823,070	₩ 2,130,263	$ 1,594,109	₩ 1,868,286
Liabilities:				
Deposits	$ 249,091	₩ 291,064	$ 150,437	₩ 176,311
Borrowings	561,073	655,616	712,611	835,179
Call money	25,000	29,213	-	-
Debentures (*2)	662,799	774,480	643,867	754,612
Others	361,839	422,814	115,815	135,734
Total	$ 1,859,802	₩ 2,173,187	$ 1,622,730	₩ 1,901,836

(*1) Amounts of assets and liabilities denominated in foreign currencies are converted into U.S. dollars.
(*2) Discounts on debentures are excluded.

18. COMMITMENTS AND CONTINGENCIES:

(1) The Bank's derivative instruments are classified as either for trading or hedging purposes. Hedging instruments are used to hedge the changes in fair value of underlying assets and liabilities of the Bank.

(2) Trading instruments include futures contracts, forward contracts, swaps and options that are entered into by the Bank for the purpose of generating profits from arbitrage transactions.

(3) Hedging instruments are mainly composed of interest rate swaps to hedge the changes in fair values of bonds arising from interest rate fluctuations. Hedging instruments, whose fair value exposures are already recognized in profit or loss, or position hedging instruments, whose specific hedged items cannot be designated individually, are treated as trading instruments rather than hedging instruments.

(4) The notional amounts outstanding for derivative contracts as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016					
	Trading		Hedging		Total	
Interest:						
Swap	₩	282,700	₩	701,100	₩	983,800
Forward		52,710		-		52,710
Currency:						
Forward		2,589,717		-		2,589,717
Swap		1,782,897		-		1,782,897
Total	₩	4,708,024	₩	701,100	₩	5,409,124

Classification	December 31, 2015					
	Trading		Hedging		Total	
Interest:						
Swap	₩	360,500	₩	703,200	₩	1,063,700
Forward		95,253		-		95,253
Currency:						
Forward		4,555,478		-		4,555,478
Swap		1,869,815		-		1,869,815
Total	₩	6,881,046	₩	703,200	₩	7,584,246

For a derivative contract to purchase and sell a financial instrument that is entered into concurrently, such as currency forward, currency futures and currency swap, the notional amount of the derivative instrument disclosed is determined based on either a purchase or sale transaction. To determine the notional amount, as described above, for the purchase or sale transaction involving Korean won and a foreign currency, the notional amount of the contract disclosed is determined based on the foreign currency transaction amount and is translated to Korean won using the foreign exchange rate at the end of the reporting period. For a transaction that does not involve Korean won, the notional amount of the contract disclosed is determined based on the foreign currency transaction buying amount and is translated into Korean won using the foreign exchange rate at the end of the reporting period.

(5) Unsettled derivative contracts as of November 30, 2016, and December 31, 2015, and the related unrealized valuation gain (loss) for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016 Net valuation gain (loss)						As of November 30, 2016 Derivative instruments			
	Trading		Hedging		Total		Assets		Liabilities	
Interest:										
Swap	₩	(42)	₩	(1,262)	₩	(1,304)	₩	11,407	₩	7,878
Currency:										
Forward		2,444		-		2,444		35,248		32,431
Swap		(445)		-		(445)		61,677		60,907
Total	₩	(1,957)	₩	(1,262)	₩	695	₩	108,332	₩	101,216

Classification	For the year ended December 31, 2015 Net valuation gain (loss)						As of December 31, 2015 Derivative instruments			
	Trading		Hedging		Total		Assets		Liabilities	
Interest:										
Swap	₩	(61)	₩	1,422	₩	1,361	₩	13,578	₩	8,730
Currency:										
Forward		3,500		-		3,500		39,703		35,860
Swap		(436)		-		(436)		65,180		63,922
Total	W	3,003	W	1,422	W	4,425	W	118,461	W	108,512

(6) As of November 30, 2016, the Bank is involved in 10 lawsuits as a plaintiff and 18 lawsuits as a defendant. The aggregate amount of claims as a plaintiff and a defendant is ₩14,093 million and ₩8,004 million, respectively. Details of lawsuits as a defendant are as follows; the uncertainty of litigation is not reflected in the non-consolidated financial statements of November 30, 2016 (Unit: Korean won in millions):

Case	Number of cases	Litigation value		Status
Claim for compensation for damages	1	₩	2	In progress
Claim for revoking of fraudulent act	8		5,237	In progress
Other	9		2,765	In progress
Total	18	₩	8,004	

(7) The Bank wrote off loans and receivables, for which the contractual rights to receive cash flows are not expired, amounting to ₩376,667 million and ₩349,224 million as of November 30, 2016, and December 31, 2015, respectively.

(8) The Bank endorsed bills of ₩27,852 million and ₩12,815 million as of November 30, 2016, and December 31, 2015, respectively.

(9) The Bank entered into a commitment with the government for stabilization of the bad debt reserve fund, and the Bank is entitled to contribute ₩35,000 million for five years starting in 2012. As of November 30, 2016, the Bank has contributed a total amount of ₩34,430 million.

19. EQUITY:

(1) KDIC is the sole equity owner of the Bank and has contributed ₩1,158,100 million for the Bank's initial capital injection in 2001.

(2) In connection with the capital contribution mentioned above, the Bank entered into an agreement for the implementation of the management reorganization plan with KDIC. According to the agreement, the Bank shall dispose of its non-performing loans and certain property and equipment and reduce number of its branch offices. In addition, the agreement requires the Bank to utilize net income earned primarily to offset against the Bank's accumulated deficit carried over from prior years and, once fully offset, then to redeem in cash the capital contribution made by KDIC so far as it does not interfere with the management reorganization plan. The agreement will be terminated when the Bank fully redeems the capital contribution made by KDIC. The ultimate effect of the agreement on the financial position of the Bank cannot be determined presently.

(3) A portion of NFFC's undisposed accumulated deficit of the general service accounts amounting to ₩47,500 million was transferred to the Bank as part of the separation of assets, liabilities and equity among the accounts in 2000. This deficit has been correspondingly recorded as interaccounts receivable and payable. The Bank received government subsidy amounting to ₩47,500 million during the period from 2004 through 2014, which was used to offset the accumulated deficit transferred from general service accounts.

20. COMPREHENSIVE INCOME:

Comprehensive income for the 11 months ended November 30, 2016, is as follows (Unit: Korean won in millions):

Classification		For the 11 months ended November 30, 2016
Net income	₩	45,808
Other comprehensive income:		
Gain (loss) on valuation of available-for-sale securities (income tax effect: ₩2,989 million for the 11 months ended November 30, 2016)		(9,361)
Comprehensive income	₩	36,447

21. INCOME TAXES:

(1) The components of income tax expense for the 11 months ended November 30, 2016, are as follows (Unit: Korean won in millions):

Classification		For the 11 months ended November 30, 2016
Income tax currently payable	₩	15,952
Change in deferred taxes due to temporary differences		(4,259)
		11,693
Deferred income taxes recognized directly to equity		2,989
Income tax expense	₩	14,682

(2) A reconciliation of income before income tax expense and income tax expense for the 11 months ended November 30, 2016, is as follows (Unit: Korean won in millions):

Classification		For the 11 months ended November 30, 2016
Income before income taxes (A)	₩	60,490
Burden of taxation at the statutory income tax rate		14,215
Reconciliation items:		
Non-taxable income		(108)
Non-deductible expense		435
Refund of prior year's income tax		(1,545)
Others		1,685
Income tax expense (B)	₩	14,682
Effective income tax rate (B)/(A)		24.27%

(3) Changes in temporary differences for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016 Beginning balance (*1)	Increase (decrease)	Ending balance
Deductible temporary differences:			
Allowance for possible loan loss	₩ 29,800	₩ (14,584)	₩ 15,215
Provision for severance benefits	78,319	13,761	92,080
Allowance for possible unused credit commitment	14,879	(2,907)	11,972
Allowance for other possible loss	1,929	(423)	1,507
Accrued expenses	4,822	(1,532)	3,290
Allowance for possible acceptances and guarantees	1,349	245	1,594
Depreciation	6,163	59	6,222
Government subsidy	2,226	(1,852)	374
Available-for-sale securities (impairment loss and others)	38,155	3,560	41,715
Loss on fair value hedge	4,532	(1,262)	3,270
	182,174	₩ (4,935)	177,239
Tax rate (%) (*2)	24.2%		24.2%
Deferred tax assets resulting from deductible temporary differences (*3)	45,098		42,892
Taxable temporary differences:			
Available-for-sale securities (equity adjustments)	(7,428)	₩ 12,350	4,922
Accrued interest	(10,278)	10,278	-
Allowance for temporary depreciation	(2,060)	1,672	(388)
Loan origination fees and costs	(14,974)	(6,508)	(21,482)
Others	(25,509)	8,910	(16,599)
	(60,249)	₩ 26,702	(33,547)
Unrealizable deductible temporary differences	(7,116)		(7,116)
Realizable deductible temporary differences	(53,133)		(26,431)
Tax rate (%) (*2)	24.2%		24.2%
Deferred tax liabilities resulting from taxable temporary differences	(12,861)		(6,397)
Net deferred income tax assets	₩ 32,237		₩ 36,495

Classification	For the year ended December 31, 2015 Beginning balance	Increase (decrease)	Ending balance
Deductible temporary differences:			
Allowance for possible loan loss	₩ 24,453	₩ 5,347	₩ 29,800
Provision for severance benefits	66,224	12,095	78,319
Allowance for possible unused credit commitment	15,963	(1,084)	14,879
Allowance for other possible loss	3,749	(1,820)	1,929
Accrued expenses	3,854	968	4,822
Allowance for possible acceptances and guarantees	3,071	(1,722)	1,349
Depreciation	5,602	561	6,163
Government subsidy	4,274	(2,048)	2,226
Available-for-sale securities (impairment loss and others)	84,498	(42,163)	42,335
Loss on fair value hedge	3,110	1,422	4,532

Classification	For the year ended December 31, 2015		
	Beginning balance	Increase (decrease)	Ending balance
Impairment loss on properties	162	(162)	-
	214,960	₩ (28,606)	186,354
Tax rate (%) (*2)	24.2%		24.2%
Deferred tax assets resulting from deductible temporary differences (*3)	52,020		45,098
Taxable temporary differences:			
Available-for-sale securities (equity adjustments)	(18,007)	₩ 10,579	(7,428)
Accrued interest	(12,926)	2,648	(10,278)
Allowance for temporary depreciation	(3,912)	1,852	(2,060)
Loan origination fees and costs	(11,325)	(3,649)	(14,974)
Others	(27,343)	1,823	(25,520)
	(73,513)	₩ 13,253	(60,260)
Unrealizable deductible temporary differences	(7,116)		(7,116)
Realizable deductible temporary differences	(66,397)		(53,144)
Tax rate (%) (*2)	24.2%		24.2%
Deferred tax liabilities resulting from taxable temporary differences	(16,068)		(12,861)
Net deferred income tax assets	₩ 35,952		₩ 32,237

(*1) Beginning balance is after adjustment of the difference in reserved amount at the time of final tax return as of December 31, 2015.

(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected tax rate applicable to the period for which the temporary differences are expected to reverse.

(*3) Deferred income tax assets are recognized for deductible temporary differences that cause tax-saving effect.

(4) Details of deferred income taxes recognized directly to equity for the 11 months ended November 30, 2016, and for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

	November 30, 2016			
Classification	Beginning balance	Increase (decrease)	Ending balance	Deferred income tax assets (liabilities)
Gain on valuation of available-for-sale securities	₩ 7,428	₩ (12,350)	₩ (4,922)	₩ 1,191

	December 31, 2015			
Classification	Beginning balance	Increase (decrease)	Ending balance	Deferred income tax assets (liabilities)
Gain on valuation of available-for-sale securities	₩ 18,007	₩ (10,579)	₩ 7,428	₩ (1,798)

(5) Income taxes payable and prepaid income taxes as of November 30, 2016, and December 31, 2015, are as follows (Unit: Korean won in millions):

Classification	November 30, 2016	December 31, 2015
Income taxes payable	₩ 17,494	₩ 13,722
Prepaid income taxes	(12,227)	(11,733)
Net income taxes payable	₩ 5,267	₩ 1,989

22. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the 11 months ended November 30, 2016, are as follows (Unit: Korean won in millions):

Classification	For the 11 months ended November 30, 2016
Salaries (*1)	₩ 107,212
Severance benefits (*1)	15,400
Employee benefits (*1)	11,146
Rental expenses (*1)	7,309
Depreciation (*1)	9,265
Amortization (*1)	19,151
Tax and dues (*1)	7,145
Advertisement expenses	2,401
Information technology operation expenses	4,992
Servicing expenses	5,521
Supplies expenses	573
Printing expenses	1,001
Communication expenses	5,312
Event expenses	262
Vehicle maintenance expenses	855
Utilities expenses	1,209
Other expenses	10,014
Total	₩ 208,768

(*1) These accounts amounting to ₩176,628 million for the 11 months ended November 30, 2016, are related to "value-added" disclosure items of the Bank's operations.

23. SUPPLEMENTARY CASH FLOW INFORMATION:

Cash flows from operating activities are presented using the indirect method. Non-cash transactions are as follows (Unit: Korean won in millions):

Classification		For the 11 months ended November 30, 2016
Loans written off	₩	45,883
Decrease in loans due to the debt-equity swap		15,610
Changes in accumulated other comprehensive income of available-for-sale securities		2,989
Transfer of construction in progress to tangible assets		1,644
Transfer of construction in progress to intangible assets		2,862

24. CAPTIVE SPIN-OFF:

Suhyup Bank, which had operated as a credit business unit of NFFC, was spun off from NFFC to be incorporated as a new entity pursuant to Article 141-4-1 of the Fisheries Cooperatives Act and Articles 530-3 through 530-12 of the Commercial Act through physical division, under which NFFC acquires all issued stocks of the new entity. The purpose of the spin-off was to enhance customer trust by adopting and implementing international capital requirement Basel III and to expand common stock funding resources outside the Bank including NFFC.

(1) Timeline of spin-off and summary of the new entity

A. Date of spin-off: December 1, 2016

B. Date of general meeting for approval for spin-off: October 27, 2016

C. Corporate name of new entity: Suhyup Bank

D. President and CEO of the new entity: Yi Won-tae

(2) Method and details of spin-off

NFFC spun off its credit business unit in the form of physical division, under which NFFC acquires all issued stocks of the new entity. As of November 30, 2016, assets and liabilities assumed by Suhyup Bank include all the assets and liabilities of the Bank, except for its retained earnings and the equivalent amount of cash and due from banks.

SUHYUP BANK

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016,
AND FOR THE YEAR ENDED DECEMBER 31, 2017,
AND FOR THE PERIOD FROM
DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

SUHYUP BANK

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Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 15, 2018.

To the Shareholders and the Board of Directors of
Suhyup Bank:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Suhyup Bank and subsidiaries (the "Group"). The consolidated financial statements consist of the consolidated statements of financial position as of December 31, 2017 and 2016, respectively, and the related consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the year ended December 31, 2017, and for the period from December 31, 2016 (inception), to December 31, 2016, respectively, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an audit opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). 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 auditor considers 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.

Deloitte.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2017 and 2016, respectively and the results of its financial performance and its cash flows for the year ended December 31, 2017, and for the period from December 1, 2016 (inception), to December 31, 2016, respectively in accordance with K-IFRS.

Deloitte Anjin LLC

Notice to Readers

This report is effective as of March 15, 2018, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors' report.

SUHYUP BANK

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016
AND FOR THE YEAR ENDED DECEMBER 31, 2017,
AND FOR THE PERIOD FROM
DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016

The accompanying consolidated financial statements, including all footnote disclosures, were prepared b y, and are the responsibility of, the management of Suhyup Bank.

Lee, Dong-Bin
CHIEF EXECUTIVE OFFICER
SUHYUP BANK

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(Phone Number) 1588-1515

SUHYUP BANK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017 AND 2016

	December 31, 2017	December 31, 2016
	(Korean won in millions)	
ASSETS:		
Cash and due from banks (Notes 4, 6 and 7)	₩ 1,283,663	₩ 692,785
Financial assets held for trading (Notes 4, 6 and 9)	246,647	294,583
Financial instruments designated as at fair value through profit or loss ("FVTPL") (Notes 4, 6 and 8)	119	40,310
Derivative assets (Notes 4, 6 and 16)	82,653	143,359
Loans (Notes 4, 6 and 11)	25,323,729	22,497,823
Available-for-sale ("AFS") financial assets (Notes 4, 6 and 10)	2,927,346	2,394,171
Held-to-maturity ("HTM") financial assets (Notes 4, 6 and 10)	1,276,285	614,005
Other financial assets (Notes 4, 6 and 15)	693,300	812,678
Tangible assets (Note 12)	88,408	86,369
Investment properties (Note 14)	21,339	21,428
Intangible assets (Note 13)	25,109	19,624
Deferred tax assets (Note 30)	54,676	38,870
Current tax assets (Note 30)	-	328
Other assets	7,124	7,136
Total assets	W 32,030,398	W 27,663,469
LIABILITIES:		
Deposits (Notes 4, 6 and 17)	W 21,279,863	W 16,771,351
Derivative liabilities (Notes 4, 6 and 16)	89,149	140,078
Borrowings (Notes 4, 6 and 18)	1,933,288	2,150,548
Debentures (Notes 4, 6 and 19)	5,224,625	5,402,594
Other financial liabilities (Notes 4, 6 and 20)	867,528	786,120
Provisions (Note 21)	14,240	13,203
Net defined benefit liability (Note 22)	107,526	98,722
Current tax liabilities (Note 30)	35,388	7,369
Other liabilities	25,989	8,886
Total liabilities	29,577,596	25,378,871

(Continued)

SUHYUP BANK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2017 AND 2016

	December 31, 2017	December 31, 2016
	(Korean won in millions)	
SHAREHOLDERS' EQUITY (Note 24):		
Owners' equity:	W 2,452,802	W 2,284,598
Capital stock	660,000	660,000
Hybrid securities	199,799	199,799
Capital surplus	1,159,171	1,180,471
Retained earnings (December 31, 2017 Regulatory reserve for credit loss: W64,099 million Required provision of regulatory reserve for credit loss: W72,696 million Planned provision of regulatory reserve for credit loss: W72,696 million December 31, 2016 Regulatory reserve for credit loss: - Required provision of regulatory reserve for credit loss: W64,099 million Planned provision of regulatory reserve for credit loss: W64,099 million)	438,637	242,875
Accumulated other comprehensive income	(4,805)	1,453
Total shareholders' equity	2,452,802	2,284,598
Total liabilities and shareholders' equity	W 32,030,398	W 27,663,469

(Concluded)

See accompanying notes to consolidated financial statements.

SUHYUP BANK

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017, AND FOR THE PERIOD FROM DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016

	2017	2016
	(Korean won in millions)	
Interest income	W 951,124	W 75,386
Interest expense	404,463	30,833
Net interest income (Note 24)	546,661	44,553
Fees and commissions income	48,399	3,900
Fees and commissions expense	15,725	2,275
Net fees and commissions income (Note 25)	32,674	1,625
Net gain on financial instruments held for trading (Notes 9, 16 and 26)	8,637	1,914
Net gain on financial instruments at FVTPL (Note 8)	152	189
Net loss on AFS financial instruments (Notes 10 and 26)	(8,817)	(696)
Net other operating income (Note 27)	(47,579)	113
Other operating loss	(47,607)	1,520
General and administrative expenses (Note 28)	(248,537)	(22,204)
Net transfers of allowances and provisions (Notes 11, 15 and 21)	(1,954)	(4,694)
Total operating revenues	281,237	20,800
Other non-operating income	5,915	1,467
Other non-operating expenses	33,546	4,097
Other non-operating loss (Note 29)	(27,631)	(2,630)
Net income before income tax expense	253,606	18,170
Income tax expense (Note 30)	58,426	4,264
Net income	195,180	13,906
(Net income after the provision of regulatory reserve for credit loss for the year ended December 31, 2017, and for the period from December 1, 2016 (inception), to December 31, 2016, is W122,471 million and W9,201 million, respectively)		
Items that may be reclassified to profit or loss:		
Gain on valuation of AFS financial assets	(7,842)	2,087
Items that will not be reclassified to profit or loss:		
Remeasurement of the net defined benefit liability	1,584	2,108
Other comprehensive gain (loss), net of tax	(6,258)	4,195
Total comprehensive income	W 188,922	W 18,178
Net income attributable to owners	195,180	13,906
Net income attributable to non-controlling interests	-	-
Comprehensive income attributable to owners	188,922	18,101
Comprehensive income attributable to non-controlling interests	-	-
Earnings per share ("EPS") (Note 31):		
Basic and diluted net income per share (in Korean won)	W 1,387	W 98

See accompanying notes to consolidated financial statements.

SUHYUP BANK

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

**FOR THE YEAR ENDED DECEMBER 31, 2017,
AND FOR THE PERIOD FROM DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016**

	Capital stock	Hybrid securities	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
			(Korean won in millions)			
As of December 1, 2016 (inception)	W 660,000	W 199,799	W 1,410,471	W (2,742)	W -	W 2,267,528
Total comprehensive income:						
Net income	-	-	-	-	13,906	13,906
Valuation of AFS securities	-	-	-	2,087	-	2,087
Remeasurement of the net defined benefit liability	-	-	-	2,108	-	2,108
Transactions recognized directly in shareholders' equity:						
Transfer of capital surplus to retained earnings	-	-	(230,000)	-	230,000	-
Dividends to hybrid securities	-	-	-	-	(1,031)	(1,031)
As of December 31, 2016	W 660,000	W 199,799	W 1,180,471	W 1,453	W 242,875	W 2,284,598
As of January 1, 2017	W 660,000	W 199,799	W 1,180,471	W 1,453	W 242,875	W 2,284,598
Total comprehensive income:						
Net income	-	-	-	-	195,180	195,180
Gain (loss) on valuation of AFS financial instruments	-	-	-	(7,842)	-	(7,842)
Remeasurement of the net defined benefit liability	-	-	-	1,584	-	1,584
Transactions recognized directly in shareholders' equity:						
Transfer of capital surplus to retained earnings	-	-	(21,300)	-	21,300	-
Dividends to hybrid securities	-	-	-	-	(12,012)	(12,012)
Dividends	-	-	-	-	(8,706)	(8,706)
As of December 31, 2017	W 660,000	W 199,799	W 1,159,171	W (4,805)	W 438,637	W 2,452,802

See accompanying notes to consolidated financial statements.

SUHYUP BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017, AND FOR THE PERIOD FROM DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016

	2017	2016
	(Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	W 195,180	W 13,906
Additions of expenses not involving cash outflows:		
Loss on valuation of financial instruments designated as at FVTPL	2	5
Loss on valuation of financial assets held for trading	1,101	-
Impairment loss on AFS securities	13,743	613
Loss on transaction of AFS securities	1,083	230
Provision for allowance for credit losses	583	4,083
Loss on disposal of tangible assets	134	1
Depreciation expense of tangible assets	9,045	867
Depreciation expense of investment properties	89	8
Amortization expense of intangible assets	6,515	1,690
Loss on valuation of derivatives held for trading	127,903	57,499
Interest expense	404,463	30,671
Retirement benefits	16,100	1,370
Income taxes	58,426	4,264
Loss on valuation of derivative instruments (for hedging)	2,598	1,457
Provided provisions	1,808	1,045
Related loss on effect of exchange rate fluctuations	10,754	50,080
Other expenses	3,058	299
	657,405	154,182
Deduction of revenues not involving cash inflows:		
Gain on valuation of financial instruments designated as at FVTPL	-	194
Gain on valuation of financial assets held for trading	2,415	394
Gain on valuation of derivative instruments (for trading)	121,180	58,939
Gain on transaction of AFS securities	5,676	226
Interest income	951,124	75,386
Reversal provisions	437	434
Dividend income	394	2
Related gain on hedged item	899	1,532
Related gain on effect of exchange rate fluctuations	91,736	5,278
Interest income from plan assets	390	25
Other incomes	200	2
	(1,174,451)	(142,412)
Changes in assets and liabilities resulting from operations:		
Net increase in due from banks	(584,626)	(10,189)
Net decrease in financial assets held for trading	49,348	240,303
Net decrease in financial instruments designated as at FVTPL	40,190	-
Net increase in loans	(2,822,273)	(146,990)
Net decrease in other financial assets	150,492	471,795
Net decrease (increase) in other assets	12	(335)
Net increase in derivative assets and liabilities	456	3,954
Net increase in deposits	4,508,512	303,571
Net increase (decrease) in provisions	(1,871)	80
Net increase (decrease) in other financial liabilities	29,449	(595,763)
Net increase in other liabilities	19,717	4,413
Payment of severance benefits	(4,862)	(1,592)
Net decrease in current tax assets	-	(179)
	1,384,544	269,068

(Continued)

SUHYUP BANK

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2017, AND FOR THE PERIOD FROM DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016

	2017	2016
	(Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest income received	₩ 913,966	₩ 69,644
Dividends received	394	2
Interest expense paid	(326,123)	(37,806)
Income tax paid	(43,888)	-
Net cash provided by operating activities	1,607,027	326,584
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of tangible assets	(11,000)	(353)
Acquisition of intangible assets	(12,000)	-
Net increase in guarantee deposits	(8,008)	(2,340)
Disposal of AFS financial assets	2,539,290	179,024
Acquisition of AFS financial assets	(3,083,658)	(261,720)
Disposal of HTM financial assets	191,052	10,223
Acquisition of HTM financial assets	(861,798)	(20,824)
Net cash used in investing activities	(1,246,122)	(95,990)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in borrowings	(175,428)	(211,851)
Issuance of debentures	3,956,204	137,727
Repayment of debentures	(4,114,658)	(158,424)
Dividends paid	(20,718)	(363)
Net cash used in financing activities	(354,600)	(232,911)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,305	(2,317)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	124,244	126,140
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(52)	421
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	W 130,497	W 124,244

(Concluded)

See accompanying notes to consolidated financial statements.

SUHYUP BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017 AND 2016,

AND FOR THE YEAR ENDED DECEMBER 31, 2017,
AND FOR THE PERIOD FROM DECEMBER 1, 2016 (INCEPTION), TO DECEMBER 31, 2016

1. GENERAL

(1) Summary of the parent company

Suhyup Bank (the "Bank") was established on December 1, 2016, after the spin-off from the National Federation of Fisheries Cooperatives ("NFFC"). The purpose of the spin-off was to contribute to economic growth in Korea and ensure the achievement of NFFC's goals. The Bank's headquarters is located at 62 Ogeum-ro, Songpa-gu, Seoul.

As of December 31, 2017, the Bank's issued and outstanding common stock (132,000,000 shares) amounted to ₩660,000 million, and the Bank is wholly owned by the Special Banking Service Accounts of NFFC.

The Bank has 126 branches in Korea as of December 31, 2017.

(2) Overview of Subsidiaries

- Principal and Interest Guaranteed Trust
Principal and Interest Guaranteed Trust is based on a special relationship between the trustor (customers) and the trustee (Suhyup Bank). Such trust provides commitments to guarantee a fixed rate of return and the repayment of principal.

- 2007 Kiwoom IBK First Co., Ltd.
2007 Kiwoom IBK First Co., Ltd. is established to handle the securitization of hybrid bonds issued by small- and mid-sized banks.

- KAMCO Value Recreation 5th Securitization Specialty Co., Ltd.
KAMCO Value Recreation 5th Securitization Specialty Co., Ltd. is established for securitizing assets held by Korea Asset Management Corporation (KAMCO). KAMCO Value Recreation 5th Securitization Specialty Co., Ltd. issued senior and subordinated asset-backed securities based on assets held by KAMCO. As of December 31, 2017, KAMCO Value Recreation 5th Securitization Specialty Co., Ltd.'s capital stock amounts to ₩1.5 million.

- KAMCO Value Recreation 8th Securitization Specialty Co., Ltd.
KAMCO Value Recreation 8th Securitization Specialty Co., Ltd. is established for securitizing assets held by KAMCO. KAMCO Value Recreation 8th Securitization Specialty Co., Ltd. issued senior and subordinated asset-backed securities based on assets held by KAMCO. As of December 31, 2017, KAMCO Value Recreation 8th Securitization Specialty Co., Ltd.'s capital stock amounts to ₩1.5 million.

Subsidiaries	Percentage of ownership	Location	Financial statements as of	Main business
Principal and Interest Guaranteed Trust	-	Korea	December 31	Trust
2007 Kiwoom IBK First Co., Ltd.	-	Korea	December 31	Asset securitization
KAMCO Value Recreation 5th Securitization Specialty Co., Ltd.	15%	Korea	December 31	Asset securitization
KAMCO Value Recreation 8th Securitization Specialty Co., Ltd.	15%	Korea	December 31	Asset securitization

(3) Major financial information of subsidiaries included in scope of consolidation

Subsidiaries	Assets	Liabilities	Equity	Operating revenue	Net income (loss)	Comprehensive income (loss)
Principal and Interest Guaranteed Trust	₩ 61,508	₩ 61,508	₩ -	₩ 2,422	₩ -	₩ -
2007 Kiwoom IBK First Co., Ltd.	33	920	(887)	-	-	-
Kamco creation value 5th Securitization Specialty Co., Ltd.	103	19,554	(19,451)	48	(973)	(973)
Kamco creation value 8th Securitization Specialty Co., Ltd.	349	35,111	(34,762)	3	(3,132)	(3,132)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidated financial statements preparation

The Bank and its subsidiaries (the "Group") maintains its official accounting records in Korean won and prepares consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRS"), in Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language consolidated financial statements.
The Group's consolidated financial statements are prepared in accordance with K-IFRS.
Major accounting policies used for the preparation of the consolidated financial statements are stated below.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

The Group's consolidated financial statements were approved by the board of directors on March 9, 2018

1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year are as follows:

Amendments to K-IFRS 1007 – *Cash Flows*

The amendments require that disclosures about the changes in the financial liabilities during the period, and the application of these amendments, have no material impact on the disclosures or the amounts recognized in the Bank's consolidated financial statements. The details of disclosures on these amendments are provided in Note 34. In accordance with transition provisions of these amendments, a comparison information of prior periods is not presented.

Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of the assets for more than their carrying amounts. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1027 – *Consolidated Financial Statements*

The following amendments discuss accounting for investment in subsidiaries, related parties and joint ventures at cost basis and allow the selection of the application of K-IFRS 1039 Financial Instruments: Recognition and Measurement or the application of equity method accounting under K-IFRS 1028 Investment in Associates and Joint Ventures. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Annual Improvements to K-IFRS 2014-2016 Cycle

The Bank applied amendments to K-IFRS 1102 "Share Based Payment" in the Annual Improvements to K-IFRS 2014-2016 Cycle and other revisions that did not reach the date of enforcement were not adopted earlier.

The amendments stipulate that the Bank shall not provide summary financial information on the equity interests of its subsidiaries, joint ventures or associated companies that are classified as scheduled for sale (or included in the disposed assets group identified as scheduled for sale). It is made clear that these are the only exceptions to the regulation on the disclosures under the K-IFRS 1112 "Disclosure of Interests in Other Entities".

2) New and revised K-IFRS issued, but not yet effective

The Group has not applied the following new and revised K-IFRSs that have been issued but are not yet effective.

Enactment of K-IFRS 1109 – Financial Instruments

The enactment of K-IFRS 1109 contains the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and change in the hedge effectiveness test. This standard will supersede K-IFRS 1039 Recognition and Measurement of Financial Instruments. The enactments are effective for annual periods beginning on or after January 1, 2018.
The retrospective application is the principle under the new K-IFRS 1109 though there are some exception clauses, such as exemption from restatement. For the comparative information in the case of classification, measurement and impairment of financial instruments, it should be applied forward except for some exception clauses, such as the accounting of option's time value for the hedge accounting

The main features of K-IFRS 1109 are the classification and measurement of financial assets based on the business model for the management of financial assets and the nature of the contractual cash flows, the impairment model reflecting expected credit losses, broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting or replacement of the hedge effectiveness test.

Smooth adoption of K-IFRS 1109 generally needs preparation, such as the analysis of financial effect, establishment of accounting policies, construction of accounting system and system stabilization. The effect of application of this standard on the financial statements for the first fiscal year depends on not only the choice and judgment of accounting policy based on this standard and but also the financial instruments the Bank holds for the relevant year and economic situation.

The Group has reviewed the internal management process repair or accounting system change concerning the financial instruments reporting relating to the introduction of K-IFRS 1109 and evaluated the potential effect on the consolidated financial statements based on the present situation as of December 31, 2017, and the available information for evaluating the financial effect by initial adoption of K-IFRS 1109 preliminarily. The result of the potential effect to the consolidated financial statements based on the present situation as of December 31, 2017, may be changed depending on the available information for evaluating the financial effect afterward.
The financial effects of this standard on the consolidated financial statements with major issues are as follows:

(1) Classification and measurement of financial assets

All recognized financial assets that are currently within the scope of K-IFRS 1109 will be subsequently measured either at amortized cost, fair value through other comprehensive income ("FVTOCI"), or FVTPL in the following table based on the business model and the nature of the contractual cash flows. If a hybrid contract includes a financial asset as a master contract, the financial asset is classified based on the entire hybrid contract without separating the embedded derivative.

The nature of contractual cash flows	The business model: Objective is to collect the contractual cash flows.	Objective is achieved both by collecting the contractual cash flows and selling financial assets	Objective is to sell financial assets and so on.
Contractual cash flows that are solely payments of principal and interest	Measured at amortized cost (*1)	Measured at FVTOCI (*1)	Measured at FVTPL
Other than the above	Measured at FVTPL (*2)	Measured at FVTPL (*2)	Measured at FVTPL(*2)

(*1) An irrevocable election is available to designate a financial asset to be classified as at FVTPL for eliminating or reducing accounting discrepancies.
(*2) For equity securities held for purposes other than short-term trading, an irrevocable election is available to designate them as FVTOCI financial assets.

Under K-IFRS 1109, as it is more strictly required to classify the financial assets measured at amortized cost or FVTOCI compared to under current K-IFRS 1039, when adopting K-IFRS 1109, the volatility of net income can be expanded by the increasing portion of the financial assets measured at FVTPL.

As of current year-end, the Group holds loans and receivables amounting to ₩27,300,692 million, HTM financial assets amounting to ₩1,276,285 million, AFS financial assets amounting to ₩2,927,346 million and financial assets at FVTPL amounting to ₩329,419 million according to K-IFRS 1039.

In accordance with K-IFRS 1109, only the debt instruments, which occur in the cash flow that is composed of solely the principal and the interest on the remaining principal at specified dates by the contract, whose purpose is to receive the cash flow under the contract can be measured at amortized cost. The Group measures loans and receivables amounting to ₩27,300,692 million and HTM financial assets amounting to ₩1,276,285 million as amortized cost as of December 31, 2017.

The estimated impact on the classification and measurement of the Group's financial assets (except derivatives) as of year-end is presented as follows. The following information is constructed from the accounting system for financial instruments built for adopting K-IFRS 1109.

(Unit: Korean won in millions)

Accounts	Classification per K-IFRS 1039	Classification per K-IFRS 1109	Amount per K-IFRS 1039	Amount per K-IFRS 1109
Deposits	Loans and receivables	Amortized cost	₩ 1,153,167	₩ 1,153,167
Loans (*1)			25,645,347	25,645,347
Other financial assets (*1)			700,612	700,612
Debt securities	HTM financial assets	Amortized cost	1,244,665	1,244,665
Debt securities		FVTPL	31,620	31,254
Debt securities	AFS financial assets	FVTOCI	2,913,025	2,913,025
Equity securities	AFS financial assets	FVTOCI	11,292	11,292
Equity securities		FVTPL	3,029	3,029
Equity securities	Financial assets at FVTPL	FVTPL	26,486	26,486
Debt securities	Financial assets at FVTPL	FVTPL	220,280	220,280
Total financial assets			₩ 31,949,523	₩ 31,949,157

(*1) Except for deferred loan origination effect and impairment

Among the financial assets measured at amortized cost, HTM financial assets amounting to ₩31,620 million and AFS financial assets amounting to ₩3,029 million would be reclassified to FVTPL financial assets as a result of adopting K-IFRS 1109. Consequentially, a proportion of FVTPL financial assets among total financial assets (except derivatives) amounting to ₩31,949,523 million would increase from 0.78% to 0.89% and the volatility of net income can be expanded by the increasing portion of the financial assets measured at FVTPL.

(2) Classification and measurement of financial liabilities

One major change from K-IFRS 1039 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL, attributable to changes in the credit risk of that liability. Under K-IFRS 1109, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The Group does not hold financial liabilities designated as at FVTPL as of December 31, 2017.

(3) Impairment methodology: Financial assets and contractual assets

Under current K-IFRS 1039, the impairment is recognized only when there is objective evidence of an impairment according to the incurred loss model; however, in accordance with K-IFRS 1109, debt instruments, lease receivables, contract assets, loan commitments measured at amortization cost or other comprehensive income are recognized in accordance with the expected credit loss model.

In accordance with K-IFRS 1109, the level of credit risk after the initial recognition of financial assets is divided into three levels as shown in the table below. To measure the allowance for losses at an amount equal to the expected 12-month credit loss or the expected total credit loss, the credit loss can be recognized early compared to the K-IFRS 1039 incurred loss model.

	Stage 1	Stage 2	Stage 3
Stage (*1)	In case the exposure's credit risk has not increased significantly since initial recognition (*2)	In case the exposure has suffered a significant increase in credit risk	In case the exposure meets the accounting definition of impaired credit
Allowance recognition	The Group recognizes only 12-month expected credit losses as a loss allowance.	The Group recognizes a loss allowance equal to lifetime expected credit losses	

(*1) For accounts receivable or assets recognized for contracts that apply IFRS 1115 Revenue from Contracts with Customers, loss reserve should be measured for the expected credit loss for the entire period. An accounting policy can be chosen in which provision for loss can be measured for the expected credit loss for the entire period if there is a significant financing component. For lease receivables, loss reserve can be measured for the expected credit loss amount for the entire period as an accounting policy.

(*2) If credit risk is low at the end of the reporting period, it can be considered that there was no significant increase in credit risk.

In accordance with K-IFRS 1109, a financial asset impaired by credit at initial recognition is accounted for as an allowance for the cumulative change in expected future credit losses after initial recognition.

As of year-end, the Group holds debt securities measured at amortized cost amounting to ₩28,576,977 million (loans and receivables amounting to ₩7,300,692 million and HTM financial assets amounting to ₩1,276,285 million) and AFS financial assets measured at FVTOCI amounting to ₩2,913,025 million. In relation to this amount, the Group has recognized an allowance for credit losses amounting to ₩337,378 million.

The expected impact on the allowance for credit losses as of year-end using the Group's system for allowances is as follows:

(Unit: Korean won in millions)

Accounts	Allowance for credit losses per K-IFRS 1039(A)		Allowance for credit losses per K-IFRS 1109 (B)		Increases(B-A)	
Deposits	W	-	W	-	W	-
Loans receivables		336,601		348,600		11,999
Other financial assets		777		10,424		9,647
AFS debt securities		-		368		368
HTM debt securities		-		917		917
Total	W	337,378	W	360,309	W	22,931

(4) Hedge accounting

The general hedge accounting requirements of K-IFRS 1109 retain the three types of hedge accounting mechanisms in K-IFRS 1039: Fair Value Hedge, Cash Flow Hedge and Hedge of Net Investment in a Foreign Operation. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. That is, more financial instruments now may be considered to be a hedged item and/or a hedging instrument, the quantitative basis for evaluating high hedge effectiveness (80%–125%) has been abolished and the retroactive assessment requirement has also been abolished. These allow the firms to concentrate on hedging activities.

In case of adopting K-IFRS 1109, Hedge accounting, some tradings not quantified for hedge accounting in K-IFRS 1039 would be eligible for hedge accounting in K-IFRS 1109 and the volatility of net income can be reduced.

As of year-end, the Group holds a trading applied to hedge accounting amounting to W321,420 million. In accordance with K-IFRS 1039, changes in the fair value of a fair value hedged item amounting to ₩899 million are recognized in profit or loss.

In accordance with K-IFRS 1109, hedging activities.by the firm not applied to K-IFRS 1039, Hedge accounting to be not qualified for requirements, are not added to a trading applied to K-IFRS 1109, Hedge accounting.

Enactments to K-IFRS 1115 – Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract 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 and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - *Construction Contracts*, K-IFRS 1018 - *Revenue*, K-IFRS 2113 - *Customer Loyalty Programmes*, K-IFRS 2115 - *Agreements for the Construction of Real Estate*, K-IFRS 2118 - *Transfers of Assets from Customers* and K-IFRS 2031 - *Revenue-Barter Transactions Involving Advertising Services*. The amendments are effective for annual periods beginning on or after January 1, 2018.

The Group has organized a task force team in connection with the introduction of K-IFRS 1115 and evaluated the potential effect on the consolidated financial statements based on the present situation as of December 31, 2017, and the available information for evaluating the financial effect by initial adoption of K-IFRS 1115 preliminarily. The Group is expecting that there are no significant impacts on its consolidated financial statements as a result of adopting K-IFRS 1109. The result of the potential effect on the consolidated financial statements based on the present situation as of December 31, 2017, may be changed depending on the available information for evaluating the financial effect afterward.

Enactments to K-IFRS 1116 – Leases

K-IFRS 1116 introduces a comprehensive model for the identification of lease arrangements and accountings treatments for both lessors and lessees. K-IFRS 1116 will supersede the current lease guidance, including K-IFRS 1017 Leases and the related interpretations, when it becomes effective.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and are replaced by a model where a right-of-use asset and a corresponding liability must be recognized for all leases by lessees, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows; whereas under the K-IFRS 1116 model, the lease payments will be split into a principal portion and an interest portion, which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017 and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by K-IFRS 1116.

As of December 31, 2017, the Group has non-cancellable operating lease commitments. K-IFRS 1017 does not require the recognition of any right-of-use asset or liability for future payments for these leases. A preliminary assessment indicates that these arrangements will meet the definition of a lease under K-IFRS 1116, and hence, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases, unless they qualify for low-value or short-term leases upon the application of K-IFRS 1116. The new requirement to recognize a right-of use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the Group is currently assessing its potential impact.

Amendments to K-IFRS 1040—Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in K-IFRS 1040 may evidence a change in use and that a change in use is possible for properties under construction (i.e., a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively.

Enactments to K-IFRS 2122 – Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the 'date of transaction' for determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency that resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

Annual Improvements to K-IFRS 2014-2016 Cycle

The amendments include partial amendments to K-IFRS 1101 'First-time Adoption of K-IFRS' and K-IFRS 1028 'Investments in Associates and Joint Ventures.' Amendments to K-IFRS 1028 provide that an investment company such as a venture capital investment vehicle may selectively designate each of its investment in associates and/or joint ventures to be measured at FVTPL, and that such designation must be made at the time of each investment's initial recognition. In addition, when non-investment companies apply equity method to investment in associates and/or joint ventures that are investment companies, these companies may apply the same fair value measurement used by the said associates to value their own subsidiaries. This accounting treatment may be selectively applied to each associate. These amendments should be applied retrospectively and are available for early adoption.

The amendments are effective for annual periods beginning on or after January 1, 2018. The Group is neither a venture capital investment vehicle nor is adopting K-IFRS for the first time; thus, it is expected that the amendments explained above will not affect the Group's consolidated financial statements. Furthermore, the Group does not own shares of an associate or a joint venture that are classified as investment companies.

The Group is expecting no impact of the above-mentioned enactments and amendments on the consolidated financial statements.

(2) Revenue recognition

1) Interest income

Interest income is recognized on an effective interest basis for financial assets that are classified as AFS financial assets, HTM financial assets or loans and receivables.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated 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) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. All contractual terms of a financial instrument are considered when estimating future cash flows.

2) Loan origination fees and costs

The commission fee earned on loans, which is part of the effective interest rate of loans, is accounted for deferred origination fees. Incremental cost related to the acquisition or disposal is accounted for deferred origination costs, and it is amortized on the effective interest method and included in interest revenues on loans.

3) Fees and commission income

Commitment and utilization fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to net income over the life of the facility; otherwise, they are deferred and included in the effective interest rate on the advance.

4) Trust fees and compensation related to trust accounts

The Group receives fees for its management of unconsolidated trust assets, which are recognized on an accrual basis when the management services are provided and earned. The Group is also entitled to receive performance-based fees for certain trust accounts. These performance-based fees are recognized at the end of the performance period. In addition, a certain trust account, where the Group guarantees to repay the principals and minimum interests of the trust account to its beneficiaries shall be included in the consolidated financial statements. The Group recognizes incomes when earned and expenses when interests to be paid to beneficiaries are accrued.

(3) Accounting for foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is the functional currency of the Group. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at its prevailing exchange rates at the date. Foreign exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge or that form part of net investment in foreign operations are recognized in equity.

A monetary AFS financial asset is treated as if it were carried at amortized cost in the foreign currency. Accordingly, for such financial assets, exchange differences resulting from retranslating amortized cost are recognized in net income.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Korean won at foreign exchange rates at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognized in net income, except for differences arising on non-monetary AFS financial assets, for example equity shares, which are included in the AFS reserve in equity, unless the asset is the hedged item in a fair value hedge.

The Group identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at foreign exchange rates at the end of each reporting date while the revenues and expenses are translated into Korean won at average exchange rates for the period, unless these do not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognized directly in equity and included in net income on its disposal.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, interest-earning deposits with original maturities of up to three months of acquisition date and highly liquid investment assets that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(5) Financial assets and financial liabilities

1) Financial assets

A regular way purchase or sale of financial assets is recognized or derecognized on the trade or settlement date. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose term requires delivery of the asset within the time frame established, generally by regulation or convention in the marketplace concerned.

On initial recognition, financial assets are classified into financial assets at FVTPL, AFS financial assets, HTM financial assets and loans and receivables.

a) Financial assets at FVTPL

A financial asset is classified as at FVTPL when the financial asset is classified as held for trading or it is designated as at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for selling in the near term. Financial assets at FVTPL are stated at fair value, with any gains or losses on valuation recognized in profit or loss. Transaction cost that is directly attributable to the acquisition of financial assets is deducted from the fair value of the financial assets on initial recognition.

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;
- the financial asset forms 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, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039—*Financial Instruments: Recognition and Measurement,* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets designated as at FVTPL are initially measured at fair value, and transaction cost that is directly attributable to the acquisition of financial assets is deducted from the fair value of the financial assets on initial recognition. Such financial assets are subsequently measured at fair value. Any gain or loss on financial assets designated as at FVTPL is recognized immediately in profit or loss.

b) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM investments or (c) financial assets at FVTPL. AFS financial assets are initially recognized at fair value, plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as AFS financial assets.

Impairment losses, changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates and interest income calculated using the effective interest method are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

c) HTM financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

d) Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value, plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized using the effective interest method, except for the short-term receivables to which the present value discount is not meaningful.

2) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL (financial liabilities held for trading or financial liabilities designated as at FVTPL) or financial liabilities measured at amortized cost.

A financial liability is classified as held for trading if:

- it has been acquired principally for repurchasing in the near term;
- on initial recognition it is 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 and effective as a hedging instrument.

Financial liabilities held for trading are initially measured at fair value, and transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Such financial liabilities are subsequently measured at fair value. Any gain or loss on financial liabilities held for trading is recognized immediately in profit or loss.

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;
- the financial liability forms 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, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039—*Financial Instruments: Recognition and Measurement,* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities designated as at FVTPL are initially measured at fair value, and transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Such financial liabilities are subsequently measured at fair value. Any gain or loss on financial liabilities designated as at FVTPL is recognized immediately in profit or loss.

Financial liabilities that are not classified as at FVTPL are measured at amortized cost. Deposits, borrowings, corporate bonds and others are classified as financial liabilities measured at amortized cost.

3) Reclassification

A financial asset held for trading and AFS financial asset that have met the definition of loans and receivables (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) may be reclassified out of the FVTPL category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Any gain or loss already recognized in profit or loss is not reversed, and the fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost.

4) Derecognition

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, it 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, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or retains a residual interest and such a retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

The Group derecognizes financial liabilities when its obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5) Fair value of financial instruments

Financial instruments classified as held for trading or designated as at FVTPL and financial assets classified as AFS are recognized in the consolidated financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in and orderly transaction between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. The Group characterizes active markets as those in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where a financial instrument is not in an active market characterized by low transaction volumes, price quotations that vary substantially among market participants, or in which minimal information is released publicly, fair values are established using valuation techniques that rely on alternative market data or internally developed models using significant inputs that are generally readily observable from objective sources. Market data includes prices of financial instruments with similar maturities and characteristics, duration, interest rate yield curves and measures of volatility. The amount determined to be fair value may incorporate the management of the Group's own assumptions (including assumptions that the Group believes market participants would use in valuing the financial instruments and assumptions relating to appropriate risk adjustments for nonperformance and lack of marketability).

The valuation techniques used to estimate the fair value of the financial instruments include market approach and income approach, each of which involves a significant degree of judgment. Under the market approach, fair value is determined by reference to a recent transaction involving the financial instruments or by reference to observable valuation measures for comparable companies or assets. Under the income approach, fair value is determined by converting future amounts (e.g., cash flows or earnings) to a single present amount (discounted) using current market expectations about the future amounts. In determining value under this approach, the Group makes assumptions regarding, among other things, revenues, operating income, depreciation and amortization, capital expenditures, income taxes, working capital needs and terminal value of the financial investments. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

The following are descriptions of valuation methodologies used by the Group to measure various financial instruments at fair value:

a) Financial assets at FVTPL and AFS financial assets:

The fair value of the securities included in financial assets at FVTPL and AFS financial assets are recognized in the consolidated statements of financial position based on quoted market prices, where available. For debt securities traded in the over-the-counter ("OTC") market, the Group generally determines fair value based on prices obtained from independent pricing services. Specifically, with respect to independent pricing services, the Group obtains three prices per instrument from reputable independent pricing services in Korea and generally uses the lowest of the prices obtained from such services without further adjustment. For non-marketable equity securities, the Group obtains prices from the independent pricing services. The Group validates prices received from such independent pricing services using a variety of means, including verification of the qualification of the independent pricing services, corroboration of the pricing by comparing the prices among the independent pricing services and by reference to other available market data, and review of the pricing model and assumptions used by the independent pricing services by the Group's personnel who are familiar with market-related conditions.

b) Derivative instruments:

Quoted market prices are used for the Group's exchange-traded derivatives, such as certain interest rate futures and option contracts. All of the Group's derivatives are traded in OTC markets where quoted market prices are not readily available are valued using internal valuation techniques. Valuation techniques and inputs to internally developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. If the model inputs for certain derivatives are not observable in a liquid market, significant judgments on the level of inputs used for valuation techniques are required.

c) Valuation Adjustments:

By using derivatives, the Group is exposed to credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, the counterparty credit risk is equal to the amount reported as a derivative asset in the consolidated statements of financial position. The amounts reported as a derivative asset are derivative contracts in a gain position. Few of the Group's derivatives are listed on an exchange. The majority of derivative positions are valued using internally developed models that use as their basis observable market inputs. Therefore, an adjustment is necessary to reflect the credit quality of each counterparty to arrive at fair value. Counterparty credit risk adjustments are applied to derivative assets, such as OTC derivative instruments, when the market inputs used in valuation models may not be indicative of the creditworthiness of the counterparty. Adjustments are also made when valuing financial liabilities to reflect the Group's own credit standing.

The adjustment is based on probability of default of a counterparty and loss given default. The adjustment also takes into account contractual factors designed to reduce the Group's credit exposure to each counterparty. To the extent derivative assets (liabilities) are subject to master netting arrangements, the exposure used to calculate the credit risk adjustment is net of derivatives in a loss (gain) position with the same counterparty and cash collateral received (paid).

6) Impairment of the financial assets

The Group assesses at the end of each reporting date whether there is any objective evidence that a financial asset or group of financial assets classified as AFS, HTM or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss is incurred if there is objective evidence of impairment as result of one or more events that occurred after the initial recognition of asset and that event (or events) has an impact on the estimated future cash flows of the financial asset.

a) Financial assets carried at amortized cost:

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as HTM investments or as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. For collateralized loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral.

Impairment losses are assessed individually for financial assets that are individually significant and assessed either individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

Impairment losses are recognized in net income and the carrying amount of the financial asset or group of financial assets reduced by establishing a provision for impairment losses. If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognized, the previously recognized loss is reversed by adjusting the provision. Once an impairment loss has been recognized on a financial asset or group of financial assets, interest income is recognized on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

It is not the Group's usual practice to write off the asset at the time an impairment loss is recognized. Impaired loans and receivables are written off (i.e., the impairment provision is applied in writing down the loan's carrying value in full) when the Group concludes that there is no longer any realistic prospect of recovery of part or the entire loan. Amounts recovered after a loan has been written off are reflected in the provision for the period in which they are received.

b) Financial assets carried at fair value:

When a decline in the fair value of a financial asset classified as AFS has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is removed from other comprehensive income and recognized in net income. The loss is measured as the difference between the amortized cost of the financial asset and its current fair value. Impairment losses on AFS equity instruments are not reversed through net income, but those on AFS debt instruments are reversed if there is a decrease in the cumulative impairment loss that is objectively related to a subsequent event.

(6) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statements of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(7) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. After 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. 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 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 accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(8) Tangible assets

Tangible assets are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of tangible assets is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
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. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, for all other tangible assets, depreciation is charged to profit or loss on a straight-line basis on the estimated economic useful lives as follows:

	Estimated useful life
Buildings used for business purpose	40–60 years
Properties for business purpose	4–20 years

The Group reassesses the depreciation method, the estimated useful lives and the residual values of tangible assets 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. When the carrying amount of a fixed asset exceeds the estimated recoverable amount, the carrying amount of such asset is reduced to the recoverable amount.

(9) Intangible assets and goodwill

Intangible assets are stated at the manufacturing cost or acquisition cost, plus additional incidental expenses less accumulated amortization and accumulated impairment losses. The Group's intangible assets are amortized over the estimated economic useful lives using the straight-line method. The estimated useful life and the amortization method are reviewed 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.

	Estimated useful life
Patents	5 years
Software	5 years
Others	5 years

In addition, when an indicator that intangible assets are impaired is noted, and the carrying amount of the asset exceeds the estimated recoverable amount of the asset, the carrying amount of the asset is reduced to its recoverable amount immediately.

Goodwill acquired in a business combination is included in intangible assets. Goodwill is not amortized but tested for impairment annually to the extent of reporting unit and when there is any indication of impairment.

Goodwill acquired is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro rata basis based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

(10) Impairment of non-monetary assets

Intangible assets with indefinite useful lives, such as goodwill and membership, or intangible assets that are not yet available for use are tested for impairment annually, regardless of whether or not there is any indication of impairment. All other assets are tested for impairment when there is an objective indication that the carrying amount may not be recoverable, and if the indication exists, the Group estimates the recoverable amount. Recoverable amount is the higher of value in use or net fair value less costs to sell. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and such impairment loss is recognized immediately in profit or loss.

(11) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) As a lessor

Amounts due from lessees under finance leases are recognized as receivables, with the amount of the Group's net investment in the leases being the minimum lease payments and any unguaranteed residual value discount interest rate implicit in the lease. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Operating lease assets are included within others in other assets and depreciated over their useful lives.

2) As a lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Contingent rentals arising under finance leases are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

(12) Derivative instruments

Derivative instruments are classified as forwards, futures, options and swaps, depending on the types of transactions and are classified as either trading or hedging depending on the purpose. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument.

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value, with changes in fair value recognized in profit or loss.

The Group designates certain hedging instruments to (a) hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge); (b) hedge of the exposure to variability in cash flows, which is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction (cash flow hedge); and (c) hedge of a net investment in a foreign operation.

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.

1) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedge accounting is discontinued when the Group revokes the hedging relationship or when the hedging instrument is no longer qualified for hedge accounting. The fair value adjustment to the carrying amount of the hedged item is amortized to profit or loss from that date to maturity using the effective interest method.

2) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(13) Non-current assets held for sale (disposal group)

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction and the sale is highly probable. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

(14) Provisions

The Group recognizes provision if it has a present or contractual obligation as a result of the past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation is reliably estimated. Provision is not recognized for the future operating losses.

The Group recognizes provision related to the unused portion of point rewards earned by credit card customers, payment guarantees, loan commitment and litigations. Where the Group is required to restore a leased property that is used as a branch, to an agreed condition after the contractual term expires, the present value of expected amounts to be used to dispose, decommission or repair the facilities is recognized as an asset retirement obligation.

Where there are many similar obligations, the probability that an outflow will be required in settlement is determined by considering the obligations as a whole. Although the likelihood of outflow for any one item may be small, if it is probable that some outflow of resources will be needed to settle the obligations as a whole, a provision is recognized.

(15) Capital and compound financial instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability, if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial liabilities or equity as appropriate.

The Group recognizes common stock and hybrid securities as equity. Direct expenses related to the issuance of new shares or options are recognized as a deduction from equity.

(16) Financial guarantee contracts

Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so.

A financial guarantee is initially measured at fair value and will be amortized over the period of the guarantee. If a financial guarantee is not designated as at FVTPL after initial recognition, it is subsequently measured at the higher of its initial value less cumulative amortization or any provision under the contract measured in accordance with provision policy. Amortization is calculated so as to recognize fees in net income over the period of the guarantee.

(17) Employee benefits and pensions

The Group recognizes the undiscounted amount of short-term employee benefits expecting payment in exchange for the services, when employee renders services. Also, the Group recognizes expenses and liabilities in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences. Though the Group may have no legal obligation to pay a bonus, considering some cases, it has a practice of paying bonuses. In such cases, the Group has a constructive obligation and thus recognizes expenses and liabilities when the employees render service.

All postemployment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

For defined benefit retirement pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which it occurs.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statements 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.

Liabilities for termination benefits are recognized at the earlier of 1) when the Group is not able to cancel its proposal for termination benefits, or 2) when the Group has recognized the cost of restructuring that accompanies the payment of termination benefits.

(18) Income taxes

Income tax consists of current tax and deferred tax. Current income tax expense approximates taxes to be paid or refunded for the current year and deferred income tax expense is provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, including operating losses and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the carrying values of assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Deferred tax assets and liabilities are measured at the tax rates on the date of enactment or substantive enactment that are expected to apply in the period in which the liability is settled or the asset is realized. Deferred tax assets, including the carryforwards of unused tax losses, are recognized to the extent it is probable that the deferred tax assets will be realized.

Deferred income tax assets and liabilities are offset if, and only if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis.

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 assets to be recovered.

Deferred liabilities are not recognized if the temporary difference arises from goodwill. Deferred tax assets or liabilities are not recognized if they arise 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.

Current and deferred income tax are recognized as income or expense and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or an event that is recognized, in the same or different period outside profit or loss, either in other comprehensive income or directly in equity, and (b) a business combination.

(19) EPS

Basic EPS is calculated by subtracting the dividends paid to holders of preferred stock and hybrid securities from the net income attributable to ordinary shareholders from the statements of comprehensive income and dividing by the weighted-average number of common shares outstanding. Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of all dilutive potential common shares.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The significant accounting estimates and assumptions are continually evaluated and are based on historical experiences and various factors, including expectations of future events that are considered to be reasonable. Actual results can differ from those estimates based on such definitions. The accounting estimates and assumptions, which involve potential significant risks that may materially affect the book values of assets and liabilities in the Group's consolidated financial statements, are as follows:

(1) Fair value of financial instruments

As described in Note 7, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The details of assumptions and sensitivity analysis used to estimate fair value of financial instruments are described in Note 7. The management believes that the valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(2) Allowance for credit losses (allowance for losses on loans, allowance for losses on acceptances and guarantees and allowance for losses on unused credit limits)

The Group recognizes allowance for losses on individual loans and receivables by assessing the occurrence of loss events and assesses impairment for the group of loans and receivables with similar credit risk characteristics. The Group maintains allowance for credit losses on off-statement-of-financial-position credit instruments, including commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments to absorb estimated probable losses related to these unused credit facilities. The provision for the allowances may vary due to the borrower's expected cash flows for the individually assessed loans and receivables and the changes in assumptions and parameters for the collectively assessed loans and receivables, the acceptances and guarantees and the unused credit limits.

(3) Measurement of defined benefit obligation

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. The details of defined benefit obligation are provided in Note 22.

4. FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks, such as credit, liquidity and market, associated with financial instruments. This outline indicates the level of exposure to such risks and the objectives, policies, risk assessment, management procedures and capital management of the Group. Additional quantitative information is disclosed throughout the consolidated financial statements.

(1) Risk management policy

The primary purpose of risk management is to maintain stability of the Group by analyzing risks arising from business activities and managing such risks in an effective and efficient manner. The Group establishes and manages limits per risk and business division to improve capital efficiency, maintain the appropriate balance between risk and return and create an efficient risk portfolio.

The Risk Management Committee establishes risk management strategy in accordance with the strategic direction chosen by the board of directors, determines the possible level of risk and manages the level of risk that the Group faced and the condition of risk management activities as an ultimate decision-making organization.

The Risk Management Council is a consultative group that reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management. The Group's risk management council is composed of seven members, including the Group's chief risk management officer and strategic planning team members.

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work relating to risk management plan and operates the Interest Rate and Credit Risk Management Practices Committee.

To manage risks arising from business activities in an efficient manner, the Group established the Risk Management Department, which is separated from the business division. Additionally, the Risk Management Committee and the Risk Management Council monitor the Group's risks on an ongoing basis, hence enhancing transparency and fairness of the management's decision-making process. The Group also designs and operates risk management systems (credit risk management system, market risk management system, asset-liability management system, etc.) for each type of risk.

Furthermore, the Group manages significant risks arising from the Group's business activities within the adequate level of capital, hence designing and operating capital adequacy management system and risk-adjusted performance assessment systems. Such systems are used for the management's decision-making process.

(2) Credit risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. The Group calculates both expected and unexpected loss, taking into account credit risk characteristics of all assets (including on-statement-of-financial-position and off-statement-of-financial-position items) exposed to credit risk.

Expected loss is calculated using expected Probability of Default and Loss Given Default. Unexpected loss, the maximum unexpected loss within a given confidence interval, is calculated using Credit metrics, an internally developed model.

Credit risk management is the process of managing assets in an efficient manner and enhancing asset quality by analyzing changes in value of assets, considering into account total exposures and changes in borrowers' financial condition.

The Group establishes and manages credit risk limits for each business division to improve capital efficiency, maintain the appropriate balance between risk and return and create an efficient risk portfolio. The Risk Management Committee establishes limits per group, and each business division conducts business within the limits.

1) The Group's maximum exposure of financial instruments (excluding equity securities) to credit risk that does not consider value of collateral is summarized as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
On-statement-of-financial-position items:				
Due from banks	₩	1,153,167	₩	568,541
Financial assets at FVTPL:				
Financial assets held for trading		220,225		293,033
Financial assets designated as at FVTPL		-		40,190
AFS financial assets		2,913,025		2,358,494
HTM financial assets		1,276,285		614,005
Loans		25,323,729		22,497,823
Derivative assets		82,653		143,359
Other financial assets		693,300		812,678
Total	₩	31,662,384	₩	27,328,123
Off-statement-of-financial-position items:				
Acceptances and guarantees	₩	291,792	₩	372,840
Commitments		2,369,615		2,924,902
Total	₩	2,661,407	₩	3,297,742

2) Loans are classified as follows (Unit: Korean won in millions):

	December 31, 2017					
	Consumers		Non-consumers		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Loans neither overdue nor impaired	₩ 10,098,201	99.75	₩ 15,288,551	98.69	₩ 25,386,752	99.11
Loans overdue, but not impaired	12,711	0.13	19,167	0.12	31,878	0.12
Impaired loans	12,146	0.12	229,554	1.19	241,700	0.77
Gross loans	10,123,058	100.00	15,537,272	100.00	25,660,330	100.00
Allowance for credit losses	(15,813)		(320,788)		(336,601)	
Net	₩ 10,107,245		₩ 15,216,484		₩ 25,323,729	

	December 31, 2016					
	Consumers		Non-consumers		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Loans neither overdue nor impaired	₩ 7,288,718	99.73	₩ 15,297,287	97.95	₩ 22,586,005	98.52
Loans overdue, but not impaired	5,317	0.07	9,972	0.06	15,289	0.07
Impaired loans	14,437	0.20	309,915	1.99	324,352	1.41
Gross loans	7,308,472	100.00	15,617,174	100.00	22,925,646	100.00
Allowance for credit losses	(19,301)		(408,522)		(427,823)	
Net	₩ 7,289,171		₩ 15,208,652		₩ 22,497,823	

3) Details of loans that are neither past due nor impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Upper grade (*1)	₩ 9,631,771	₩ 14,657,128	₩ 24,288,899
Lower grade (*2)	466,430	631,423	1,097,853
Total	₩ 10,098,201	₩ 15,288,551	₩ 25,386,752
Value of collateral (*3)	₩ 8,967,397	₩ 10,884,230	₩ 19,851,627

	December 31, 2016		
	Consumers	Non-consumers	Total
Upper grade (*1)	₩ 6,961,172	₩ 14,711,727	₩ 21,672,899
Lower grade (*2)	327,546	585,560	913,106
Total	₩ 7,288,718	₩ 15,297,287	₩ 22,586,005
Value of collateral (*3)	₩ 6,300,830	₩ 10,528,635	₩ 16,829,465

(*1) AAA – BBB for corporates and Grades 1–6 for retails
(*2) BBB – C for corporates and Grades 7–10 for retails
(*3) The value of collateral held is recoverable amount used when calculating allowance for credit losses.

4) Details of loans that are past due, but not impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Less than 30 days	₩ 9,009	₩ 17,242	₩ 26,251
30–59 days	2,036	377	2,413
60–89 days	1,666	1,548	3,214
Total	₩ 12,711	₩ 19,167	₩ 31,878
Value of collateral	₩ 11,016	₩ 17,944	₩ 28,960

	December 31, 2016		
	Consumers	Non-consumers	Total
Less than 30 days	₩ 3,100	₩ 3,858	₩ 6,958
30–59 days	1,550	2,694	4,244
60–89 days	667	3,420	4,087
Total	₩ 5,317	₩ 9,972	₩ 15,289
Value of collateral	W 4,214	W 8,441	W 12,655

5) Details of loans that are impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Loans	₩ 12,146	₩ 229,554	₩ 241,700
Value of collateral	6,618	124,840	131,458

	December 31, 2016		
	Consumers	Non-consumers	Total
Loans	₩ 14,437	₩ 309,915	₩ 324,352
Value of collateral	6,237	161,104	167,341

6) Creditworthiness of securities (excluding equity securities) is summarized as follows (Unit: Korean won in millions):

	December 31, 2017	December 31, 2016
Securities neither overdue nor impaired	₩ 4,409,535	₩ 3,305,722
Impaired securities	-	-
Total	₩ 4,409,535	₩ 3,305,722

7) Details of securities (excluding equity securities) that are past due, but not impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017			
	Financial assets held for trading	AFS financial assets	HTM financial assets	Total
AAA	₩ 200,252	₩ 2,773,490	₩ 1,081,630	₩ 4,055,372
AA- – AA+	19,973	139,535	181,723	341,231
BBB- – A+	-	-	12,932	12,932
Total	₩ 220,225	₩ 2,913,025	₩ 1,276,285	₩ 4,409,535

	December 31, 2016				
	Financial assets held for trading	Financial assets at FVTPL	AFS financial assets	HTM financial assets	Total
AAA	₩ 253,038	₩ -	₩2,237,707	₩ 467,714	₩ 2,958,459
AA- – AA+	29,955	40,190	120,787	123,021	313,953
BBB- – A+	10,040	-	-	23,270	33,310
Total	₩ 293,033	₩ 40,190	₩2,358,494	₩ 614,005	₩ 3,305,722

8) The following tables analyze credit risk exposure by geographical areas (Unit: Korean won in millions):

	December 31, 2017				
	Loans	Financial assets held for trading	AFS financial assets	HTM financial assets	Total
Domestic	W 25,115,326	W 220,225	W 2,913,025	W 1,276,285	W 29,524,861
Foreign	208,403	-	-	-	208,403
Total	W 25,323,729	W 220,225	W 2,913,025	W 1,276,285	W 29,733,264

	December 31, 2016					
	Loans	Financial assets held for trading	Financial assets at FVTPL	AFS financial assets	HTM financial assets	Total
Domestic	W 22,217,543	W 293,033	W 40,190	W 2,358,494	W 614,005	W 25,523,265
Foreign	280,280	-	-	-	-	280,280
Total	W 22,497,823	W 293,033	W 40,190	W 2,358,494	W 614,005	W 25,803,545

9) The following table analyzes credit risk exposure of loans by industries (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
	Amount	Ratio (%)	Amount	Ratio (%)
Finance	W 2,401,716	9.48	W 2,739,085	12.17
Construction	364,827	1.44	463,135	2.06
Wholesale and retail	1,430,381	5.65	1,594,973	7.09
Real estates and lease business	5,271,285	20.82	4,394,262	19.53
Lodging and restaurant business	1,456,483	5.75	1,394,160	6.20
Households	7,931,561	31.32	5,228,639	23.24
Others	6,467,476	25.54	6,683,569	29.71
Total	W 25,323,729	100.00	W 22,497,823	100.00

(3) Liquidity risk

Liquidity risk is the risk that the Group becomes insolvent due to uncertain liquidity caused by unexpected cash outflows or the risk of borrowing high-interest debts or disposal of liquid and other assets at a substantial discount.

The Group sets allowable limits for liquidity risk management index more than once a year, considering changes in market environment and business policies. Compliance of the allowable limits is monitored on a regular basis. Additionally, the Group develops contingency plans to identify liquidity trends worsened as a result of dramatic changes in financial market and provides effective countermeasures against cash outflows and liquidity risk. The Group monitors its contingency plans on a regular basis.

1) Remaining contractual maturity and future cash flows of non-derivative financial liabilities are summarized as follows (Unit: Korean won in millions):

	December 31, 2017					
	Less than 3 months	3 months –1 year	1 year –3 years	3 years –5 years	After 5 years	Total
Deposits	W 8,124,077	W 11,137,444	W 1,538,841	W 673,953	W 43,726	W 21,518,041
Borrowings	797,301	582,511	224,603	259,826	106,900	1,971,141
Corporate bonds	649,954	2,171,882	2,384,149	204,578	-	5,410,563
Other liabilities	613,821	-	-	253,772	-	867,593
Total	W 10,185,153	W 13,891,837	W 4,147,593	W 1,392,129	W 150,626	W 29,767,338
Off-statement-of-financial-position items (*)						
Acceptance and guarantee	W 291,792	W -	W -	W -	W -	W 291,792
Commitments	2,369,615	-	-	-	-	2,369,615
Total	W 2,661,407	W -	W -	W -	W -	W 2,661,407

	December 31, 2016					
	Less than 3 months	3 months –1 year	1 year –3 years	3 years –5 years	After 5 years	Total
Deposits	₩ 7,807,006	₩ 7,387,276	₩ 1,103,642	₩ 567,414	₩ 76,879	₩ 16,942,217
Borrowings	698,390	544,583	581,507	289,288	95,046	2,208,814
Corporate bonds	829,500	3,351,167	1,121,494	74,916	182,498	5,559,575
Other liabilities	594,835	5,267	-	186,056	-	786,158
Total	W 9,929,731	W 11,288,293	W 2,806,643	W 1,117,674	W 354,423	W 25,496,764
Off-statement-of-financial-position items (*)						
Acceptance and guarantee	₩ 372,840	₩ -	₩ -	₩ -	₩ -	₩ 372,840
Commitments	2,924,902	-	-	-	-	2,924,902
Total	₩ 3,297,742	₩ -	₩ -	₩ -	₩ -	₩ 3,297,742

(*) The earliest period in which the commitment could be executed is regarded as the beginning.

2) Remaining contractual maturity and future cash flows of derivative financial liabilities are summarized as follows (Unit: Korean won in millions):

	December 31, 2017					
	Less than 3 months	3 months– 1 year	1 year– 3 years	3 years– 5 years	After 5 years	Total
Derivatives	₩ 44,268	₩ 21,226	₩ 20,408	₩ 70	₩ 3,177	₩ 89,149

	December 31, 2016					
	Less than 3 months	3 months– 1 year	1 year– 3 years	3 years– 5 years	After 5 years	Total
Derivatives	W 27,384	W 20,819	W 84,758	W 1,787	W 5,330	W 140,078

(4) Market risk

Market risk is the risk of possible losses on trading positions resulting from changes in market factors, such as interest rate, stock price, foreign exchange rate and market value of instruments. The Group's approach to hedge or mitigate market risk includes internal processes, such as root cause analysis for each risk factor, measurement of the risk factors and appropriateness test on its risk management methods. The Group calculates 10-day Value at Risk ("VaR") using the variance-covariance method and a 99.5% confidence level when calculating market risk.

The Risk Management Council annually sets VaR limits, position limits and loss limits of each division and instrument. Compliance of such limits is monitored daily and reported to the management and the Risk Management Council on a regular basis.

The Standardized Approach and the internal model (VaR) are used to estimate market risk. The Standardized Approach is used to calculate the required capital from market risk, and the internal model is used to manage risks internally.

1) The following tables show VaR (Unit: Korean won in millions):

	December 31, 2017			
	Maximum	Minimum	Average	Ending balance
Interest rate risk	W 584	W 126	W 352	W 302
Stock price risk	1,538	139	791	1,483
Foreign exchange rate risk	1,867	9	155	203
Diversification	(2,199)	36	(335)	(381)
Total VaR	W 1,790	W 310	W 963	W 1,607

	December 31, 2016			
	Maximum	Minimum	Average	Ending balance
Interest rate risk	W 547	W 460	W 513	W 464
Stock price risk	145	-	69	140
Foreign exchange rate risk	415	117	247	234
Diversification	(402)	(54)	(249)	(285)
Total VaR	W 705	W 523	W 580	W 553

2) The following table shows interest rate VaR and Earnings at Risk ("EaR") (Unit: Korean won in millions):

	December 31, 2017	December 31, 2016	Increase (decrease)
Interest rate VaR	W 58,168	W 50,497	W 7,671
Interest rate EaR	99,026	62,822	36,204

3) Details of assets and liabilities denominated in foreign currency, which are then converted into Korean won, are as follows (Unit: Korean won in millions):

	December 31, 2017					
	USD	EUR	JPY	GBP	Others	Total
Cash and due from banks	W 574,301	W 12,612	W 21,854	W 2,132	W 4,113	W 615,012
Loans and receivables	926,355	36,750	84,303	1,084	1,073	1,049,565
HTM financial assets	105,573	-	-	-	-	105,573
Other assets	759,992	30,016	74,220	1,128	3,281	868,637
Total	W 2,366,221	W 79,378	W 180,377	W 4,344	W 8,467	W2,638,787
Deposits	W 500,570	W 8,471	W 23,949	W 194	W 1,300	W534,484
Borrowings	721,186	13,667	78,824	-	7	813,684
Corporate bonds	385,014	-	-	-	-	385,014
Other liabilities	242,137	27,237	5,684	3	198	275,259
Total	W 1,848,907	W 49,375	W 108,457	W 197	W 1,505	W 2,008,441
Off-statement-of-financial-position items	W 975,964	W 27,565	W 21,603	W 168	W 130	W 1,025,430

	December 31, 2016					
	USD	EUR	JPY	GBP	Others	Total
Cash and due from banks	W 212,866	W 14,017	W 18,114	W 237	W 5,527	W 250,761
Loans and receivables	1,365,357	50,297	131,343	3,187	1,563	1,551,747
HTM financial assets	110,134	-	-	-	-	110,134
Other assets	121,049	9,002	5,567	-	122	135,740
Total	W 1,809,406	W 73,316	W 155,024	W 3,424	W 7,212	W 2,048,382
Deposits	W 355,823	W 9,142	W 9,275	W 356	W 1,858	W 376,454
Borrowings	573,217	13,290	141,092	-	137	727,736
Corporate bonds	798,275	-	-	-	-	798,275
Other liabilities	90,130	50,603	5,777	3,125	250	149,885
Total	W 1,817,445	W 73,035	W 156,144	W 3,481	W 2,245	W 2,052,350
Off-statement-of-financial-position items	W 1,291,961	W 24,281	W 19,073	W 897	W 392	W 1,336,604

(5) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Events are classified into seven categories: a) internal fraud; b) external fraud; c) employment practices and workplace safety; d) clients/products and business practices; e) damage to physical assets; f) business disruption and system failure; and g) execution, delivery and process management.

To fulfill its purpose to control or mitigate operational risk, the Group sets risk limits, assesses the feasibility of its control strategies and selects appropriate approaches suitable for operational risk. The approaches include internal processes, such as identification of controls over operational risk, assessment of the effectiveness of the controls, data management, measurement of operational risk and ongoing monitoring of operational risk.

(6) Capital management

The Group monitors and manages internal capital, which supports various risks and ensures that the Group continues to engage in its businesses. Internal capital is the amount of capital to prevent the inability of payment due to unexpected loss in the future.

The purpose of monitoring capital is to monitor the soundness of finance and provide risk-adjusted basis for performance review by comparing internal capital and available capital (actual amount of available capital).

The Group adopts Basel III, which is the standard of capital regulation of the Basel Committee on Banking Supervision of Bank for International Settlement ("BIS").

The Group's BIS capital ratios, which are calculated based on the consolidated financial statements, are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Total risk-adjusted capital	₩	2,807,127	₩	2,926,446
Tier 1 common capital		2,113,351		2,050,099
Other Tier 1 capital		199,799		199,799
Tier 2 capital		493,977		676,548
Total risk-weighted assets		19,285,026		18,762,698
Risk-weighted assets for credit risk		18,317,722		17,901,385
Risk-weighted assets for operational risk		867,520		784,711
Risk-weighted assets for market risk		99,784		76,602
Capital adequacy ratio (%)				
Common equity Tier 1 ratio (%)		10.96		10.93
Tier 1 capital ratio (%)		11.99		11.99
Total capital ratio (%)		14.56		15.60

The Group meets the minimum capital requirements (capital stock-common ratio of 5.75%, Tier 1 capital ratio of 7.25% and total capital ratio of 9.25%) as described in the above table.

5. OPERATING SEGMENTS

The Group's reporting segments comprise the following customers: marketing, funds, investment banking and others. The Group classifies reporting segments based on its management organization.

Operations by division are as follows (Unit: Korean won in millions):

	2017						
	Operations	Capital	Investment	Others	Subtotal	Adjustment	K-IFRS
Net interest income	W 542,110	W (73,141)	W 15,159	W 57,331	W 541,459	W 5,202	W 546,661
Interest income	990,490	96,003	38,394	85,575	1,210,462	(259,338)	951,124
(Interest income earned from external customers)	765,540	70,020	38,394	71,276	945,230	5,894	951,124
Interest expense	(448,380)	(169,144)	(23,235)	(28,244)	(669,003)	264,540	(404,463)
(Interest expense related to external customers)	(273,960)	(108,133)	-	(21,678)	(403,771)	(692)	(404,463)
Net fee income	55,697	637	10,976	(13,267)	54,043	(21,369)	32,674
Fee income	62,234	813	10,976	(13,260)	60,763	(12,364)	48,399
Fee expense	(6,537)	(176)	-	(7)	(6,720)	(9,005)	(15,725)
Net gain (loss) on financial instruments	-	9,777	(12,896)	515	(2,604)	2,576	(28)
Bad debt expense	(49,204)	517	(2,749)	45,837	(5,599)	3,645	(1,954)
Other operating income	(263,922)	(6,661)	(3,571)	(22,629)	(296,783)	667	(296,116)
Operating income	284,681	(68,871)	6,919	67,787	290,516	(9,279)	281,237
Non-operating income	(1,288)	-	-	(26,427)	(27,715)	84	(27,631)
Net income before income tax expense	283,393	(68,871)	6,919	41,360	262,801	(9,195)	253,606
Income tax expense	(68,581)	16,666	(1,674)	(10,009)	(63,598)	5,172	(58,426)
Net income	214,812	(52,205)	5,245	31,351	199,203	(4,023)	195,180
Total assets	37,034,856	11,388,246	945,100	3,778,597	53,146,799	(21,116,401)	32,030,398
Total liabilities	37,034,856	11,216,012	944,302	1,436,995	50,632,165	(21,054,569)	29,577,596

	2016						
	Operations	Capital	Investment	Others	Subtotal	Adjustment	K-IFRS
Net interest income	W 41,206	W (6,018)	W 1,167	W 6,344	W 42,699	W 1,854	W 44,553
Interest income	72,366	6,971	3,115	11,205	93,657	(18,271)	75,386
(Interest income earned from external customers)	57,666	4,476	3,115	12,308	74,450	936	75,386
Interest expense	(31,160)	(12,989)	(1,948)	(4,861)	(50,958)	20,125	(30,833)
(Interest expense related to external customers)	(19,074)	(8,385)	-	(4,292)	(31,751)	918	(30,833)
Net fee income	3,803	65	148	74	4,090	(2,465)	1,625
Fee income	5,658	67	148	117	5,990	(2,090)	3,900
Fee expense	(1,855)	(2)	-	(43)	(1,900)	(375)	(2,275)
Net gain (loss) on financial instruments	-	480	(400)	(288)	(208)	1,615	1,407
Bad debt expense	(4,555)	-	(269)	3,762	(1,062)	(3,632)	(4,694)
Other operating income	(23,301)	(343)	(283)	3,024	(20,903)	(1,188)	(22,091)
Operating income	17,153	(5,816)	363	12,916	24,616	(3,816)	20,800
Non-operating income	(3,562)	(23)	(40)	978	(2,648)	18	(2,630)
Net income before income tax expense	13,591	(5,839)	323	13,894	21,968	(3,798)	18,170
Income tax expense	(3,289)	1,413	(78)	(3,504)	(5,458)	1,194	(4,264)
Net income	10,302	(4,426)	245	10,390	16,510	(2,604)	13,906
Total assets	30,718,198	8,324,722	982,589	5,616,897	45,642,406	(17,978,937)	27,663,469
Total liabilities	30,718,198	8,328,293	981,801	3,532,603	43,560,895	(18,182,024)	25,378,871

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(1) Accounting policy

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. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period.

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group determines the fair value using alternative assumptions and developing fair value measurement methods.

Alternative assumptions and fair value measurement methods for each type of financial instruments are as follows:

	Fair value measurement techniques	Alternative assumptions
Debt securities	Discounted Cash Flow ("DCF") Model is used to determine the fair value of debt securities.	Risk-free market rate, credit spread
Equity securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined by independent third-party pricing services when quoted prices are not available. Independent third-party pricing services determine the fair value of financial instruments using suitable valuation method in accordance with a nature of valuation objective among Binomial Tree, Dividend Discount Model and Net Asset Approach.	Risk-free market rate, market risk premium, beta, stock price, volatility
Beneficiary certificates	DCF Model is used to determine the fair value of beneficiary certificates in accordance with a nature of underlying asset.	Risk-free market rate, credit spread
Loans	DCF Model is used to determine the fair value of loans.	Risk-free market rate, credit spread, prepayment rate
Derivatives	For derivatives, quoted price in an active market is used to determine fair value. If there is no active market for derivatives, the fair value is determined using the valuations of independent third-party pricing services or internally developed valuation models.	Risk-free market rate, forward rate, foreign exchange rate, etc.
Deposits	The carrying amount of demand deposit is regarded as fair value, as it does not have maturity and the amount approximates the fair value. Fair value of time deposit is determined using the DCF Model.	Risk-free market rate, credit spread, prepayment rate
Borrowings	Carrying amount of overdraft in foreign currency is regarded as representative of fair value. Fair value of other borrowings is determined using the DCF Model.	Risk-free market rate, forward rate
Debenture	Fair value is determined using the valuations of independent third-party pricing services.	Risk-free market rate, forward rate

(2) Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the consolidated statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the consolidated statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there are a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses fair value of financial instruments into the following three-level hierarchy:

- Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest-level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

1) Hierarchy of financial assets and liabilities measured at fair value is as follows (Unit: Korean won in millions):

	December 31, 2017			
	Level 1 (*1)	Level 2 (*1)	Level 3	Total
Financial assets				
Financial assets held for trading:	₩ 66,035	₩ 180,612	₩ -	₩ 246,647
Equity securities	26,367	-	-	26,367
Debt securities	39,668	180,557	-	220,225
Beneficiary certificates	-	55	-	55
Financial assets at FVTPL:	-	-	119	119
Equity securities	-	-	119	119
AFS financial assets:	697,544	2,216,646	13,156	2,927,346
Equity securities	1,165	-	13,156	14,321
Debt securities	696,379	2,216,646	-	2,913,025
Derivative assets	-	82,653	-	82,653
Total	₩ 763,579	₩ 2,479,911	₩ 13,275	₩ 3,256,765
Financial liabilities:				
Derivative liabilities	₩ -	₩ 89,149	₩ -	₩ 89,149

	December 31, 2016			
	Level 1 (*1)	Level 2 (*1)	Level 3	Total
Financial assets				
Financial assets held for trading:	₩ 73,500	₩ 221,083	₩ -	₩ 294,583
Equity securities	1,440	-	-	1,440
Debt securities	72,060	220,973	-	293,033
Beneficiary certificates	-	110	-	110
Financial assets at FVTPL:	-	40,190	120	40,310
Equity securities	-	-	120	120
Beneficiary certificates	-	40,190	-	40,190
AFS financial assets:	490,627	1,880,286	23,258	2,394,171
Equity securities	12,419	-	23,258	35,677
Debt securities	478,208	1,880,286	-	2,358,494
Derivative assets	-	143,359	-	143,359
Total	₩ 564,127	₩ 2,284,918	₩ 23,378	₩ 2,872,423
Financial liabilities:				
Derivative liabilities	₩ -	₩ 140,078	₩ -	₩ 140,078

(*1) There were no significant transfers between Level 1 and Level 2 as of December 31, 2017 and 2016. The Group recognizes transfers between levels at the end of reporting period within which events have occurred or conditions have changed.

Financial assets and liabilities that do not disclose fair value information, even though K-IFRS requires them to be subsequently measured at their fair value, since they cannot be measured at fair value reliably are as follows (Unit: Korean won in millions):

	Details	December 31, 2017	December 31, 2016
AFS financial assets	Unlisted stocks (*1)	W 687	W 642

(*1) These unlisted stocks are the shares of institutions created by government and financial institutions, for disposing of non-performing assets of the financial institutions, and the shares issued by the conversion of investment of non-performing borrowers. They are measured at cost since it is difficult to obtain reliable financial information necessary to measure the fair value, or even if the information can be obtained, scope of fair value measurements is significant and the probability of occurrence of various estimates cannot be reliably assessed.

2) The valuation techniques and input variables of Level 2 financial instruments measured at fair value are as follows (Unit: Korean won in millions):

	Fair value		
	December 31, 2017	December 31, 2016	Valuation technique
Financial assets:			
Financial assets held for trading:			
Debt securities	W 180,557	W 220,973	DCF Model
Beneficiary certificates	55	110	DCF Model
Financial assets at FVTPL:			
Beneficiary certificates	-	40,190	DCF Model
AFS financial assets:			
Debt securities	2,216,646	1,880,286	DCF Model
Derivative assets	82,653	143,359	DCF Model
Total	W 2,479,911	W 2,284,918	
Financial liabilities:			
Derivative liabilities	W 89,149	W 140,078	DCF Model

3) The valuation techniques, input variables and significant unobservable inputs of Level 3 financial instruments, measured at fair value, are as follows (Unit: Korean won in millions):

	December 31, 2017				
	Fair value	Valuation techniques	Significant unobservable inputs	Range	Relationship between significant unobservable inputs and fair value
Financial assets at FVTPL:					
Equity securities (*1)	W 119	Binomial Tree	Stock price, volatility	W 3,453 12.15%	Fair value increases (decreases) when stock price and volatility increase (decrease)
AFS financial assets:					
Equity securities (*2)	13,156	Net Asset Value Method, Dividend Discount Model	Discount rate, growth rate	5.05%–20.51% 0%	Fair value increases (decreases) when discount rate decreases (increases)
Total	W 13,275				

	December 31, 2016				
	Fair value	Valuation techniques	Significant unobservable inputs	Range	Relationship between significant unobservable inputs and fair value
Financial assets at FVTPL:					
Equity securities (*1)	₩ 120	Binomial Tree	Stock price, volatility	₩3,286 17.44%	Fair value increases (decreases) when stock price and volatility increase (decrease)
AFS financial assets:					
Equity securities (*2)	23,258	Net Asset Value Method, Dividend Discount Model	Discount rate, growth rate	9.57%–18.49% 0%	Fair value increases (decreases) when discount rate decreases (increases)
Total	₩ 23,378				

(*1) Fair value change is calculated by increasing (decreasing) the stock price and volatility, which are significant unobservable inputs, by 10%.
(*2) Fair value change is calculated by increasing (decreasing) the discount rate or growth rate, which are significant unobservable inputs, by 100 basis points.

4) The effects of significant and unobservable inputs of Level 3 financial instruments on net income and other comprehensive income are as follows (Unit: Korean won in millions)

	December 31, 2017					
	Unobservable input variables	Rationally possible changes in unobservable input variables	Net income		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
Financial assets at FVTPL	Stock price volatility	+/- 10.0% +/- 10.0%	₩ 2	₩ (2)	₩ -	₩ -
AFS financial assets	Discount rate Growth rate	+/- 1.0% +/- 1.0%	250	(694)	1,049	(129)
Total			₩ 252	₩ (696)	₩ 1,049	₩ (129)

	December 31, 2016					
	Unobservable input variables	Rationally possible changes in unobservable input variables	Net income		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
Financial assets at FVTPL	Stock price volatility	+/- 10.0% +/- 10.0%	₩ 2	₩ 2	₩ -	₩ -
AFS financial assets	Discount rate Growth rate	+/- 1.0% +/- 1.0%	56	611	1,126	155
Total			₩ 58	₩ 613	₩ 1,126	₩ 155

5) The changes in Level 3 financial instruments that are measured at fair value are as follows (Unit: Korean won in millions):

	2017			
	Financial assets at FVTPL		AFS financial assets	
Beginning balance	₩	120	₩	23,258
Total comprehensive income:				
Net income (*1)		(1)		(13,708)
Other comprehensive income (*2)		-		3,913
Purchases		-		166
Disposals		-		(473)
Amounts reclassified from other levels to Level 3		-		-
Amounts reclassified from Level 3 to other levels		-		-
Ending balance	₩	119	₩	13,156

	2016			
	Financial assets at FVTPL		AFS financial assets	
Beginning balance	₩	-	₩	25,198
Total comprehensive income:				
Net income (*1)		-		(613)
Other comprehensive income (*2)		-		(1,723)
Purchases		120		396
Disposals		-		-
Amounts reclassified from other levels to Level 3		-		-
Amounts reclassified from Level 3 to other levels		-		-
Ending balance	W	120	W	23,258

(*1) Gains and losses recognized in profit or loss that are related to assets and liabilities held at the end of the reporting period are ₩13,711 million and ₩613 million, respectively. Gains and losses arising from changes in the fair value of these assets and liabilities are included in other non-operating income and other non-operating expenses, respectively (Note 30).

(*2) Gross gains and losses recognized in other comprehensive income are related to unlisted equity securities held at the end of 2017 and 2016. They are recognized as a change in the gain or loss on AFS financial assets (Note 10).

The Group recognizes movements between levels at the end of the reporting period in which events or changes in circumstances bring about movement between levels. There are no changes to the valuation techniques used to measure the fair value of financial instruments classified as Level 2 and Level 3 fair value measurements during the years ended and prior periods.

6) The book value and the fair value by hierarchy level of financial instruments subsequently not measured at fair value are as follows (Unit: Korean won in millions):

	December 31, 2017				
			Fair value hierarchy		
	Book value	Fair value	Level 1	Level 2 (*1)	Level 3
Financial assets					
Cash and due from banks	₩ 1,283,663	₩ 1,283,663	₩ 166,426	₩ -	₩ 1,117,237
Loans	25,323,729	25,375,086	-	-	25,375,086
HTM financial assets	1,276,285	1,096,368	25,617	965,179	105,572
Other financial assets	693,300	693,300	446,961	-	246,339
Total	₩ 28,576,977	₩ 28,448,417	₩ 639,004	₩ 965,179	₩ 26,844,234
Financial liabilities					
Deposits	₩ 21,279,863	₩ 21,262,072	₩ 4,604,765	₩ -	₩ 16,657,307
Borrowings (*1)	1,933,288	1,933,391	-	135,500	1,797,891
Debenture	5,224,625	5,234,118	-	5,234,118	-
Other financial liabilities	867,528	867,528	510,823	-	356,705
Total	₩ 29,305,304	₩ 29,297,109	₩ 5,115,588	₩ 5,369,618	₩ 18,811,903

	December 31, 2016				
			Fair value hierarchy		
	Book value	Fair value	Level 1	Level 2 (*1)	Level 3
Financial assets					
Cash and due from banks	₩ 692,785	₩ 692,785	₩ 124,792	₩ -	₩ 567,993
Loans	22,497,823	22,268,895	-	199,403	22,069,492
HTM financial assets	614,005	619,824	35,545	474,145	110,134
Other financial assets	812,678	812,678	593,838	-	218,840
Total	₩ 24,617,291	₩ 24,394,182	₩ 754,175	₩ 673,548	₩ 22,966,459
Financial liabilities					
Deposits	₩ 16,771,351	₩ 16,776,973	₩ 4,356,985	₩ -	₩ 12,419,988
Borrowings (*1)	2,150,548	2,150,876	-	155,900	1,994,976
Debenture	5,402,594	5,359,904	-	5,359,904	-
Other financial liabilities	786,120	786,120	517,051	-	269,069
Total	₩ 25,110,613	₩ 25,073,873	₩ 4,874,036	₩ 5,515,804	₩ 14,684,033

(*1) The carrying amount of financial instruments classified as Level 2 is regarded as fair value as the carrying amount is a reasonable approximation of fair value.

7) The valuation techniques and the input variables of Level 2 financial instruments subsequently not measured at fair value are as follows (Unit: Korean won in millions):

	Valuation techniques	Input variables
Loans	DCF Model	Discount rate
HTM financial assets:		
Debt securities	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Debenture	DCF Model	Discount rate

8) The valuation techniques, the input variables and the significant unobservable inputs of Level 3 financial instruments subsequently not measured at fair value are as follows (Unit: Korean won in millions):

	Valuation techniques	Significant unobservable inputs
Loans	DCF Model	Discount rate
HTM financial assets:		
Debt securities	DCF Model	Discount rate
Deposits	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate

(3) Carrying amount of financial instruments

Financial assets and liabilities are measured at either fair value or amortized cost. The carrying amounts of financial assets and liabilities measured at amortized cost are as follows (Unit: Korean won in millions):

	December 31, 2017				
	Financial assets at FVTPL	Loans	AFS securities	HTM securities	Total
Financial assets:					
Cash and due from banks	W -	W 1,283,663	W -	W -	W 1,283,663
Financial assets at FVTPL	246,766	-	-	-	246,766
Derivative financial instruments	82,653	-	-	-	82,653
Loans	-	25,323,729	-	-	25,323,729
Investment	-	-	2,927,346	1,276,285	4,203,631
Other financial assets	-	693,300	-	-	693,300
Total	W 329,419	W 27,300,692	W 2,927,346	W 1,276,285	W31,833,742

	December 31, 2017			
	Financial debt at FVTPL	Financial liabilities at amortized cost	Hedge derivatives	Total
Financial liabilities:				
Derivative financial instruments	W 88,426	W -	W 723	W 89,149
Deposits	-	21,279,863	-	21,279,863
Borrowings	-	1,933,288	-	1,933,288
Debenture	-	5,224,625	-	5,224,625
Other financial liabilities	-	867,528	-	867,528
Total	W 88,426	W 29,305,304	W 723	W 29,394,453

	December 31, 2016					
	Financial assets at FVTPL	Loans	AFS securities	HTM securities	Hedging derivatives	Total
Financial assets:						
Cash and due from banks	W -	W 692,785	W -	W -	W -	W 692,785
Financial assets at FVTPL	334,893	-	-	-	-	334,893
Derivative financial instruments	141,327	-	-	-	2,032	143,359
Loans	-	22,497,823	-	-	-	22,497,823
Investment	-	-	2,394,171	614,005	-	3,008,176
Other financial assets	-	812,678	-	-	-	812,678
Total	W 476,220	W 24,003,286	W 2,394,171	W 614,005	W 2,032	W 27,489,714

	December 31, 2016		
	Financial debt at FVTPL	Financial liabilities at amortized cost	Total
Financial liabilities:			
Derivative financial instruments	W 140,078	W -	W 140,078
Deposits	-	16,771,351	16,771,351
Borrowings	-	2,150,548	2,150,548
Debenture	-	5,402,594	5,402,594
Other financial liabilities	-	786,120	786,120
Total	W 140,078	W 25,110,613	W 25,250,691

(4) Transfers of financial assets

Details of asset and liability with transfers that do not qualify for derecognition are as follows:

	December 31, 2017		December 31, 2016	
	Amount of transferred asset	Amount of related liability	Amount of transferred asset	Amount of related liability
Bonds Sold under Repurchase Agreements ("RPs")	W 9,882	W -	W 10,060	W -

(5) The offset with financial assets and liabilities

At the end of reporting periods, the financial assets and liabilities to be set off, and may be covered by master netting agreements and similar agreements, are given as below:

Financial assets	December 31, 2017					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognized assets	Gross amounts of recognized liabilities set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and receivable spot exchange	W 505,260	W -	W 505,260	W 475,965	W 66	W 29,229
Domestic exchanges receivable	509,303	484,948	24,355	-	-	24,355
Total	W 1,014,563	W 484,948	W 529,615	W 475,965	W 66	W 53,584

Financial liabilities	December 31, 2017					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognized liabilities	Gross amounts of recognized assets set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and payable spot exchange	W 511,890	W -	W 511,890	W 475,289	W -	W 36,601
Domestic exchanges payable	573,030	484,948	88,082	-	-	88,082
Total	W 1,084,920	W 484,948	W 599,972	W 475,289	W -	W 124,683

7. CASH AND DUE FROM BANKS

(1) Cash and due from banks are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Cash	₩	130,497	₩	124,244
Cash demand deposits:				
Due from the Bank of Korea ("BOK")		553,989		489,497
Due from others		599,177		79,044
Subtotal		1,153,166		568,541
Total	₩	1,283,663	₩	692,785

(2) Restricted due from banks in Korean won and foreign currencies is as follows (Unit: Korean won in millions):

	December 31, 2017		Reason for restriction
Due from banks in Korean won:			
Reserve on deposit with BOK	₩	523,821	Deposits for liquidity management required under *BOK Act*
Customer deposit - beneficiary		3,093	Required under *Financial Investment Services and Capital Markets Act*
Due from banks in foreign currencies:			
Reserve on deposit with BOK		30,168	Deposits for liquidity management required under *BOK Act*
Total	₩	557,082	

(3) Details of due from banks are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Due from banks in Korean won:				
Reserve on deposit	₩	523,821	₩	337,013
Customer deposit - beneficiary		3,093		1,251
Others		35,966		548
		562,880		338,812
Due from banks in foreign currencies:				
Reserve on deposit		30,168		152,484
Others		560,118		77,245
		590,286		229,729
	₩	1,153,166	₩	568,541

8. FINANCIAL INSTRUMENTS DESIGNATED AS AT FVTPL

(1) Details of financial instruments designated as at FVTPL are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Equity securities in Korean won	W	119	W	120
Others		-		40,190
	W	119	W	40,310

The Group designates compound financial instruments with multiple embedded derivatives, which are permitted to be designated as at FVTPL in accordance with K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, as financial assets at FVTPL.

(2) Gains and losses related to financial assets at FVTPL are as follows (Unit: Korean won in millions):

	2017		2016	
Gains on financial instruments at FVTPL	W	167	W	194
Losses on financial instruments at FVTPL		(15)		(5)
Total	W	152	W	189

9. FINANCIAL ASSETS HELD FOR TRADING

(1) Details of financial assets held for trading are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Debt securities	W	220,225	W	293,033
Equity securities		26,367		1,440
Beneficial securities		55		110
Total	W	246,647	W	294,583

(2) Details of gains and losses related to financial assets held for trading are as follows (Unit: Korean won in millions):

	2017		2016	
Gains from financial assets held for trading:				
Trading gains	W	1,568	W	166
Gains on valuation		2,415		394
Dividend income		61		-
Subtotal		4,044		560
Losses from financial assets held for trading:				
Trading losses		(1,506)		(14)
Loss on valuation		(1,101)		-
Subtotal		(2,607)		(14)
Total	W	1,437	W	546

10. AFS FINANCIAL ASSETS AND HTM FINANCIAL ASSETS

(1) Details of AFS financial assets are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Debt securities:				
Government and public bonds	W	764,927	W	547,988
Financial institution bonds		1,095,812		927,982
Corporate bonds		1,052,286		882,524
Subtotal		2,913,025		2,358,494
Equity securities:				
Stocks		9,969		33,093
Equity investments		4,352		2,584
Subtotal		14,321		35,677
Total	W	2,927,346	W	2,394,171

(2) Changes in accumulated other comprehensive income (loss) of AFS securities are as follows (Unit: Korean won in millions):

	2017							
	Beginning balance		Increase (decrease)		Reclassification adjustments (*1)		Ending balance	
Equity securities	W	2,932	W	(9,450)	W	11,146	W	4,628
Debt securities		(3,796)		(10,046)		(1,996)		(15,838)
Subtotal		(864)	W	(19,496)	W	9,150		(11,210)
Deferred income tax effect		209						2,713
Total	W	(655)					W	(8,497)

(*1) W1,736 million was recognized in loss due to impairment of equity securities.

	2016							
	Beginning balance		Increase (decrease)		Reclassification adjustments (*1)		Ending balance	
Equity securities	W	4,325	W	(2,041)	W	648	W	2,932
Debt securities		(7,942)		4,096		50		(3,796)
Subtotal		(3,617)	W	2,055	W	698		(864)
Deferred income tax effect		875						209
Total	W	(2,742)					W	(655)

(*1) W200 million was recognized in loss due to impairment of equity securities.

(3) Details of HTM financial assets are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
HTM financial assets in Korean won:				
Government and public bonds	W	60,994	W	80,981
Financial institution bonds		80,000		50,000
Corporate bonds		1,029,718		372,890
Subtotal		1,170,712		503,871
HTM financial assets in foreign currencies:				
Debt securities		105,573		110,134
Total	W	1,276,285	W	614,005

(4) Gains and losses related to AFS financial assets and HTM financial assets are as follows (Unit: Korean won in millions):

	2017		2016	
Gains on disposal of AFS financial assets	₩	5,676	₩	226
Losses on disposal of AFS financial assets		(1,083)		(230)
Dividend income		333		2
Total	₩	4,926	₩	(2)

(5) Impairment losses related to AFS financial assets and HTM financial assets are as follows (Unit: Korean won in millions):

	2017		2016	
Impairment loss on AFS financial assets	₩	13,743	₩	613

11. LOANS

(1) Details of loans are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Corporate loans in Korean won	₩	14,431,949	₩	13,748,570
Household loans in Korean won		7,906,343		5,212,035
Public sector and other loans in Korean won		2,161,576		2,290,214
Call loans		-		199,403
Loans in foreign currencies		442,701		603,781
Interbank loans in Korean won		4,451		4,126
Domestic import usance		271,852		367,204
Bills bought in foreign currencies		318,565		355,596
Credit card loans		103,379		109,196
Privately placed corporate bonds		3,000		17,000
Others		1,531		3,190
Subtotal		25,645,347		22,910,315
Deferred loan origination cost (fee), net		14,983		15,331
Allowance for possible loan losses		(336,601)		(427,823)
Total	₩	25,323,729	₩	22,497,823

(2) Changes in allowance for possible loan losses are as follows (Unit: Korean won in millions):

	2017		2016	
Beginning balance	₩	427,823	₩	444,747
Loans written off and others		(70,495)		(5,837)
Recovery of bad debts and others		8,310		499
Provision for possible loan losses		687		3,995
Disposal of loans		(6,236)		(8,277)
Debt-to-equity swap bond		(12,118)		(2,828)
Others		(11,370)		(4,476)
Ending balance	₩	336,601	₩	427,823

(3) Changes in deferred loan origination cost (fee), net are as follows (Unit: Korean won in millions):

	2017							
	Beginning balance		Increase		Decrease		Ending balance	
Deferred loan origination fee	W	6,149	W	17,742	W	(15,726)	W	8,165
Deferred loan origination cost		21,480		29,744		(28,076)		23,148

	2016							
	Beginning balance		Increase		Decrease		Ending balance	
Deferred loan origination fee	₩	6,669	₩	905	₩	(1,425)	₩	6,149
Deferred loan origination cost		21,710		1,776		(2,006)		21,480

12. TANGIBLE ASSETS

(1) Tangible assets are as follows (Unit: Korean won in millions):

	December 31, 2017											
	Land		Building		Properties for business use		Structures in leased office		Construction in progress		Total	
Acquisition cost	W	36,010	W	26,625	W	116,823	W	3,144	W	1,435	W	184,037
Accumulated depreciation		-		(663)		(92,329)		(2,613)		-		(95,605)
Government subsidies		-		-		(24)		-		-		(24)
Net carrying value	W	36,010	W	25,962	W	24,470	W	531	W	1,435	W	88,408

	December 31, 2016											
	Land		Building		Properties for business use		Structures in leased office		Construction in progress		Total	
Acquisition cost	W	36,010	W	26,625	W	111,534	W	3,006	W	636	W	177,811
Accumulated depreciation		-		(51)		(88,844)		(2,494)		-		(91,389)
Government subsidies		-		-		(53)		-		-		(53)
Net carrying value	₩	36,010	₩	26,574	₩	22,637	₩	512	₩	636	₩	86,369

(2) Changes in tangible assets are as follows (Unit: Korean won in millions):

	2017											
	Land		Building		Properties for business use		Structures in leased office		Construction in progress		Total	
Beginning balance	₩	36,010	₩	26,574	₩	22,637	₩	512	₩	636	₩	86,369
Acquisition		-		-		9,565		-		1,435		11,000
Depreciation		-		(612)		(8,234)		(199)		-		(9,045)
Disposal		-		-		(134)		-		-		(134)
Reclassification		-		-		636		-		(636)		-
Others		-		-		-		218		-		218
Ending balance	W	36,010	W	25,962	W	24,470	W	531	W	1,435	W	88,408

	2016											
	Land		Building		Properties for business use		Structures in leased office		Construction in progress		Total	
Beginning balance	W	36,010	W	26,625	W	23,085	W	528	W	636	W	86,884
Acquisition		-		-		353		-		-		353
Depreciation		-		(51)		(800)		(16)		-		(867)
Disposal		-		-		(1)		-		-		(1)
Ending balance	W	36,010	W	26,574	W	22,637	W	512	W	636	W	86,369

13. INTANGIBLE ASSETS

(1) Intangible assets are as follows (Unit: Korean won in millions):

	2017									
	Development cost		Software		Others		Construction in progress		Total	
Beginning balance	W	8,834	W	3,825	W	4,522	W	2,443	W	19,624
Acquisition		3,103		741		1,253		6,903		12,000
Depreciation		(5,287)		(1,108)		(258)		-		(6,653)
Government subsidies		138		-		-		-		138
Reclassification		4,265		768		11		(5,044)		-
Ending balance	W	11,053	W	4,226	W	5,528	W	4,302	W	25,109

	2016									
	Development cost		Software		Others		Construction in progress		Total	
Beginning balance	W	10,416	W	3,912	W	4,543	W	2,443	W	21,314
Depreciation		(1,720)		(87)		(21)		-		(1,828)
Government subsidies		138		-		-		-		138
Ending balance	W	8,834	W	3,825	W	4,522	W	2,443	W	19,624

(2) Changes in intangible assets with indefinite useful lives are as follows (Unit: Korean won in millions):

	2017		2016	
Beginning balance	W	1,022	W	1,022
Acquisition		1,209		-
Ending balance	W	2,231	W	1,022

14. INVESTMENT PROPERTIES

(1) Investment properties are as follows (Unit: Korean won in millions):

	December 31, 2017					
	Land		Building		Total	
Acquisition cost	W	18,496	W	2,940	W	21,436
Accumulated depreciation		-		(97)		(97)
Net carrying value	W	18,496	W	2,843	W	21,339

	December 31, 2016					
	Land		Building		Total	
Acquisition cost	W	18,496	W	2,940	W	21,436
Accumulated depreciation		-		(8)		(8)
Net carrying value	W	18,496	W	2,932	W	21,428

(2) Changes in investment properties are as follows (Unit: Korean won in millions):

	2017					
	Land		Building		Total	
Beginning balance	W	18,496	W	2,932	W	21,428
Depreciation		-		(89)		(89)
Ending balance	W	18,496	W	2,843	W	21,339

	2016					
	Land		Building		Total	
Beginning balance	₩	18,496	₩	2,940	₩	21,436
Depreciation		-		(8)		(8)
Ending balance	₩	18,496	₩	2,932	₩	21,428

(3) Gains and losses related to investment properties are as follows (Unit: Korean won in millions):

	2017		2016	
Rental income earned from investment properties	₩	527	₩	43
Direct operating expenses for investment properties that generated rental income		(89)		(8)
Total	₩	438	₩	35

(4) The fair values of investment property are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Investment property	₩	21,436	₩	21,436

15. OTHER FINANCIAL ASSETS

(1) Details of other financial assets are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Accounts receivable	₩	435,080	₩	160,606
Guarantee deposits		164,015		155,902
Unsettled exchange credit		24,355		450,892
Sundry assets		77,162		52,894
Subtotal		700,612		820,294
Present value of discount		(6,535)		(6,567)
Allowance for other financial asset losses		(777)		(1,049)
Total	₩	693,300	₩	812,678

(2) Changes in allowance for other financial asset losses are as follows (Unit: Korean won in millions):

	2017		2016	
Beginning balance	₩	1,049	₩	1,025
Loans written off		(159)		(8)
Recovery of depreciable assets		-		2
Provision for (reversal of) possible loan losses		(105)		87
Disposal		(17)		(49)
Others		9		(8)
Ending balance	₩	777	₩	1,049

16. DERIVATIVES AND HEDGE ACCOUNTING

(1) Details of derivatives held for hedging are as follows (Unit: Korean won in millions):

	December 31, 2017			December 31, 2016		
	Unpaid commitments	Asset	Liability	Unpaid commitments	Asset	Liability
Fair value of hedging instruments:						
Interest rate swap	₩ 321,420	₩ -	₩ 723	₩ 725,100	₩ 2,032	₩ -

(2) Details of derivatives held for trading are as follows (Unit: Korean won in millions):

	December 31, 2017			December 31, 2016		
	Unpaid commitments	Asset	Liability	Unpaid commitments	Asset	Liability
Interest rate:						
Interest rate swaps	₩ 364,900	₩ 4,307	₩ 4,094	₩ 282,700	₩ 7,618	₩ 7,364
Interest rate futures	-	-	-	10,948	-	-
Subtotal	364,900	4,307	4,094	293,648	7,618	7,364
Currency:						
Currency futures	3,324,711	55,161	61,359	2,558,258	40,909	40,654
Currency swaps	1,217,110	23,185	22,973	1,839,337	92,800	92,060
Subtotal	4,541,821	78,346	84,332	4,397,595	133,709	132,714
Total	W 4,906,721	W 82,653	W 88,426	4,691,243	W 141,327	W 140,078

(3) Gains and losses on valuation of derivatives held for hedging are as follows (Unit: Korean won in millions):

	2017	2016
Gains and losses from fair value hedged items	₩ 2,908	₩ 1,532
Gains and losses from fair value hedging instruments	(2,598)	(1,457)
Total	₩ 310	₩ 75

(4) Gains and losses on valuation or transaction of derivatives held for trading as follows (Unit: Korean won in millions):

	Gain on valuation		Loss on valuation		Gain on transaction		Loss on transaction	
	2017	2016	2017	2016	2017	2016	2017	2016
Interest rate:								
Interest rate swaps	₩ 3,405	₩ 387	₩ 3,445	₩ 392	₩ 3,310	₩ 356	₩ 3,236	₩ 384
Currency:								
Currency futures	47,636	25,754	54,201	24,308	198,390	16,716	184,684	16,186
Currency swaps	70,139	32,798	70,257	32,799	21,458	1,163	21,315	1,127
Subtotal	117,775	58,552	124,458	57,107	219,848	17,879	205,999	17,313
Total	₩ 121,180	₩ 58,939	₩ 127,903	₩ 57,499	₩ 223,158	₩ 18,235	₩ 209,235	₩ 17,697

17. DEPOSITS

(1) Details of deposits are as follows (Unit: Korean won in millions):

	December 31, 2017	December 31, 2016
Demand deposits:		
Deposits in Korean won	₩ 1,985,674	₩ 1,642,486
Deposits in foreign currencies	207,125	133,149
Subtotal	2,192,799	1,775,635
Demand saving deposits:		
Deposits in Korean won	2,412,908	2,582,093
Time deposits:		
Deposits in Korean won	14,179,352	10,192,653
Deposits in foreign currencies	327,358	243,306
Subtotal	14,506,710	10,435,959
Certificates of deposit	2,167,446	1,977,664
Total	₩ 21,279,863	₩ 16,771,351

18. BORROWINGS

(1) Details of borrowings are as follows (Unit: Korean won in millions):

	December 31, 2017		
	Lender	Annual interest rate (%)	Amount
Borrowings in Korean won:			
BOK borrowings	BOK	0.50–0.75	₩ 94,554
Financial fund borrowings	Ministry of Strategy and Finance	1.45	62,600
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00–2.75	52,510
Fisheries development fund borrowings	Fisheries Development Fund	0.00–4.36	602,883
Other borrowings	Ministry of Culture, Sports and Tourism, etc.	0.00–2.80	307,076
			1,119,623
Borrowings in foreign currencies	Oversea-Chinese Banking Corporation Seoul and others	0.00–2.04	813,665
Total			₩ 1,933,288

	December 31, 2016		
	Lender	Annual interest rate (%)	Amount
Borrowings in Korean won:			
BOK borrowings	BOK	0.50–0.75	₩ 96,430
Financial fund borrowings	Ministry of Strategy and Finance	0.79	107,960
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00–2.75	65,812
Fisheries development fund borrowings	Fisheries Development Fund	0.00–4.36	573,125
Other borrowings	Ministry of Culture, Sports and Tourism, etc.	0.00–3.28	579,616
			1,422,943
Borrowings in foreign currencies	Oversea-Chinese Banking Corporation Seoul and others	0.00–1.90	727,605
Total			₩ 2,150,548

19. DEBENTURES

(1) Details of debentures are as follows (Unit: Korean won in millions):

	December 31, 2017			
	Lender	Annual interest rate (%)		Amount
Debentures in Korean won:				
Subordinated debentures	Financial institutions	5.15	₩	150,000
Ordinary debentures	Financial institutions	1.27–3.13		4,710,222
Discounts on debentures				(19,832)
				4,840,390
Debentures in foreign currencies:				
Ordinary debentures	Deutsche Bank	2.60–3.50, Six-Month LIBOR + 1.05		385,015
Discounts on debentures				(780)
				384,235
Total			₩	5,224,625

	December 31, 2016			
	Lender	Annual interest rate (%)		Amount
Debentures in Korean won:				
Subordinated debentures	Financial institutions	5.15	₩	150,000
Ordinary debentures	Financial institutions	1.28–9.60		4,470,223
Discounts on debentures				(15,903)
				4,604,320
Debentures in foreign currencies:				
Ordinary debentures	Deutsche Bank	2.60–3.50, Six-Month LIBOR + 1.05		799,827
Discounts on debentures				(1,553)
				798,274
Total			W	5,402,594

(2) To hedge risks associated with changes in fair value of debentures denominated in foreign currency due to interest rate fluctuations. the Group applies fair value hedge accounting to such debentures. The carrying amounts of hedged items as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

		Face value		Amortized cost		Accumulated gain (loss) on fair value hedge		Book value
December 31, 2017	₩	321,420	₩	320,641	₩	(690)	₩	319,951
December 31, 2016		725,100		723,549		2,218		725,767

20. OTHER FINANCIAL LIABILITIES

Details of other financial liabilities are as follows (Unit: Korean won in millions):

		December 31, 2017		December 31, 2016
Accounts payable	₩	455,482	₩	177,235
Accrued expenses		44,949		18,536
Suspense receipts		7,521		2,097
Accrued interest		170,858		123,085
Borrowings from trust accounts		51,210		43,390
Domestic exchanges settlement account-credit		88,082		373,855
Guarantee deposits for agency affairs		8,413		16,407
Deposits received		17,197		15,118
Others		23,816		16,397
Total	₩	867,528	₩	786,120

21. PROVISIONS

(1) Details of provisions are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Provision for guarantee	₩	2,133	₩	1,585
Provision for loan commitments		6,727		5,817
Asset retirement obligation		4,458		4,339
Provision for credit card points		26		120
Provision for financial guarantee		14		10
Other provisions		882		1,332
Total	₩	14,240	₩	13,203

(2) Changes in provisions are as follows (Unit: Korean won in millions):

	2017													
	Provision for guarantee		Provision for loan commitments		Asset retirement obligation		Provision for credit card points		Provision for financial guarantee		Other provisions		Total	
Beginning balance	W	1,585	W	5,817	W	4,339	W	120	W	10	W	1,332	W	13,203
Provided		658		1,082		64		-		4		-		1,808
Reversal		-		-		-		(88)		-		(349)		(437)
Used		(110)		(172)		(68)		(6)		-		(101)		(457)
Others		-		-		123		-		-		-		123
Ending balance	₩	2,133	₩	6,727	₩	4,458	₩	26	₩	14	₩	882	₩	14,240

	2016													
	Provision for guarantee		Provision for loan commitments		Asset retirement obligation		Provision for credit card points		Provision for financial guarantee		Other provisions		Total	
Beginning balance	W	1,512	W	5,085	W	4,334	W	60	W	9	W	1,513	W	12,513
Provided		55		685		5		60		1		239		1,045
Reversal		(14)		-		-		-		-		(420)		(434)
Others		32		47		-		-		-		-		79
Ending balance	₩	1,585	₩	5,817	₩	4,339	₩	120	₩	10	₩	1,332	₩	13,203

22. NET DEFINED BENEFIT LIABILITY

(1) The Group operates a defined benefit pension plan, and its own characteristics are as follows:

- The obligation of the Group is to pay promised retirement benefits to the existing and former employees.
- The Group will have the actuarial risk (the risk that actual benefits exceed expected benefits) and the investment risk.

The net defined benefit liability recognized in the consolidated statements of financial position is calculated in accordance with actuarial valuation methods using data, such as interest rates, future salary increase rate and mortality rate, based on historical data. Actuarial assumptions may differ from actual results due to changes in the market, economic trends and mortality trends.

(2) Changes in defined benefit obligations and plan assets are as follows (Unit: Korean won in millions):

	2017					
	Defined benefit obligations		Plan assets		Net defined benefit liabilities	
Beginning balance	W	106,956	W	(8,234)	W	98,722
Current service cost		12,617		-		12,617
Amount retained for dispatch staff		46		-		46
Interest expense (income)		3,483		(390)		3,093
Subtotal		123,102		(8,624)		114,478
Retirement benefit paid		(5,052)		190		(4,862)
Others		(2,340)		250		(2,090)
Ending balance	W	115,710	W	(8,184)	W	107,526

	2016					
	Defined benefit obligations		Plan assets		Net defined benefit liabilities	
Beginning balance	W	110,065	W	(8,315)	W	101,750
Current service cost		1,110		-		1,110
Interest expense (income)		260		(25)		235
Subtotal		111,435		(8,340)		103,095
Retirement benefit paid		(1,679)		87		(1,592)
Others		(2,800)		19		(2,781)
Ending balance	W	106,956	W	(8,234)	W	98,722

(3) Details of net defined benefit liability are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Present value of defined benefit obligations	W	115,710	W	106,956
Fair value of plan assets		(8,184)		(8,234)
Net defined benefit liability	W	107,526	W	98,722

(4) Details of retirement benefit are as follows (Unit: Korean won in millions):

	2017		2016	
Current service cost	W	12,617	W	1,110
Net interest income of net defined benefit liability		3,093		235
Total	W	15,710	W	1,345

(5) The remeasurement factors recognized in other comprehensive income are as follows (Unit: Korean won in millions):

	2017		2016	
Actuarial gains and losses due to changes in demographic assumptions	W	-	W	(2)
Actuarial gains and losses due to changes in financial assumptions		3,319		(292)
Actuarial gains and losses due to differences between assumptions and actual results		(1,229)		3,075
Subtotal		2,090		2,781
Tax effects		(506)		(673)
Factor of remeasurement after tax deduction	W	1,584	W	2,108

(6) Key actuarial assumptions used in defined benefit liability assessment are as follows (Unit: Korean won in millions):

	December 31, 2017	December 31, 2016	Reference
Discount rate	3.62%	3.33%	Based on the yield of AA0 corporate bonds
Future salary increase rate	2.00%	2.00%	(*)

(*) The rate is calculated based on the average of salary increase rate, including promotion rate of employees aged between 30 and retirement age.

(7) The sensitivity to actuarial assumptions used in the assessment of defined benefit obligation is as follows (Unit: Korean won in millions):

		Increases		Decreases	
Discount rate	Changes by 1% point	W	(10,387)	W	12,104
Future wage growth rate	Changes by 1% point	₩	12,111	₩	(10,569)

(8) The maturity analysis of future non-discounted retirement benefit payments is as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Less than 1 year	₩	4,079	₩	691
More than 1 year – Less than 2 years		5,072		1,475
More than 2 years – Less than 5 years		22,935		12,949
More than 5 years – Less than 10 years		49,576		44,059
More than 10 years		171,090		94,930
Total	W	252,752	W	154,104

23. SHAREHOLDERS' EQUITY

(1) CAPITAL STOCK

Details of capital stock are as follows:

	December 31, 2017		December 31, 2016	
Authorized shares of common stock		500,000,000 shares		500,000,000 shares
Par value	W	5,000	W	5,000
Issued shares of common stock		132,000,000 shares		132,000,000 shares

(2) HYBRID SECURITIES

The bond-type hybrid securities classified as owner's equity are as follows (Unit: Korean won in millions):

December 31, 2017

Issuance date	Maturity date	Amount		Annual interest rate
2008-03-12	2038-03-12	W	100,000	7.36%
2013-06-12	2043-06-12		100,000	4.65%

December 31, 2016

Issuance date	Maturity date	Amount		Annual interest rate
2008-03-12	2038-03-12	₩	100,000	7.36%
2013-06-12	2043-06-12		100,000	4.65%

With respect to the hybrid securities issued, the contractual agreements allow the Group to indefinitely extend the maturity date and defer the payment of interest. If the Group makes a resolution to not pay dividends on common stock, the Group is exonerated from interest payment on the hybrid securities.

(3) CAPITAL SURPLUS

Details of capital surplus are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Capital in excess of par value (*1)	₩	1,157,319	₩	1,178,619
Others		1,852		1,852
Total	₩	1,159,171	₩	1,180,471

(*1) W21,300 million was reclassified as retained earnings for reserve for bad loan for the year ended December 31, 2017, and ₩230,000 million was reclassified as retained earnings for preparation of dividend finance for the period from December 1, 2016 (inception), to December 31, 2016.

(4) ACCUMULATED OTHER COMPREHENSIVE INCOME

Details of accumulated other comprehensive income are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Gain on valuation of AFS financial assets	₩	(8,497)	₩	(655)
Remeasurement of the net defined benefit liability		3,692		2,108
Total	₩	(4,805)	₩	1,453

(5) RETAINED EARNINGS

1) Details of retained earnings are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Legal reserve	W	1,404	W	-
Voluntary reserve		190,104		-
Regulatory reserve for credit loss		64,099		-
Unappropriated retained earnings		183,030		242,875
Total	₩	438,637	₩	242,875

In accordance with the Banking Act, legal reserve is appropriated at least one-tenth of the earnings after tax on every dividend declaration, not exceeding the paid-in capital. This reserve may not be used other than for offsetting a deficit or transferring to capital.

In accordance with paragraphs 1 and 2 of Article 29 of the Regulation on Supervision of Banking Business ("RSBB"), if provisions for credit loss under K-IFRS for the accounting purpose are lower than provisions under RSBB, the Group discloses such shortfall amount as regulatory reserve for credit loss.

In accordance with paragraphs 1 and 2 of Article 29 of the RSBB, if the estimated provisions for credit loss under K-IFRS for the accounting purpose are lower than those in accordance with the provisions under the RSBB, the Group shall disclose the difference as the planned regulatory reserve for credit loss.

2) REGULATORY RESERVE FOR CREDIT LOSS

Regulatory reserve for credit loss is calculated and disclosed in accordance with paragraphs 1 and 2 of Article 29 of the RSBB.

Balance of the planned regulatory reserve for credit loss is as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Beginning balance	W	64,099	W	-
Estimated regulatory reserve for credit loss		72,696		64,099
Ending balance	W	136,795	W	64,099

Provision for regulatory reserve for credit loss, net income adjusted for regulatory reserve for credit loss and EPS adjusted for regulatory reserve are as follows (Unit: Korean won in millions, except EPS):

	2017		2016	
Net income before the provision of regulatory reserve for credit	W	195,180	W	13,906
Provision for (reversal of) regulatory reserve for credit loss (*1)		(72,696)		(4,843)
Net income adjusted for regulatory reserve (*2)		122,484		9,063
EPS adjusted for regulatory reserve in Korean won		837		61

(*1) The amount is calculated using W64,099 million of reserve for credit loss included in unappropriated retained earnings for the year ended December 31, 2017, and W59,256 million included in capital surplus for the period from December 1, 2016 (inception), to December 31, 2016.

(*2) Net income and EPS after reserve for bad debts are not in accordance with K-IFRS, but are calculated on the assumption that provision or reversal of reserve for bad debts before income tax effect is adjusted to the net income.

24. NET INTEREST INCOME

Details of net interest income are as follows (Unit: Korean won in millions):

	2017		2016	
Interest income:				
Due from banks	W	2,195	W	19
Loans		885,896		70,522
Financial assets held for trading		4,334		545
AFS financial assets		40,665		3,329
HTM financial assets		18,034		971
Subtotal		951,124		75,386
Interest expense:				
Deposits		273,553		19,106
Borrowings		29,756		2,554
Debentures		95,486		8,711
Others		5,668		462
Subtotal		404,463		30,833
Net interest income	₩	546,661	₩	44,553

25. NET FEES AND COMMISSIONS INCOME

Details of net fees and commissions income are as follows (Unit: Korean won in millions):

	2017		2016	
Fees and commissions income:				
Fees and commissions received for guarantee	₩	2,595	₩	255
Fees and commissions received		44,976		3,597
Fees and commissions received on credit card		802		48
Charge on securities lent		26		-
Subtotal		48,399		3,900
Fees and commissions expense:				
Fees paid in Korean won		10,662		784
Commission paid in foreign currency		1,433		158
Credit card commissions		3,493		1,327
Fees and commissions paid to financial instruments measured at fair value		137		6
Subtotal		15,725		2,275
Net fees and commissions income	₩	32,674	₩	1,625

26. DIVIDEND INCOME

Details of dividend income are as follows (Unit: Korean won in millions):

	2017		2016	
Dividend from financial instruments held for trading	₩	61	₩	-
Dividend from AFS financial assets		333		2
Total	₩	394	₩	2

27. NET OTHER OPERATING INCOME

Details of net other operating income are as follows (Unit: Korean won in millions):

	2017		2016	
Other operating income:				
Gain on disposal of loans	₩	5,504	₩	6,382
Gain on fair value of hedged items		2,908		1,532
Gain on cooperative insurance service special account		6,828		565
Gain on trust account		6,109		514
Gain on effect of exchange rate fluctuations		-		361
Others		1,224		246
Subtotal		22,573		9,600
Other operating expense:				
Loss on disposal of loans		7,250		1,108
Loss on derivatives for hedging purposes		2,598		1,457
Contribution to fund		31,055		2,405
Deposit insurance		23,604		1,717
Loss on cooperative insurance service special account		1,695		140
Loss on effect of exchange rate fluctuations		1,423		2,231
Others		2,527		429
Subtotal		70,152		9,487
Net operating income	₩	(47,579)	₩	113

28. GENERAL AND ADMINISTRATIVE EXPENSES

Details of general and administrative expenses are as follows (Unit: Korean won in millions):

		2017		2016
Salaries	₩	140,392	₩	9,448
Retirement benefit service costs		12,617		1,110
Termination benefit		6,022		2,729
Employee benefits		15,816		956
Rent expenses		12,997		1,047
Depreciation expense of tangible assets		9,045		867
Depreciation expense of investment properties		89		8
Amortization of intangible assets		6,515		1,690
Taxes and dues		7,783		662
Advertising		3,352		759
Computer- and information technology-related expenses		6,005		746
Service fee		6,225		515
Supplies expense		665		60
Printing expenses		765		53
Communication expenses		5,311		498
Event expenses		247		39
Vehicle maintenance expenses		976		69
Electricity and water expenses		1,286		104
Others		12,429		844
Total	₩	248,537	₩	22,204

29. NET OTHER NON-OPERATING INCOME (LOSS)

Details of net other non-operating income (loss) are as follows (Unit: Korean won in millions):

		2017		2016
Other non-operating income:				
Contribution income	₩	4,167	₩	692
Rental income		650		43
Others		1,098		732
Subtotal		5,915		1,467
Other non-operating expense:				
Loss on disposal of fixed assets		134		1
Common administrative contributions		3,704		500
Others		29,708		3,596
Subtotal		33,546		4,097
Net non-operating loss	₩	(27,631)	₩	(2,630)

30. INCOME TAX EXPENSE

(1) Details of income tax expenses are as follows (Unit: Korean won in millions):

		2017		2016
Current tax expense in respect of the current year	W	72,234	W	11,801
Changes in deferred tax due to temporary differences		(15,806)		(6,198)
Subtotal		56,428		5,603
Income tax expense directly charged or credited to equity		1,998		(1,339)
Income taxes	W	58,426	W	4,264

(2) Income tax expense reconciled to net income before income tax expense is as follows (Unit: Korean won in millions):

		2017		2016
Net income before income tax expense (A)	W	253,606	W	18,170
Tax calculated at statutory tax rate		60,866		4,359
Adjustments:				
Effect of income that is exempt from taxation		(2,907)		(250)
Effect of expense not deductible in determining taxable profit		636		14
Others		(169)		141
Income tax expense (B)	W	58,426	W	4,264
Effective tax rate (B/A)		23.04%		23.47%

(3) Unrealizable temporary differences are as follows (Unit: Korean won in millions):

	2017					
	Beginning balance		Increase (decrease)		Ending balance	
Accrued interest	W	(5,039)	W	(11,152)	W	(16,191)
Provision for severance insurance		(4,995)		50		(4,945)
Other provision		6,375		884		7,259
Depreciation disallowance		(1,363)		(211)		(1,574)
Accrued expenses		4,550		16,936		21,486
Loan origination fees and costs		(15,331)		(221)		(15,552)
Allowance for possible loan loss		31,320		(4,675)		26,645
Derivatives		(4,104)		10,847		6,743
Allowance for employee retirement benefits		106,783		13,761		120,544
Accrued donation		660		152		812
Trading securities		98		(1,560)		(1,462)
Allowance for possible acceptances and guarantees		1,584		549		2,133
HTM securities		5,134		295		5,429
Provision for financial guarantee		1,749		(1,401)		348
Others		33,200		41,059		74,259
Total	W	160,621	W	65,313	W	225,934
Tax rate (%)		24.20%				24.20%
Deferred tax assets	W	38,870			W	54,676

	2016		
	Beginning balance	Increase (decrease)	Ending balance
Accrued interest	W -	W (5,039)	W (5,039)
Provision for severance insurance	(5,076)	81	(4,995)
Other provision	6,003	372	6,375
Depreciation disallowance	(1,769)	406	(1,363)
Accrued expenses	8,384	(3,834)	4,550
Loan origination fees and costs	(14,878)	(453)	(15,331)
Allowance for possible loan loss	15,214	16,106	31,320
Derivatives	(7,820)	3,716	(4,104)
Allowance for employee retirement benefits	92,080	14,703	106,783
Accrued donation	817	(157)	660
Trading securities	744	(646)	98
Allowance for possible acceptances and guarantees	1,512	72	1,584
HTM securities	4,937	197	5,134
Provision for financial guarantee	2,112	(363)	1,749
Others	32,749	451	33,200
Total	135,009	W 25,612	160,621
Tax rate (%)	24.20%		24.20%
Deferred tax assets	W 32,672		W 38,870

The Group has W273,087 million of deductible temporary difference. In assessing the realizability of deferred tax assets, the Group considers various factors, such as its performance, the overall economic environment and outlook, expected future returns, etc. The Group reviews such factors on a regular basis. As of December 31, 2017, the entire amount of deductible temporary difference is recognized as deferred tax assets, and such amount may vary due to changes in estimate of future taxable income.

(4) Deferred tax assets and liabilities that were directly charged or credited to equity are as follows (Unit: Korean won in millions):

	2017			
	Beginning balance (*)	Increase (decrease)	Ending balance	Deferred tax assets (liabilities)
Valuation of AFS securities	W (864)	W (10,346)	W (11,210)	W 2,713
Remeasurement of the net defined benefit liability	2,781	2,090	4,871	(1,179)

	2016			
	Beginning balance (*)	Increase (decrease)	Ending balance	Deferred tax assets (liabilities)
Valuation of AFS securities	W (3,619)	W 2,755	W (864)	W 209
Remeasurement of the net defined benefit liability	-	2,781	2,781	(673)

(*) Does not reflect income tax effects

(5) Details of comprehensive income are as follows (Unit: Korean won in millions):

	2017	2016
Net income	W 195,180	W 13,906
Other comprehensive income:		
Valuation of AFS securities	(7,842)	2,087
Remeasurement of the net defined benefit liability	1,584	2,108
Total comprehensive income	W 188,922	W 18,101

31. EPS

Basic EPS is calculated by dividing net income with weighted-average number of common shares outstanding (Unit: Korean won in millions, except for EPS and number of shares):

		2017		2016
Net income	₩	195,180	₩	13,906
Dividends to hybrid securities		(12,012)		(1,031)
Net income attributable to common shareholders		183,168		12,875
Weighted-average number of common shares outstanding (Unit: million shares)		132		132
Basic EPS	₩	1,387	₩	98

Diluted EPS is equal to basic EPS because there is no dilution effect for the year ended December 31, 2017, and for the period from December 1, 2016 (inception), to December 31, 2016.

32. CONTINGENCIES AND COMMITMENTS

(1) Details of guarantees are as follows (Unit: Korean won in millions):

		December 31, 2017		December 31, 2016
Confirmed guarantees in Korean won:				
Guarantee for loans	₩	1,780	₩	1,835
Others		59,656		66,733
Subtotal		61,436		68,568
Confirmed guarantees in foreign currencies:				
Acceptances		14,180		15,513
Letters of guarantees		2,985		4,431
Subtotal		17,165		19,944
Unconfirmed guarantees:				
Letter of credit, etc.		213,191		284,328
Total	₩	291,792	₩	372,840

(2) Details of commitments and others are as follows (Unit: Korean won in millions):

		December 31, 2017		December 31, 2016
Commitments in Korean won:				
Loan commitments	W	1,419,979	W	1,583,126
Purchasing marketable securities		67,441		74,772
Subtotal		1,487,420		1,657,898
Commitments in foreign currencies:				
Loan commitments		108,352		266,426
Others		773,843		1,000,578
Subtotal		882,195		1,267,004
Total	₩	2,369,615	₩	2,924,902

The limit on commitments on purchase of asset-backed commercial papers is ₩46,550 million, and the nominal amount of credit lines of asset-backed securities is ₩50,602 million. The Group provided commitments relating to real estate project financing of ₩14,800 million and ₩16,000 million as of December 31, 2017 and 2016, respectively.

(3) As of December 31, 2017, the Group is involved in 20 lawsuits as a plaintiff and 22 lawsuits as a defendant. The aggregate amount of claims as a plaintiff and a defendant is ₩23,010 million and ₩ 9,522 million, respectively. The uncertainty of litigation is not reflected in the consolidated financial statements as of December 31, 2017.

(4) The Group wrote off loans and receivables, for which the contractual rights to receive cash flows are not expired, amounting to W406,077 million and W382,195 million as of December 31, 2017 and 2016, respectively.

(5) The Group endorsed bills of W24,077 million and W35,830 million as of December 31, 2017 and 2016, respectively.

(6) PLEDGED ASSETS:

Assets provided as collateral are as follows (Unit: Korean won in millions):

		December 31, 2017		
Assets	Provided to	Book value	Collateral amount	Provided for
AFS financial assets	BOK	₩ 100,342	₩ 100,000	BOK settlement
	BOK	90,124	90,000	Brokerage
	BOK	148,763	150,000	Overdraft
	Korea Securities Depository ("KSD")	9,882	10,000	RPs
	ING Bank	10,863	10,786	Derivative trading
HTM financial assets	BOK	50,259	50,000	BOK settlement
	BOK	40,057	40,000	Brokerage
	BOK	30,029	30,000	Overdraft
	KSD	50	50	Settlement of stock charge
	Samsung Futures, etc.	6,505	6,500	Futures settlement
	Korea Exchange	110	110	Bond Damage Compensation Fund
	Korea Exchange	300	300	Joint Compensation Fund for Central Counterparty ("CCP")
Total		₩ 487,284	₩ 487,746	

		December 31, 2016		
Assets	Provided to	Book value	Collateral amount	Provided for
AFS financial assets	BOK	₩ 70,642	₩ 70,000	BOK settlement
	BOK	120,629	120,000	Borrowings
	BOK	170,313	170,000	Overdraft
	KSD	10,060	10,000	RP
	ING Bank	73,738	73,433	Derivative trading
HTM financial assets	BOK	80,391	80,000	BOK settlement
	BOK	10,000	10,000	Borrowings
	BOK	10,102	10,000	Overdraft
	KSD	50	50	Settlement of stock charge
	Samsung Futures, etc.	5,526	5,500	Futures settlement
	Korea Exchange	110	110	Joint Compensation Fund for CCP
	ING Bank	70,617	70,000	Transactions in excess of the limit
Total		₩ 622,178	₩ 619,093	

33. TRUST ACCOUNTS

(1) Trust accounts of the Group are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
	Total assets	Operating income	Total assets	Operating income
Scope of consolidation	₩ 61,508	₩ 2,421	₩ 61,072	₩ 344
Out of scope of consolidation (non-guaranteed)	4,468,350	24,231	5,626,162	2,585
Total	₩ 4,529,858	₩ 26,652	₩ 5,687,234	₩ 2,929

(2) Receivables and payables from the transactions between the Group and trust accounts are as follows (Unit: Korean won in millions):

	December 31, 2017	December 31, 2016
Receivables:		
Accrued interest	₩ 206	₩ 206
Accrued income	2,179	3,206
Prepaid expenses	275	279
Total	₩ 2,660	₩ 3,691
Payables:		
Trust fees payables	₩ 327	₩ 527
Accrued trust income	13,030	14,158
Accrued expenses	10	164
Total	₩ 13,367	₩ 14,849

(3) Key transactions between the Group and trust accounts are as follows (Unit: Korean won in millions):

	2017	2016
Revenue:		
Trust fees and commissions received from trust account	₩ 6,401	₩ 539
Expense:		
Interest payable on trust accounts	1,057	152

(*) Financial information of trust accounts is prepared in accordance with Korea Financial Accounting Standards 5004, '*Trust Account of Trust Vendor,*' based on the Financial Investment Services and Capital Markets Act and Financial Industry Detailed Regulatory.

There are no amounts that the Group must pay under the capital guaranteed contract or the operating results of the principal and return guaranteed trusts as of December 31, 2017 and 2016.

34. CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Details of material transactions without cash inflows and outflows are as follows (Unit: Korean won in millions):

	2017	2016
Debt-to-equity swap and write-off of loans	W 82,612	W 8,665
Reclassification of capital surplus to retained earnings	21,300	230,000
Reclassification of retained earnings to dividends payable	-	667
Changes in gain on valuation of AFS securities	10,346	2,673
Reclassification of construction in progress to another account	5,680	-
Write-off of allowance for other financial assets	159	8
Changes in remeasurement factors of net defined benefit obligation	2,090	2,781

(2) Changes in liabilities arising from financial activities for the year ended December 31, 2017, are as follows.

	Beginning balance	Changes due to financial cash flows	Changes in fair value	Exchange rate effect	Others	Ending balance
Borrowings	W 2,150,548	W (175,428)	W -	W (41,832)	W -	W 1,933,288
Debentures	5,402,594	(158,454)	(899)	(49,256)	30,640	5,224,625
Dividends payable	667	(20,718)	-	-	20,718	667
Total	W 7,553,809	W (354,600)	W (899)	W (91,088)	W 51,358	W 7,158,580

The cash and cash equivalents in the consolidated statements of cash flows are the same as the cash and cash equivalents in the consolidated statements of financial position.

35. RELATED-PARTY TRANSACTIONS

(1) Related parties of the Group during the current year are as follows:

	Related parties
Controlling party	NFFC (*1)
Associates	Principal Guaranteed Trust and Principal and Interest Guaranteed Trust ("Trusts within the scope of consolidation"), 2007 Kiwoom IBK First Co., Ltd., Kamco creation value 5th Securitization Specialty Co., Ltd. and Kamco Creation Value 8th Securitization Specialty Co., Ltd.
Other related parties	Suhyup Maintenance Service, National Federation of Fisheries Cooperatives FC Flow Co., Ltd. ("NFFC FC Flow Co., Ltd."), Suhyup Noryangjin Fisheries Co., Ltd. and Suhyup Feed Co., Ltd.

(*1) The whole NFFC, including the Special Banking Service Accounts of NFFC, is identified as controlling party.

(2) Gain or loss from transactions with related parties for the year ended December 31, 2017, and for the period from December 1, 2016 (inception), to December 31, 2016, is as follows (Unit: Korean won in millions):

Related party		A title of account	2017	2016
Controlling party	NFFC	Income:	₩ 7,072	₩ 621
		Loan interest	64	4
		Fee and commission	176	36
		Others	6,832	581
		Expenses (*1):	36,690	4,423
		Deposits	4,525	415
		Borrowings	2,457	412
		Others	29,708	3,596
Other related party	Suhyup Maintenance Service	Income:	3	-
		Fee and commission	3	-
		Expenses:	40	3
		Deposits	40	3
	NFFC FC Flow Co., Ltd.	Income:	225	9
		Loan interest	204	8
		Fee and commission	21	1
		Expenses:	49	6
		Transfers of allowances and provisions	49	6
	Suhyup Noryangjin Fisheries Co., Ltd.	Income:	122	86
		Loan interest	2	-
		Fee and commission	119	86
		Reversal of allowances and provisions	1	-
		Expenses:	312	27
		Deposits	312	27
	Suhyup Feed Co., Ltd.	Income:	144	21
		Loan interest	114	10
		Fee and commission	24	1
		Reversal of allowances and provisions	6	10

(*1) The Group received the cost of workers dispatched to the NFFC (salaries ₩552 million, employee benefits cost W44 million and retirement benefit service costs W46 million) and deducted related expenses.

(3) Assets and liabilities from transactions with related parties are as follows (Unit: Korean won in millions):

Related party		Title of account	December 31 2017	December 31, 2016
Controlling party	NFFC	Loans	₩ 862	₩ 913
		Allowance for credit loss	-	-
		Other assets	38,368	41,009
		Deposits	440,873	378,776
		Borrowings	-	248,100
		Provisions	15	18
		Other liabilities	8,405	9,740
Associates	Trusts within the scope of consolidation	Other assets	197	392
		Other liabilities	5,520	19,127
	2007 Kiwoom IBK First Co., Ltd.	Loans	-	1,218
		Allowance for credit loss	-	(844)
		Deposits	33	3
	Kamco Creation Value 5th Securitization Specialty Co.	Other assets	135	77
		Deposits	57	55
	Kamco creation value 8th Securitization Specialty Co.	Other assets	143	100
		Deposits	348	346
Other related parties	Suhyup Maintenance Service	Loans	4	6
		Allowance for credit loss	-	
		Deposits	3,135	3,357
		Provisions	1	1
	NFFC FC Flow Co., Ltd.	Loans	4,131	5,295
		Allowance for credit loss	(60)	(33)
		Other assets	3	3
		Deposits	18	6
		Provisions	30	8
	Suhyup Noryangjin Fisheries Co., Ltd.	Loans	26	29
		Allowance for credit loss	(1)	(2)
		Deposits	19,458	17,549
		Provisions	1	1
	Suhyup Feed Co., Ltd.	Loans	1,523	2,113
		Allowance for credit loss	(14)	(22)
		Other assets	2	1
		Deposits	167	829
		Provisions	19	17
		Other liabilities	-	281

(4) Borrowing transactions with related parties for the year ended December 31, 2017, and for the period from December 1. 2016 (inception). to December 31, 2016, are as follows (Unit: Korean won in millions):

December 31, 2017

	Related party	Beginning balance	Lending	Collection	Others	Ending Balance
Controlling party	NFFC	₩ 248,100	₩ -	₩ 248,100	₩ -	₩ -

December 31, 2016

	Related party	Beginning balance	Lending	Collection	Others	Ending Balance
Controlling party	NFFC	₩ 248,100	₩ -	₩ -	₩ -	₩ 248,100

(5) Other than payments made in the ordinary course of business and deposit transactions with related parties, there were no borrowing transactions with related parties for the year ended December 31, 2017, and for the period from December 1, 2016 (inception), to December 31, 2016.

(6) Guarantees and commitments provided to the related parties are as follows (Unit: Korean won in millions):

Related party		Contents	December 31, 2017	December 31, 2016
Controlling party	NFFC	Credit card commitment	₩ 2,753	₩ 2,766
		Unconfirmed guarantees	3,242	434
		Loan commitment in Korean won	180,000	180,000
		Loan commitment in foreign currency	-	3,129
Other related parties	Suhyup Maintenance Service	Credit card commitment	44	42
	NFFC FC Flow Co., Ltd.	Credit card commitment	174	42
		Loan commitment	3,414	2,212
	Suhyup Noryangjin Fisheries Co., Ltd.	Credit card commitment	56	54
		Loan commitment	-	2,000
	Suhyup Feed Co., Ltd.	Credit card commitment	46	50
		Unconfirmed guarantees	1,353	2,882
		Loan commitment	2,500	2,500

(7) Compensation for key management for the year ended December 31, 2017, and for the period from December 1, 2016 (inception), to December 31, 2016, is as follows (Unit: Korean won in millions):

	2017	2016
Short-term benefits	₩ 750	₩ 78
Severance payments	41	1

36. UNCONSOLIDATED STRUCTURED ENTITIES

The Consolidated entities have entered into various agreements with structured entities, such as asset securitization vehicles, structured finance and investment funds. The Consolidated entities have no controlling power over those structured entities, which is determined in accordance with K-IFRS 1110. Therefore, those structured entities are not consolidated into the Consolidated entities. They are classified into three categories: asset securitization vehicles, structured finance and investment fund, based on the nature and the purpose of their investments and risk exposed to the Consolidated entities.

Asset securitization vehicle issues asset-backed securities and redeems the principal and interest or distributes dividends on asset-backed securities with profits from collecting cash flows or sale of securitized assets. The Consolidated entities, as a secondary guarantor, provide purchase commitments for their asset-backed securities or guarantees to such asset securitization vehicle and recognize commission income or interest income related to the commitment or guarantees. Therefore, the Consolidated entities would be exposed to risks to purchases or payback asset-backed securities issued by the vehicles when a primary guarantor fails to provide the financing asset securitization vehicles.

Structured finance includes investments in project financing on real estates, social overhead capital, infrastructure and shipping finance. They are formed as special-purpose entity by funding through equity investments and loans from various investors. Investment decisions are made by the Consolidated entities based on business outlook of such projects. In relation to such investments, the Consolidated entities recognize interest incomes on loans, gains or losses on valuation of equity investments or dividend income. The structured finance is secured by additional funding agreement, guarantee or credit facilities. However, the structured financing project would fail to return the capital of equity investments or principal of loans to the Consolidated entities if it is discontinued or did not achieve business outcome.

Investment funds include trusts and private equity funds. A trust is formed by contributions from various investors, is operated by a manager engaged to the trust and proceeds from sales of investments are distributed to the investors. A private equity fund is established in order to acquire ownership interests in a portfolio company with an exit strategy after implementing financial and operational restructuring of the company. The Consolidated entities recognize unrealized gains or losses on change in value of investments in proportion of ownership interests in investments. The Consolidated entities would be exposed to risks of loss when the value of portfolio investment is decreased.

Total assets of the unconsolidated structured entities, the carrying value of the related items recorded, the maximum exposure to risks and the loss recognized as of December 31, 2017 and 2016, and for the year ended December 31, 2017, and the period from December 1, 2016 (inception), to December 31, 2016, are as follows (Unit: Korean won in millions):

	December 31, 2017		
Classification	Asset securitization vehicle	Project financing	Investment fund
Total assets of unconsolidated structured entity	₩ 51,030,927	₩ 11,366,859	₩ 2,922,413
Recognized assets related to unconsolidated structured entities:			
Loans	-	726,678	37,649
Allowance	(7)	(26,115)	(18,256)
Securities	1,048,147	-	462
Derivative assets	-	-	-
Other assets	3,170	2,143	144
Recognized liabilities related to unconsolidated structured entities:			
Derivative liabilities	-	-	-
Other liabilities	330	198	-
Maximum exposure (*1):			
Financing assets	1,051,310	702,706	19,999
Credit line facilities and purchase commitments	97,152	90,366	-
Loss on unconsolidated structured entities	(114)	(2,503)	(15,955)

	December 31, 2016		
Classification	Asset securitization vehicle	Project financing	Investment fund
Total assets of unconsolidated structured entity	₩ 68,411,933	₩ 5,709,485	₩ 6,855,587
Recognized assets related to unconsolidated structured entities:			
Loans	-	559,316	106,601
Allowance	(8)	(54,740)	(3,232)
Securities	340,753	3,666	924
Derivative assets	-	-	-
Other assets	2,264	1,534	401
Recognized liabilities related to unconsolidated structured entities:			
Derivative liabilities	-	-	-
Other liabilities	1,741	-	-
Maximum exposure (*1):			
Financing assets	343,008	509,775	104,693
Credit line facilities and purchase commitments	204,794	-	-
Loss on unconsolidated structured entities	(29)	(2,430)	(895)

(*1) In case of financial assets and financial liabilities, maximum exposure is measured at book value and credit line facilities and purchase commitments are measured within agreed limits. Also, this maximum exposure is the total, except for hedge effectiveness, to reduce the risk exposure in relation to unconsolidated structured entity.

SUHYUP BANK

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017,
AND FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017

ATTACHMENT: INDEPENDENT ACCOUNTANTS' REVIEW REPORT

SUHYUP BANK

Deloitte.

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Independent Accountants' Review Report

English Translation of Independent Accountants' Review Report Originally Issued in Korean on November 21, 2018.

To the Shareholders and the Board of Directors of
Suhyup Bank:

Report on the Consolidated Interim Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Suhyup Bank and subsidiaries (the "Group"). The interim financial statements consist of the consolidated interim statement of financial position as of September 30, 2018, and the consolidated interim statements of comprehensive income, consolidated interim statements of changes in equity and consolidated interim statements of cash flows, all expressed in Korean won, for the nine months ended September 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Interim Financial Statements

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

Independent Accountants' Responsibility

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

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

Review Conclusion

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

Deloitte.

Other Matters

We audited the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 (not presented in the accompanying consolidated interim financial statements, all expressed in Korean won), in accordance with Korean Standards on Auditing ("KSAs") in the Republic of Korea. We expressed an unqualified opinion in our independent auditors' report dated March 15, 2018. The consolidated statement of financial position as of December 31, 2017, presented for a comparative purpose in the accompanying consolidated interim financial statements does not differ, in all material respects, from the audited consolidated statement of financial position as of December 31, 2017.

Deloitte Anjin LLC

Notice to Readers

This report is effective as of November 21, 2018, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying consolidated interim financial statements and may result in modifications to the accountants' review report.

SUHYUP BANK

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017,
AND FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017

The accompanying consolidated interim financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the management of Suhyup Bank.

Lee, Dong-Bin
CHIEF EXECUTIVE OFFICER
SUHYUP BANK

Headquarters: (Road Name and Address) 62 Ogeum-ro, Songpa-gu, Seoul
(Phone Number) 1588-1515

SUHYUP BANK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

	September 30, 2018	December 31, 2017
	(Korean won in millions)	
ASSETS:		
Cash and due from banks (Notes 4, 6 and 7)	W 1,132,091	W 1,283,663
Financial assets at fair value through profit or loss ("FVTPL") (K-IFRS 1109) (Notes 4, 6 and 9)	270,016	-
Financial assets held for trading (Notes 4, 6 and 10)	-	246,647
Financial assets designated at FVTPL (Notes 4, 6 and 8)	-	119
Derivative assets (Notes 4, 6 and 22)	62,224	82,653
Financial assets at fair value through other comprehensive income ("FVTOCI") (Notes 4, 6 and 11)	2,517,787	-
Available-for-sale ("AFS") financial assets (Notes 4, 6 and 12)	-	2,927,346
Loans at amortized cost (Notes 4, 6 and 15)	28,754,282	-
Securities at amortized cost (Notes 4, 6 and 13)	1,661,662	-
Other financial assets at amortized cost (Notes 4, 6 and 20)	658,058	-
Loans (Notes 4, 6 and 16)	-	25,323,729
Held-to-maturity ("HTM") financial assets (Notes 4, 6 and 14)	-	1,276,285
Other financial assets (Notes 4, 6 and 21)	-	693,300
Tangible assets (Note 17)	90,656	88,408
Investment properties (Note 19)	21,272	21,339
Intangible assets (Note 18)	31,239	25,109
Deferred tax assets (Note 36)	47,233	54,676
Current tax assets	935	-
Other assets	11,499	7,124
Total assets	W 35,258,954	W 32,030,398
LIABILITIES:		
Deposits (Notes 4, 6 and 23)	W 25,013,502	W 21,279,863
Derivative liabilities (Notes 4, 6 and 22)	64,284	89,149
Borrowings (Notes 4, 6 and 24)	1,975,232	1,933,288
Debentures (Notes 4, 6 and 25)	4,753,550	5,224,625
Other financial liabilities (Notes 4, 6 and 26)	737,877	867,528
Provisions (Note 27)	22,521	14,240
Net defined benefit liability (Note 28)	118,775	107,526
Current tax liabilities	29,385	35,388
Other liabilities	24,681	25,989
Total liabilities	32,739,807	29,577,596

(Continued)

SUHYUP BANK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

	September 30, 2018	December 31, 2017
	(Korean won in millions)	
SHAREHOLDERS' EQUITY (Note 29):		
Owner's equity		
Capital stock	W 660,000	W 660,000
Hybrid securities	199,649	199,799
Capital surplus	1,159,171	1,159,171
Retained earnings (September 30, 2018 Regulatory reserve for credit loss: W136,795 million Required provision of regulatory reserve for credit loss: W44,508 million Planned provision of regulatory reserve for credit loss: ₩44,508 million December 31, 2017 Regulatory reserve for credit loss: ₩64,099 million Required provision of regulatory reserve for credit loss: ₩72,696 million Planned provision of regulatory reserve for credit loss: ₩72,696 million)	496,582	438,637
Accumulated other comprehensive income	3,745	(4,805)
Total shareholders' equity	2,519,147	2,452,802
Total liabilities and shareholders' equity	W 35,258,954	W 32,030,398

(Concluded)

See accompanying notes to consolidated interim financial statements.

SUHYUP BANK

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	For the nine months ended September 30,	
	2018	2017
	(Korean won in millions)	
Interest income	W 876,222	W 687,976
Interest expense	400,264	292,509
Net interest income (Note 30)	475,958	395,467
Fees and commissions income	40,224	52,807
Fees and commissions expense	12,290	11,401
Net fees and commissions income (Note 31)	27,934	41,406
Net loss on financial instruments at FVTPL (K-IFRS 1109) (Notes 9, 22 and 32)	(3,273)	-
Net gain on financial instruments held for trading (Notes 10, 22 and 32)	-	3,580
Net gain on financial instruments at FVTPL (Note 8)	-	145
Net gain on financial instruments at FVTOCI (Notes 11 and 32)	3,061	-
Net loss on AFS financial instruments (Notes 12 and 32)	-	(8,416)
Net other operating income (Note 33)	(29,912)	(30,181)
Other operating loss	(30,124)	(34,872)
General and administrative expenses (Note 34)	(181,749)	(166,893)
Net transfers of allowances and provisions (Notes 11, 13, 15, 16, 20 and 21)	(18,573)	(17,395)
Total operating revenues	273,446	217,713
Other non-operating income	4,211	4,113
Other non-operating expenses	24,100	23,121
Other non-operating loss (Note 35)	(19,889)	(19,008)
Net income before income tax expense	253,557	198,705
Income tax expense (Note 36)	59,559	45,733
Net income	193,998	152,972
(Net income after the provision of regulatory reserve for credit loss for the nine months ended September 30, 2018 and 2017, is W149,490 million and W103,433 million, respectively)		
Items that may be reclassified to profit or loss:		
Net gain on financial instruments at FVTOCI	8,850	-
Gain on valuation of AFS financial assets	-	(2,167)
Items that will not be reclassified to profit or loss:		
Net loss on financial instruments at FVTOCI	(330)	-
Other comprehensive gain (loss), net of tax	8,520	(2,167)
Total comprehensive income	W 202,518	W 150,805
Net income attributable to owners	193,998	152,972
Net income attributable to non-controlling interests	-	-
Comprehensive income attributable to owners	202,518	150,805
Comprehensive income attributable to non-controlling interests	-	-
Earnings per share ("EPS") (Note 37):		
Basic and diluted net income per share (in Korean won)	W 1,419	W 1,091

See accompanying notes to consolidated interim financial statements.

SUHYUP BANK

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	Capital stock	Hybrid securities	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
			(Korean won in millions)			
As of January 1, 2017	₩ 660,000	₩ 199,799	₩ 1,180,471	₩ 1,453	₩ 242,875	₩ 2,284,598
Total comprehensive income:	-	-	-	(2,167)	152,972	150,805
Net income	-	-	-	-	152,972	152,972
Gain (loss) on valuation of AFS financial assets	-	-	-	(2,167)	-	(2,167)
Remeasurement of the net defined benefit liability	-	-	-	-	-	-
Transactions recognized directly in shareholders' equity:	-	-	(21,300)	-	3,625	(17,675)
Transfer of capital surplus to retained earnings	-	-	(21,300)	-	21,300	-
Dividends to hybrid securities	-	-	-	-	(8,969)	(8,969)
Dividends	-	-	-	-	(8,706)	(8,706)
As of September 30, 2017	₩ 660,000	₩ 199,799	₩ 1,159,171	₩ (714)	₩ 399,472	₩ 2,417,728
As of December 31, 2017	₩ 660,000	₩ 199,799	₩ 1,159,171	₩ (4,805)	₩ 438,637	₩ 2,452,802
Adjustment according to K-IFRS 1109 (Note 2)	-	-	-	47	(19,366)	(19,319)
As of January 1, 2018	₩ 660,000	₩ 199,799	₩ 1,159,171	₩ (4,758)	₩ 419,271	₩ 2,433,483
Total comprehensive income:	-	-	-	8,520	193,998	202,518
Net income	-	-	-	-	193,998	193,998
Net gain on valuation of debt instrument at FVTOCI	-	-	-	8,850	-	8,850
Net loss on valuation of equity instrument at FVTOCI	-	-	-	(330)	-	(330)
Remeasurement of the net defined benefit liability	-	-	-	-	-	-
Transactions recognized directly in shareholders' equity:	-	(150)	-	(17)	(116,687)	(116,854)
Dividends to hybrid securities	-	-	-	-	(6,704)	(6,704)
Repayment of hybrid securities	-	(99,900)	-	-	-	(99,900)
Issuance of hybrid securities	-	99,750	-	-	-	99,750
Transfer of net gain on disposal of equity instrument at FVTOCI	-	-	-	(17)	17	-
Dividends	-	-	-	-	(110,000)	(110,000)
As of September 30, 2018	₩ 660,000	₩ 199,649	₩ 1,159,171	₩ 3,745	₩ 496,582	₩ 2,519,147

See accompanying notes to consolidated interim financial statements.

SUHYUP BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	For the nine months ended September 30,	
	2018	2017
	(Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	W 193,998	W 152,972
Additions of expenses not involving cash outflows:		
Loss on valuation of financial instruments at FVTPL (K-IFRS 1109)	232	-
Loss on sale of financial assets at FVTOCI	505	-
Loss on valuation of financial instruments designated at FVTPL	-	9
Loss on valuation of trading securities	-	647
Impairment loss on AFS securities	-	13,355
Provision for credit losses allowance	13,379	17,850
Loss on disposal of tangible assets	98	81
Depreciation expense of tangible assets	7,074	6,779
Depreciation expense of investment properties	67	67
Amortization expense of intangible assets	4,349	5,128
Loss on valuation of derivatives held for trading	43,020	66,981
Interest expense	400,264	292,509
Retirement benefits	12,133	12,075
Income taxes	59,559	45,733
Loss on valuation of derivative instruments (for hedging)	783	1,209
Transfer to provisions	5,441	318
Losses related to fluctuation of foreign exchange rate	80,883	3,088
Other losses	2,344	2,311
	630,131	468,140
Deduction of revenues not involving cash inflows:		
Gain on valuation of financial instruments at FVTPL (K-IFRS 1109)	502	-
Gain on sale of financial assets at FVTOCI	3,525	-
Gain on valuation of financial assets held for trading	-	1,677
Gain on valuation of derivative instruments (for trading)	42,268	64,137
Interest income	876,221	687,976
Reversal of provision	246	773
Dividends income	449	377
Gain on valuation related to hedged items	770	1,472
Gain related to fluctuation of foreign exchange rate	74,906	22,418
Other revenues	83	45
	(998,970)	(778,875)
Changes in assets and liabilities resulting from operations:		
Net decrease (increase) in due from banks	153,066	(326,263)
Net decrease in financial instruments at FVTPL (K-IFRS 1109)	11,109	-
Net decrease in financial assets held for trading	-	9,219
Net decrease in financial instruments designated at FVTPL	-	40,190
Net increase in loans	(3,401,066)	(2,225,683)
Net decrease in other financial assets at amortized cost	46,562	-
Net increase in other financial assets	-	(298,231)
Net increase in other assets	(4,375)	(412)
Net increase in derivative instruments	(5,972)	(2,634)
Net increase in deposits	3,717,657	3,433,236
Net decrease in provisions	(517)	(1,093)
Net decrease (increase) in other financial liabilities	(190,504)	415,009

(Continued)

SUHYUP BANK

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	For the nine months ended September 30,			
	2018		2017	
	(Korean won in millions)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net decrease in other liabilities	₩	(1,857)	₩	1,895
Payment of severance benefits		(919)		(1,752)
		323,184		1,043,481
Interest income received		856,389		679,269
Dividends received		449		377
Interest expense paid		(328,697)		(236,393)
Income tax paid		(55,615)		(28,566)
Net cash used in operating activities		620,869		1,300,405
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of tangible assets		(9,528)		(8,139)
Acquisition of intangible assets		(10,231)		(8,452)
Increase in guarantee deposits		(6,914)		(5,052)
Disposal of financial assets at FVTOCI		2,073,854		-
Acquisition of financial assets at FVTOCI		(1,644,327)		-
Disposal of financial assets at amortized cost		150,217		-
Acquisition of financial assets at amortized cost		(562,875)		-
Disposal of AFS financial assets		-		2,323,792
Acquisition of AFS financial assets		-		(2,581,812)
Disposal of HTM financial assets		-		149,552
Acquisition of HTM financial assets		-		(656,387)
Net cash provided by investing activities		(9,804)		(786,498)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in borrowings		21,742		(189,848)
Issuance of debentures		1,553,584		2,970,361
Repayment of debentures		(2,051,534)		(3,262,550)
Dividends paid		(116,580)		(17,715)
Issuance of hybrid securities		99,750		-
Repayment of hybrid securities		(99,900)		-
Net cash provided by financing activities		(592,938)		(499,752)
NET INCREASE IN CASH AND CASH EQUIVALENTS		18,127		14,155
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		130,497		124,244
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		992		170
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	₩	149,616	₩	138,569

(Concluded)

See accompanying notes to consolidated interim financial statements.
SUHYUP BANK

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017, AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

1. GENERAL:

(1) Summary of the parent company

Suhyup Bank (the "Bank") was established on December 1, 2016, after the spin-off from the National Federation of Fisheries Cooperatives ("NFFC"). The purpose of the spin-off was to contribute to economic growth in Korea and ensure the achievement of NFFC's goals. The Bank's headquarters is located at 62 Ogeum-ro, Songpa-gu, Seoul.

As of September 30, 2018, the Bank's issued and outstanding common stock (132,000,000 shares) amounted to ₩660,000 million, and the Bank is wholly owned by the Special Banking Service Accounts of NFFC.

The Bank has 131 branches in Korea as of September 30, 2018.

(2) Overview of Subsidiaries

- Principal and Interest Guaranteed Trust
Principal and Interest Guaranteed Trust is based on a special relationship between the trustor (customers) and the trustee (Suhyup Bank). Such trust provides commitments to guarantee a fixed rate of return and the repayment of principal.

- 2007 Kiwoom IBK First Co., Ltd.
2007 Kiwoom IBK First Co., Ltd. is established to handle the securitization of hybrid bonds issued by small- and mid-sized banks.

- KAMCO Value Recreation 5th Securitization Specialty Co., Ltd.
KAMCO Value Recreation 5th Securitization Specialty Co., Ltd. is established for securitizing assets held by Korea Asset Management Corporation (KAMCO). KAMCO Value Recreation 5th Securitization Specialty Co., Ltd. issued senior and subordinated asset-backed securities based on assets held by KAMCO. As of September 30, 2018, KAMCO Value Recreation 5th Securitization Specialty Co., Ltd.'s capital stock amounts to ₩1.5 million.

- KAMCO Value Recreation 8th Securitization Specialty Co., Ltd.
KAMCO Value Recreation 8th Securitization Specialty Co., Ltd. is established for securitizing assets held by KAMCO. KAMCO Value Recreation 8th Securitization Specialty Co., Ltd. issued senior and subordinated asset-backed securities based on assets held by KAMCO. As of September 30, 2018, KAMCO Value Recreation 8th Securitization Specialty Co., Ltd.'s capital stock amounts to ₩1.5 million.

Subsidiaries	Percentage of ownership	Location	Financial statements as of	Main business
Principal and Interest Guaranteed Trust	-	Korea	December 31	Trust
2007 Kiwoom IBK First Co., Ltd.	-	Korea	December 31	Asset securitization
KAMCO Value Recreation 5th Securitization Specialty Co., Ltd.	15%	Korea	December 31	Asset securitization
KAMCO Value Recreation 8th Securitization Specialty Co., Ltd.	15%	Korea	December 31	Asset securitization

(3) Major financial information of subsidiaries included in scope of consolidation

Subsidiaries	Assets	Liabilities	Equity	Operating revenue	Net income (loss)	Comprehensive income (loss)
Principal and Interest Guaranteed Trust	₩ 61,431	₩ 61,431	₩ -	₩ 1,768	₩ -	₩ -
2007 Kiwoom IBK First Co., Ltd.	33	920	(887)	-	-	-
KAMCO Creation Value 5th Securitization Specialty Co., Ltd.	97	20,343	(20,246)	-	(794)	(794)
KAMCO Creation Value 8th Securitization Specialty Co., Ltd.	347	43,059	(42,712)	3	(7,951)	(7,951)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Bank and its subsidiaries' (the "Group") consolidated interim financial statements are prepared in accordance with Korean International Financial Reporting Standards ("K-IFRSs") 1034. It is necessary to use the annual consolidated financial statements for the year ended December 31, 2017, for understanding of the accompanying consolidated interim financial statements.

Unless stated below, the accounting policies applied in preparing the accompanying consolidated interim financial statements have been applied consistently with the annual consolidated financial statements as of and for the year ended December 31, 2017.

(1) The Group has newly adopted the following amendment to K-IFRSs that affected the Bank's accounting policies:

- Enactment to K-IFRS 1109 – *Financial instruments*

The Group applied for the first time as of January 1, 2018, the enactment to K-IFRS 1109. There have been significant changes in K-IFRS 1109 from K-IFRS 1039 *Financial Instruments: Recognition and Measurement*.

The Group did not reclassify the prior period when applying the standard, and accordingly, the comparative financial statements have not been reclassified.

The main contents of K-IFRS 1109 are classification and measurement of financial assets and financial liabilities, the impairment model that reflects expected credit losses, more flexibility in the types of transactions that are eligible for hedge accounting and in the types of hedging instruments or changes in the effectiveness assessment requirements.

The Group has reviewed the internal management process repair or accounting system change concerning the financial instruments reporting related to the introduction of K-IFRS 1109. The financial effects of this standard on consolidated interim financial statements with major issues are as follows:

1) Classification and measurement of financial assets

All recognized financial assets that are currently within the scope of K-IFRS 1109 will be subsequently measured either at amortized cost, FVTOCI or FVTPL in the following table, based on the business model and the nature of the contractual cash flows. If a hybrid contract includes a financial asset as a master contract, the financial asset is classified based on the entire hybrid contract without separating the embedded derivative.

Business model	The nature of contractual cash flows: Contractual cash flows that are solely payments of principal and interest	Other
Objective is to collect the contractual cash flows.	Measured at amortized cost (*1)	Measured at FVTPL (*2)
Objective is achieved both by collecting the contractual cash flows and selling financial assets.	Measured at FVTOCI (*1)	
Objective is to sell financial assets and so on.	Measured at FVTPL	

(*1) An irrevocable election is available to designate a financial asset to be classified as at FVTPL for eliminating or reducing accounting discrepancies.
(*2) For equity securities held for purposes other than short-term trading, an irrevocable election is available to designate them as FVTOCI financial assets.

Classification of financial assets is determined based on the business model and the nature of the contractual cash flows in accordance with K-IFRS 1109. K-IFRS 1109 removed the classification of HTM financial assets, loans and receivables, and AFS assets under K-IFRS 1039. Also, in case hybrid contracts include financial assets as host contracts, embedded derivatives are not separated and the whole host contracts are classified as financial assets.

The estimated impact resulting from the adoption of K-IFRS 1109 as of January 1, 2018, is as follows:

(Unit: Korean won in millions)

Accounts	Classification per K-IFRS 1039	Classification per K-IFRS 1109	Amount per K-IFRS 1039	Amount per K-IFRS 1109
Due from banks	Loans and receivables	Amortized cost	W 1,153,166	W 1,153,166
Loans (*1)			25,645,347	25,645,347
Other financial assets (*1)			700,612	700,612
Debt securities	HTM financial assets	Amortized cost	1,244,665	1,244,665
Debt securities		FVTPL	31,620	31,254
Debt securities	AFS financial assets	FVTOCI	2,913,025	2,913,025
Equity securities	AFS financial assets	FVTOCI	11,292	11,292
Equity securities		FVTPL	3,029	3,029
Equity securities	Financial assets designated at FVTPL	FVTPL	119	119
Equity securities	Financial assets at FVTPL	FVTPL	26,422	26,422
Debt securities	Financial assets at FVTPL	FVTPL	220,225	220,225
	Total financial assets		W 31,949,522	W 31,949,156

(*1) Except for deferred loan origination effect and impairment

Financial instruments from the above were reclassified as a result of changes in accounting policies in accordance with K-IFRS 1109.

(1) Corporate bonds included in specified portfolio that can be sold to satisfy liquidity needs in general business operation and which independent finance department in the Group holds for interest income are classified as AFS financial assets under K-IFRS 1039. The Group decided that these debt instruments are included in the business model in which the objective is achieved both by collecting the contractual cash flows and selling the financial assets. The corporate bond has cash flows, which consists of payment of principal at a specified date under contractual terms, which is classified as FVTOCI under K-IFRS 1109. In accordance with the adoption of K-IFRS 1109, allowance for expected credit loss of ₩917 million was recognized in retained earnings as of January 1, 2018.

(2) Some of the equity instruments are invested to hold them in long term for strategic purposes. As permitted in K-IFRS 1109, the Group designated these assets as FVTOCI at initial adoption.

(3) In accordance with K-IFRS 1109, equity instruments and their performance are managed on a fair value basis and were designated as financial assets at FVTPL. These assets were classified as FVTPL.

(4) In accordance with K-IFRS 1039, loans and other receivables, which were previously classified as loans and receivables, are classified as financial assets at amortized costs. Under K-IFRS 1109, the Group additionally recognized ₩21,647 million of allowance for loss in retained earnings as of January 1, 2018.

(5) Corporate bonds, which were previously classified as HTM financial assets are classified as financial assets at amortized cost. The Group plans to hold the assets to maturity to collect the contractual cash flows. Also, the cash flows of such products consist of principal and interest on the residual principal at a specified date under the terms of the contract. Under K-IFRS 1109, the Group additionally recognized ₩368 million of allowance for loss in retained earnings as of January 1, 2018.

2) Classification and measurement of financial liabilities

According to K-IFRS 1109, changes in fair value of financial liabilities designated as at FVTPL, attributable to changes in credit risks, are presented in other comprehensive income, not in profit and loss, and other comprehensive income is not reclassified to profit and loss. However, if the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, those changes in fair value are recognized in profit and loss.

Some of the changes in the fair value of a financial liability designated as at FVTPL are presented in other comprehensive income, which were previously recognized in profit and loss under K-IFRS 1039, which may result in decrease in profit and loss related to assessment of financial liability.

The Group does not hold financial liabilities designated as at FVTPL as of January 1, 2018.

3) Impairment methodology: Financial assets and contractual assets

Under current K-IFRS 1039, the impairment is recognized only when there is objective evidence of an impairment according to the incurred loss model; however, in accordance with K-IFRS 1109, debt instruments, lease receivables, contract assets, loan commitments measured at amortization cost or other comprehensive income are recognized in accordance with the expected credit loss model.

In accordance with K-IFRS 1109, the level of credit risk after the initial recognition of financial assets is divided into three levels as shown in the table below. To measure the allowance for losses at an amount equal to the expected 12-month credit loss or the expected total credit loss, the credit loss can be recognized early compared to the K-IFRS 1039 incurred loss model.

	Stage 1	Stage 2	Stage 3
Stage (*1)	In case the exposure's credit risk has not increased significantly since initial recognition (*2)	In case the exposure has suffered a significant increase in credit risk	In case the exposure meets the accounting definition of impaired credit
Allowance recognition	The Group recognizes only 12-month expected credit losses as a loss allowance.	The Group recognizes a loss allowance equal to lifetime expected credit losses.	

(*1) For accounts receivable or assets recognized for contracts that apply IFRS 1115 Revenue from Contracts with Customers, loss reserve should be measured for the expected credit loss for the entire period. An accounting policy can be chosen in which provision for loss can be measured for the expected credit loss for the entire period if there is a significant financing component. For lease receivables, loss reserve can be measured for the expected credit loss amount for the entire period as an accounting policy.

(*2) If credit risk is low at the end of the reporting period, it can be considered that there was no significant increase in credit risk.

In accordance with K-IFRS 1109, a financial asset that is impaired by credit at initial recognition and has a significant financing component is accounted for as an allowance for the cumulative change in expected future credit losses after initial recognition. At the end of the reporting period, simplified method is used when the credit risk is low and it is unlikely for credit risks to increase significantly.

The expected impact on the allowance for credit losses as of January 1, 2018, is as follows:

(Unit: Korean won in millions)

Accounts	Allowance for credit losses per K-IFRS 1039 (A)		Allowance for credit losses per K-IFRS 1109 (B)		Increases (B-A)	
Loan at amortized cost	W	336,600	W	348,600	W	12,000
Other financial assets at amortized cost		777		10,424		9,647
Securities at amortized cost		-		368		368
Debt securities at FVTOCI		-		917		917
Provisions		6,741		9,763		3,022
Total	₩	344,118	₩	370,072	₩	25,954

4) Hedge accounting

The general hedge accounting requirements of K-IFRS 1109 retain the three types of hedge accounting mechanisms in K-IFRS 1039: Fair Value Hedge, Cash Flow Hedge and Hedge of Net Investment in a Foreign Operation. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. That is, more financial instruments now may be considered to be a hedged item and/or a hedging instrument, the quantitative basis for evaluating high-hedge effectiveness (80%–125%) has been abolished and the retroactive assessment requirement has also been abolished. These allow the firms to concentrate on hedging activities.

In case of adopting K-IFRS 1109, some trading not quantified for hedge accounting in K-IFRS 1039 would be eligible for hedge accounting in K-IFRS 1109, and the volatility of net income can be reduced.

As of January 1, 2018, the Group holds a trading applied to hedge accounting amounting to ₩321,420 million.

In accordance with K-IFRS 1109, hedging activities by the firm not applied to K-IFRS 1039, hedge accounting to be not qualified for requirements, are not added to trading applied to K-IFRS 1109, Hedge accounting.

5) Transitional provisions

Unless stated below, changes in accounting policy resulting from the implementation of K-IFRS 1109 are applied retrospectively.

(1) The differences in book value of financial assets and financial liabilities are recognized in retained earnings as of January 1, 2018. As a result, information presented in 2017 generally does not meet the requirements of K-IFRS 1109 and the information is not comparable to the information under K-IFRS 1109.
(2) The judgment was made based on the facts and circumstances existing at initial application with regard to the following.
- Determination of business model, which includes financial assets held
- Designation of FVTOCI for investments to equity instruments, not short-term items
(3) At initial application of K-IFRS 1109, if investment to debt securities has low credit risk, the Group assumes that the credit risk did not increase significantly.
(4) All hedging relationships designated in accordance with K-IFRS 1039 on December 31, 2017, satisfy hedging accounting under K-IFRS 1109 as of January 1, 2018. Therefore, it is assumed that hedging relationships continue.

6) Effects of adoption

Effects of adoption of K-IFRS 1109 as of January 1, 2018, are as follows:

(1) Fair value

(Unit: Korean won in millions)

		Book value
December 31, 2017 (amounts after the adoption of K-IFRS 1039)	₩	8,497
Recognition of expected credit losses of debt securities at FVTOCI		(917)
Deferred tax effect		222
Beginning balance as of January 1, 2018 (amounts after the adoption of K-IFRS 1109)	₩	7,802

(2) Retained earnings

(Unit: Korean won in millions)

		Book value
December 31, 2017 (amounts after the adoption of K-IFRS 1039)	₩	438,637
Recognition of expected credit losses in accordance with K-IFRS 1109		(25,954)
Others		435
Deferred tax effect		6,154
Beginning balance as of January 1, 2018 (amounts after the adoption of K-IFRS 1109)	₩	419,272

- Enactments to K-IFRS 1115 – Revenue from Contracts with Customers

K-IFRS 1115 will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018 - Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115 - Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031 - Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

K-IFRS 1018 - *Revenue* recognizes revenue based on the types of contracts, such as sale of goods, service, interest income, royalty income, dividend income and construction, but in accordance with K-IFRS 1115, revenue is recognized based on five steps, 1) Identify the contract 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 and 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group has organized a task force team in connection with the introduction of K-IFRS 1115 and evaluated the potential effect on the consolidated interim financial statements based on the present situation as of December 31, 2017, and the available information for evaluating the financial effect by initial adoption of K-IFRS 1115 preliminarily. The Group is expecting that there are no significant impacts on its consolidated interim financial statements as a result of adopting K-IFRS 1109. The result of the potential effect on the consolidated interim financial statements based on the present situation as of December 31, 2017, may be changed depending on the available information for evaluating the financial effect afterward. As a result of this amendment, there is no significant effect on the Group's consolidated interim financial statements.

- Amendments to K-IFRS 1102 – Classification and Measurement of Share-Based Payment Transaction

The amendments clarify the following: i) In estimating the fair value of a cash-settled, share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled, share-based payments; ii) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability, which is then remitted to the tax authority, i.e., the share-based payment arrangement has a 'net settlement feature,' such an arrangement should be classified as equity settled in its entirety, provided that the share-based payment would have been classified as equity settled had it not included the net settlement feature; iii) A modification of a share-based payment that changes the transaction from cash settled to equity settled should be accounted for as follows: a) the original liability is derecognized, b) the equity-settled, share-based payment is recognized at the modification-date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date, and c) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

- Amendments to K-IFRS 1040 – Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in K-IFRS 1040 may evidence a change in use, and that a change in use is possible for properties under construction (i.e., a change in use is not limited to completed properties).
There are no significant impacts on the Group's consolidated interim financial statements resulting from these amendments.

- Enactments to K-IFRS 2122 – Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the 'date of transaction' for determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency that resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).
The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.
The Group already accounts the payment or receipt of advance consideration in foreign currency consistently as the interpretations, and thus there is no impact on the financial statements resulting from the interpretations.

- Annual Improvements to K-IFRS 2014-2016 Cycle

The amendments include partial amendments to K-IFRS 1101 'First-time Adoption of K-IFRS' and K-IFRS 1028 'Investments in Associates and Joint Ventures.' Amendments to K-IFRS 1028 provide that an investment company, such as a venture capital investment vehicle may selectively designate each of its investment in associates and/or joint ventures to be measured at FVTPL, and that such designation must be made at the time of each investment's initial recognition. In addition, when non-investment companies apply equity method to investment in associates and/or joint ventures that are investment companies, these companies may apply the same fair value measurement used by the said associates to value their own subsidiaries. This accounting treatment may be selectively applied to each associate. These amendments should be applied retrospectively and are available for early adoption.
The Group is neither a venture capital investment vehicle nor is adopting K-IFRS for the first time; thus, it is expected that the amendments explained above will not affect the Group's consolidated interim financial statements. Furthermore, the Group does not own shares of an associate or a joint venture that are classified as investment companies.
(2) K-IFRSs that have not applied yet due to the non-arrivals of effective date, but have enacted or amended are as follows:

- Enactments to K-IFRS 1116 – Leases

K-IFRS 1116 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. K-IFRS 1116 will supersede the current lease guidance, including K-IFRS 1017 Leases and the related interpretations, and the Group plans to adopt this standard for the accounting year starting from January 1, 2019.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and are replaced by a model where a right-of-use asset and a corresponding liability must be recognized for all leases by lessees, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows; whereas, under the K-IFRS 1116 model, the lease payments will be split into a principal portion and an interest portion, which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017 and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by K-IFRS 1116.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under K-IFRS 1116, and hence, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases, unless they qualify for low-value or short-term leases upon the application of K-IFRS 1116, and the Group is currently assessing its potential impact.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS:

The significant accounting estimates and assumptions are continually evaluated and are based on historical experiences and various factors, including expectations of future events that are considered to be reasonable. Actual results can differ from those estimates based on such definitions. The accounting estimates and assumptions, which involve potential significant risks that may materially affect the book values of assets and liabilities in the Group's consolidated interim financial statements, are as follows:

(1) Fair value of financial instruments

As described in Note 6, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The details of assumptions and sensitivity analysis used to estimate fair value of financial instruments are described in Note 6. The management believes that the valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(2) Allowance for credit losses (allowance for losses on loans, allowance for losses on acceptances and guarantees and allowance for losses on unused credit limits)

The Group recognizes allowance for losses on individual loans and receivables by assessing the occurrence of loss events and assesses impairment for the group of loans and receivables with similar credit risk characteristics. The Group maintains allowance for credit losses on off-statement-of-financial-position credit instruments, including commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments to absorb estimated probable losses related to these unused credit facilities. The provision for the allowance may vary due to the borrower's expected cash flows for the individually assessed loans and receivables, and the changes in assumptions and parameters for the collectively assessed loans and receivables, the acceptances and guarantees and the unused credit limits.

(3) Measurement of defined benefit obligation

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. The details of defined benefit obligation are provided in Note 29.

4. FINANCIAL RISK MANAGEMENT:

The Group is exposed to various financial risks, such as credit, liquidity and market, associated with financial instruments. This outline indicates the level of exposure to such risks and the objectives, policies, risk assessment, management procedures and capital management of the Group. Additional quantitative information is disclosed throughout the consolidated interim financial statements.

(1) Risk management policy

The primary purpose of risk management is to maintain stability of the Group by analyzing risks arising from business activities and managing such risks in an effective and efficient manner. The Group establishes and manages limits per risk and business division to improve capital efficiency, maintain the appropriate balance between risk and return and create an efficient risk portfolio.

The Risk Management Committee establishes risk management strategy in accordance with the strategic direction chosen by the board of directors, determines the possible level of risk and manages the level of risk that the Group faced and the condition of risk management activities as an ultimate decision-making organization.

The Risk Management Council is a consultative group that reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management. The Group's risk management council is composed of seven members, including the Group's chief risk management officer and strategic planning team members.

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work relating to risk management plan and operates the Interest Rate and Credit Risk Management Practices Committee.

To manage risks arising from business activities in an efficient manner, the Group established the Risk Management Department, which is separated from the business division. Additionally, the Risk Management Committee and the Risk Management Council monitor the Group's risks on an ongoing basis, hence enhancing transparency and fairness of the management's decision-making process. The Group also designs and operates risk management systems (credit risk management system, market risk management system, asset-liability management system, etc.) for each type of risk.

Furthermore, the Group manages significant risks arising from the Group's business activities within the adequate level of capital, hence designing and operating capital adequacy management system and risk-adjusted performance assessment systems. Such systems are used for the management's decision-making process.

(2) Credit risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. The Group calculates both expected and unexpected losses, considering credit risk characteristics of all assets (including on-statement-of-financial-position and off-statement-of-financial-position items) exposed to credit risk.

Expected loss is calculated using expected PD (Probability of Default) and LGD (Loss Given Default). Unexpected loss, the maximum unexpected loss within a given confidence interval, is calculated using Credit metrics, an internally developed model.

Credit risk management is the process of managing assets in an efficient manner and enhancing asset quality by analyzing changes in value of assets, considering total exposures and changes in borrowers' financial condition. The Group establishes and manages credit risk limits for each business division to improve capital efficiency, maintain the appropriate balance between risk and return and create an efficient risk portfolio. The Risk Management Committee establishes limits per group, and each business division conducts business within the limits.

1) The Group's maximum exposure of financial instruments (excluding equity securities) to credit risk that does not consider mortgage value as of September 30, 2018, and December 31, 2017, is summarized as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
On-statement-of-financial-position items:		
Due from banks	W 982,475	W 1,153,166
Financial assets at FVTPL (K-IFRS 1109)	267,106	-
Financial assets at FVTOCI	2,501,044	-
Securities at amortized cost	1,662,145	-
Loans at amortized cost	29,057,120	-
Financial assets at FVTPL (K-IFRS 1039):		
Financial assets held for trading	-	220,225
AFS financial assets	-	2,913,025
HTM financial assets	-	1,276,285
Loans	-	25,323,729
Derivative assets	62,224	82,653
Other financial assets (*1)	-	693,300
Other financial assets at amortized cost (*1)	675,582	-
Total	W 35,207,696	W 31,662,383
Off-statement-of-financial-position items:		
Acceptances and guarantees	W 337,784	W 291,792
Commitments	4,889,199	2,369,615
Total	W 5,226,983	W 2,661,407

(*1) It is composed of receivables, accrued revenues, guarantee deposits for leases, domestic exchanges receivable, temporary payment, etc.

2) As of September 30, 2018, the credit risk exposure for the financial instruments held by the Company is as follows (Unit: Korean won in millions):

	Stage 1	Stage 2	Stage 3	Subtotal	Allowance for bad debt	Total
Due from banks						
Above appropriate credit rating (*1)	W 982,475	W -	W -	W 982,475	W -	W 982,475
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	W 982,475	W -	W -	W 982,475	W -	W 982,475
Mortgage value (*3)	W -	W -	W -	W -		W -
Loans at amortized cost						
Loan to consumers						
Above appropriate credit rating (*1)	W 13,043,612	W 126,994	W 28,868	W 13,199,474	W (14,862)	W 13,184,612
Less than a limited credit rating (*2)	358,551	246,173	27,004	631,728	(10,938)	620,790
Subtotal	W 13,402,163	W 373,167	W 55,872	W 13,831,202	W (25,800)	W 13,805,402
Mortgage value	W 9,959,341	W 260,073	W 38,121	W 10,257,535		W 10,257,535
Loans to non-consumers						
Above appropriate credit rating (*1)	W 13,006,845	W 1,354,874	W 19,154	W 14,380,873	W (109,170)	W 14,271,703
Less than a limited credit rating (*2)	-	631,586	213,459	845,045	(196,581)	648,464
Subtotal	W 13,006,845	W 1,986,460	W 232,613	W 15,225,918	W (305,751)	W 14,920,167
Mortgage value	W 6,075,037	W 821,692	W 65,505	W 6,962,234		W 6,962,234
Loan total	W 26,409,008	W 2,359,627	W 288,485	W 29,057,120	W (331,551)	W 28,725,569
Mortgage value of loan total	W 16,034,378	W 1,081,765	W 103,626	W 17,219,769		W 17,219,769
Financial assets at FVTOCI (*4)						
Above appropriate credit rating (*1)	W 2,501,044	W -	W -	W 2,501,044	W (815)	W 2,500,229
Less than a limited credit rating (*2)	-	-	-	-	-	-

	Stage 1	Stage 2	Stage 3	Subtotal	Allowance for bad debt	Total
Subtotal	W 2,501,044	W -	W -	W 2,501,044	W (815)	W 2,500,229
Mortgage value	W -	W -	W -	W -		W -
Securities at amortized cost						
Above appropriate credit rating (*1)	W 1,662,145	W -	W -	W 1,662,145	W (483)	W 1,661,662
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	W 1,662,145	W -	W -	W 1,662,145	W (483)	W 1,661,662
Mortgage value	W -	W -	W -	W -		W -
Other financial asset						
Above appropriate credit rating (*1)	W 675,582	W -	W -	W 675,582	W (10,823)	W 664,759
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	W 675,582	W -	W -	W 675,582	W (10,823)	W 664,759
Mortgage value	W -	W -	W -	W -		W -

(*1) Non-consumers are AAA – BBB, and consumers are grades 1–6.
(*2) Non-consumers are BBB- – C, and consumers are grades 7–10.
(*3) Mortgage value is the amount distributed when allowance for bad debt is calculated.
(*4) It is included in accumulated other comprehensive income because allowance for bad debt of financial assets at FVTOCI does not decrease the carrying amount.

3) As of December 31, 2017, loans are classified as follows (Unit: Korean won in millions):

	December 31, 2017					
	Consumers		Non-consumers		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Loans neither overdue nor impaired	W 10,098,201	99.75	W 15,288,551	98.69	W 25,386,752	99.11
Loans overdue, but not impaired	12,711	0.13	19,167	0.12	31,878	0.12
Impaired loans	12,146	0.12	229,554	1.19	241,700	0.77
Gross loans	10,123,058	100.00	15,537,272	100.00	25,660,330	100.00
Allowance for credit losses	(15,813)		(320,788)		(336,601)	
Net	W 10,107,245		W 15,216,484		W 25,323,729	

4) As of December 31, 2017, details of loans that are neither past due nor impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Above appropriate credit rating (*1)	W 9,631,771	W 14,657,128	W 24,288,899
Less than a limited credit rating (*2)	466,430	631,423	1,097,853
Total	W 10,098,201	W 15,288,551	W 25,386,752
Mortgage value (*3)	W 8,967,397	W 10,884,230	W 19,851,627

5) As of December 31, 2017, details of loans that are past due but not impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Less than 30 days	W 9,009	W 17,242	W 26,251
30–59 days	2,036	377	2,413
60–89 days	1,666	1,548	3,214
Total	W 12,711	W 19,167	W 31,878
Mortgage value	W 11,016	W 17,944	W 28,960

6) As of December 31, 2017, details of loans that are impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Loans	₩ 12,146	₩ 229,554	₩ 241,700
Mortgage value	6,618	124,840	131,458

7) As of September 30, 2018, the credit risk exposure of off-balance accounts is as follows (Unit: Korean won in millions):

	Provision for financial guarantee	Acceptance and guarantee and other credit-related liabilities							
	Stage 1	Stage 2	Stage 3	Subtotal	12-month expected credit losses	Lifetime-expected credit losses	Credit-impaired financial assets	Subtotal	Total
Above appropriate credit rating (*1)	₩ 40,000	₩ 37,800	₩ -	₩ 77,800	₩2,300,963	₩ 83,980	₩ -	₩ 2,384,943	₩ 2,462,743
Less than a limited credit rating (*2)	-	-	-	-	36,310	21,885	1,000	59,195	59,195
Subtotal	₩ 40,000	₩ 37,800	₩ -	₩ 77,800	₩2,337,273	₩105,865	₩ 1,000	₩2,444,138	₩2,521,938

(*1) Non-consumers are AAA – BBB, and consumers are grades 1–6.
(*2) Non-consumers are BBB- – C, and consumers are grades 7–10.

8) As of September 30, 2018, details of debt instrument are as follows (Unit: Korean won in millions):

	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial assets at amortized cost	Total
AAA	₩ 221,838	₩ 2,361,190	₩ 1,469,689	₩ 4,052,717
AA- – AA+	19,114	139,854	173,579	332,547
BBB- – A+	-	-	18,877	18,877
Less than BBB-	-	-	-	-
Non-graded	26,154	-	-	26,154
Total	₩ 267,106	₩ 2,501,044	₩ 1,662,145	₩ 4,430,295

9) As of December 31, 2017, creditworthiness of securities (excluding equity securities) is summarized as follows (Unit: Korean won in millions):

	December 31, 2017
Securities neither overdue nor impaired	₩ 4,409,535
Impaired securities	-
Total	₩ 4,409,535

10) As of December 31, 2017, details of securities (excluding equity securities) that are past due but not impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017			
	Financial assets held for trading	AFS financial assets	HTM financial assets	Total
AAA	₩ 200,252	₩ 2,773,490	₩ 1,081,630	₩ 4,055,372
AA- – AA+	19,973	139,535	181,723	341,231
BBB- – A+	-	-	12,932	12,932
Total	W 220,225	W 2,913,025	W 1,276,285	W 4,409,535

11) As of September 30, 2018, and December 31, 2017, the following tables analyze credit risk exposure by geographical areas (Unit: Korean won in millions):

	September 30, 2018						
	Due from banks	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial assets at amortized cost		Off-balance accounts	Total
				Securities	Loans		
Domestic	W 596,745	W267,106	W2,501,044	W1,662,145	W28,861,846	W2,521,938	W36,410,824
Foreign	385,730	-	-	-	195,274	-	581,004
Total	W 982,475	W267,106	W2,501,044	W1,662,145	W29,057,120	W2,521,938	W36,991,828

	December 31, 2017				
	Loans	Financial assets held for trading	AFS financial assets	HTM financial assets	Total
Domestic	W 25,115,326	W 220,225	W 2,913,025	W 1,276,285	W 29,524,861
Foreign	208,403	-	-	-	208,403
Total	W 25,323,729	W 220,225	W 2,913,025	W 1,276,285	W 29,733,264

12) The following table analyzes credit risk exposure of financial instrument by industries as of September 30, 2018, and credit risk exposure of loans by industries as of December 31, 2017 (Unit: Korean won in millions):

	September 30, 2018						
	Due from banks	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial assets at amortized cost		Off-balance accounts	Total
				Securities	Loans		
Finance	₩ 982,475	₩ 235,959	₩1,590,084	₩1,263,165	₩ 2,622,494	₩ 243,434	₩ 6,937,611
Construction	-	-	89,757	107,081	273,925	14,227	484,990
Wholesale and retail	-	-	-	-	1,448,133	163,160	1,611,293
Real estates and lease business	-	31,147	30,342	9,839	5,441,732	124,403	5,637,463
Lodging and restaurant business	-	-	-	-	1,416,915	11,775	1,428,690
Households	-	-	-	-	11,471,981	-	11,471,981
Others	-	-	790,861	282,060	6,381,940	1,964,939	9,419,800
Total	W 982,475	W 267,106	W2,501,044	W1,662,145	W29,057,120	W2,521,938	W36,991,828

	December 31, 2017	
	Amount	Ratio (%)
Finance	₩ 2,401,716	9.48
Construction	364,827	1.44
Wholesale and retail	1,430,381	5.65
Real estates and lease business	5,271,285	20.82
Lodging and restaurant business	1,456,483	5.75
Households	7,931,561	31.32
Others	6,467,476	25.54
Total	₩ 25,323,729	100.00

13) If the Group determines that it is not feasible to recover the principal amount of the impaired financial asset, it shall amortize some or all of the net book value of the financial asset. These judgments are carried out in accordance with internal rules of the Group and continue to be managed by the collection policy of Groups even after bad debt default. Amount recovered after amortization is recognized in profit or loss. Although the Group amortized, the balance of the claim that can be claimed due to the incompleteness of the statute of limitations is ₩362,081 million and ₩406,077 million as of September 30, 2018, and December 31, 2017, respectively. The Group continues to manage the financial instruments in accordance with the internal collection rules.

(3) Liquidity risk

Liquidity risk is the risk that the Group becomes insolvent due to uncertain liquidity caused by unexpected cash outflows or the risk of borrowing high-interest debts or disposal of liquid and other assets at a substantial discount.

The Group sets allowable limits for liquidity risk management index more than once a year, considering changes in market environment and business policies. Compliance of the allowable limits is monitored on a regular basis. Additionally, the Group develops contingency plans to identify liquidity trends worsened as a result of dramatic changes in financial market and provides effective countermeasures against cash outflows and liquidity risk. The Group monitors its contingency plans on a regular basis.

1) Remaining contractual maturity and future cash flows of non-derivative financial liabilities as of September 30, 2018, and December 31, 2017, are summarized as follows (Unit: Korean won in millions):

	September 30, 2018					
	Less than 3 months	3 months –1 year	1 year –3 years	3 years –5 years	Above 5 years	Total
Deposits	₩ 11,275,004	₩ 11,621,256	₩1,736,364	₩ 635,445	₩ 42,822	₩25,310,891
Borrowings	719,843	759,438	243,811	173,473	111,487	2,008,052
Corporate bonds	727,360	1,750,891	2,258,958	177,090	-	4,914,299
Other liabilities	237,997	-	-	499,880	-	737,877
Total	₩ 12,960,204	₩14,131,585	₩4,239,133	₩1,485,888	₩ 154,309	₩32,971,119
Off-statement-of-financial-position items (*)						
Acceptance and guarantee	₩ 337,784	₩ -	₩ -	₩ -	₩ -	₩ 337,784
Commitments	4,889,199	-	-	-	-	4,889,199
Total	₩ 5,226,983	₩ -	₩ -	₩ -	₩ -	₩ 5,226,983

	December 31, 2017					
	Less than 3 months	3 months –1 year	1 year –3 years	3 years –5 years	Above 5 years	Total
Deposits	₩ 8,124,077	₩ 11,137,444	₩1,538,841	₩ 673,953	₩ 43,726	₩21,518,041
Borrowings	797,301	582,511	224,603	259,826	106,900	1,971,141
Corporate bonds	649,954	2,171,882	2,384,149	204,578	-	5,410,563
Other liabilities	613,821	-	-	253,772	-	867,593
Total	₩ 10,185,153	₩ 13,891,837	₩4,147,593	₩1,392,129	₩ 150,626	₩29,767,338
Off-statement-of-financial-position items (*)						
Acceptance and guarantee	₩ 291,792	₩ -	₩ -	₩ -	₩ -	₩ 291,792
Commitments	2,369,615	-	-	-	-	2,369,615
Total	₩ 2,661,407	₩ -	₩ -	₩ -	₩ -	₩ 2,661,407

(*) The earliest period in which the commitment could be executed is regarded as the beginning.

2) Remaining contractual maturity and future cash flows of derivative financial liabilities as of September 30, 2018, and December 31, 2017, are summarized as follows (Unit: Korean won in millions):

	September 30, 2018					
	Less than 3 months	3 months– 1 year	1 year– 3 years	3 years– 5 years	Above 5 years	Total
Derivatives	₩ 15,902	₩ 43,318	₩ 1,945	₩ 136	₩ 2,983	₩ 64,284

	December 31, 2017					
	Less than 3 months	3 months– 1 year	1 year– 3 years	3 years– 5 years	Above 5 years	Total
Derivatives	₩ 44,268	₩ 21,226	₩ 20,408	₩ 70	₩ 3,177	₩ 89,149

(4) Market risk

Market risk is the risk of possible losses on trading positions resulting from changes in market factors, such as interest rate, stock price, foreign exchange rate and market value of instruments. The Group's approach to hedge or mitigate market risk includes internal processes, such as root cause analysis for each risk factor, measurement of the risk factors and appropriateness test on its risk management methods. The Group calculates 10-day Value at Risk ("VaR") using the variance-covariance method and a 99.5% confidence level when calculating market risk.

The Risk Management Council annually sets VaR limits, position limits and loss limits of each division and instrument. Compliance of such limits is monitored daily and reported to the management and the Risk Management Council on a regular basis.

The Standardized Approach and the internal model (VaR) are used to estimate market risk. The Standardized Approach is used to calculate the required capital from market risk, and the internal model is used to manage risks internally.

1) The following tables show VaR as of September 30, 2018, and December 31, 2017 (Unit: Korean won in millions):

	September 30, 2018			
	Maximum	Minimum	Average	Ending balance
Interest rate risk	₩ 504	₩ 86	₩ 222	₩ 178
Stock price risk	1,448	-	795	-
Foreign exchange rate risk	976	3	88	83
Diversification	(967)	58	(223)	(68)
Total VaR	₩ 1,961	₩ 147	₩ 882	₩ 193

	December 31, 2017							
	Maximum		Minimum		Average		Ending balance	
Interest rate risk	₩	584	₩	126	₩	352	₩	302
Stock price risk		1,538		139		791		1,483
Foreign exchange rate risk		1,867		9		155		203
Diversification		(2,199)		36		(335)		(381)
Total VaR	₩	1,790	₩	310	₩	963	₩	1,607

2) The following table shows interest rate VaR and Earnings at Risk ("EaR") as of September 30, 2018, and December 31, 2017 (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017		Increase (decrease)	
Interest rate VaR	₩	26,220	₩	58,168	₩	(31,948)
Interest rate EaR		94,445		99,026		(4,581)

3) Details of assets and liabilities denominated in foreign currency, which are then converted into Korean won, as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018											
	USD		EUR		JPY		GBP		Others		Total	
Cash and due from banks	W	420,512	W	11,980	W	12,508	W	898	W	6,026	W	451,924
Securities at amortized cost		93,937		-		-		-		-		93,937
Loans at amortized cost		1,013,437		41,830		97,412		2,414		2,179		1,157,272
Other financial assets at amortized cost		125,477		6,085		14,139		-		1,678		147,379
Total	W	1,653,363	W	59,895	W	124,059	W	3,312	W	9,883	W	1,850,512
Deposits	₩	437,696	₩	5,125	₩	15,382	₩	253	₩	3,269	₩	461,725
Borrowings		735,432		32,054		79,380		-		-		846,866
Corporate bonds		398,776		-		-		-		-		398,776
Provisions		694		176		39		-		-		909
Other liabilities		90,016		22,146		28,591		148		1,962		142,863
Total	W	1,662,614	W	59,501	W	123,392	W	401	W	5,231	W	1,851,139
Off-statement-of-financial-position items	₩	1,014,773	₩	27,687	₩	15,089	₩	453	₩	-	₩	1,058,002

	December 31, 2017											
	USD		EUR		JPY		GBP		Others		Total	
Cash and due from banks	₩	574,301	₩	12,612	₩	21,854	₩	2,132	₩	4,113	₩	615,012
Loans and receivables		926,355		36,750		84,303		1,084		1,073		1,049,565
HTM financial assets		105,573		-		-		-		-		105,573
Other assets		759,992		30,016		74,220		1,128		3,281		868,637
Total	W	2,366,221	W	79,378	W	180,377	W	4,344	W	8,467	W	2,638,787
Deposits	₩	500,570	₩	8,471	₩	23,949	₩	194	₩	1,300	₩	534,484
Borrowings		721,186		13,667		78,824		-		7		813,684
Corporate bonds		385,014		-		-		-		-		385,014
Other liabilities		242,137		27,237		5,684		3		198		275,259
Total	W	1,848,907	W	49,375	W	108,457	W	197	W	1,505	W	2,008,441
Off-statement-of-financial-position items	₩	975,964	₩	27,565	₩	21,603	₩	168	₩	130	₩	1,025,430

(5) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Events are classified into seven categories: a) internal fraud; b) external fraud; c) employment practices and workplace safety; d) clients/products and business practices; e) damage to physical assets; f) business disruption and system failure and g) execution, delivery and process management.

To fulfill its purpose to control or mitigate operational risk, the Group sets risk limits, assesses the feasibility of its control strategies and selects appropriate approaches suitable for operational risk. The approaches include internal processes, such as identification of controls over operational risk, assessment of the effectiveness of the controls, data management, measurement of operational risk and ongoing monitoring of operational risk.

(6) Capital management

The Group monitors and manages internal capital, which supports various risks and ensures that the Group continues to engage in its businesses. Internal capital is the amount of capital to prevent the inability of payment due to unexpected loss in the future.

The purpose of monitoring capital is to monitor the soundness of finance and provide risk-adjusted basis for performance review by comparing internal capital and available capital (actual amount of available capital). The Group adopts Basel III, which is the standard of capital regulation of the Basel Committee on Banking Supervision of Bank for International Settlement ("BIS").

The Group's BIS capital ratios, which are calculated based on the consolidated interim financial statements, as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Total risk-adjusted capital	W	2,915,139	₩	2,807,127
Tier 1 common capital		2,283,716		2,113,351
Other Tier 1 capital		199,649		199,799
Tier 2 capital		431,774		493,977
Total risk-weighted assets		20,813,487		19,285,026
Risk-weighted assets for credit risk		19,792,499		18,317,722
Risk-weighted assets for operational risk		966,719		867,520
Risk-weighted assets for market risk		54,269		99,784
Capital adequacy ratio (%)				
Common equity Tier 1 ratio (%)		10.97		10.96
Tier 1 capital ratio (%)		11.93		11.99
Total capital ratio (%)		14.01		14.56

The Group meets the minimum capital requirements (capital stock-common ratio of 6.375%, Tier 1 capital ratio of 7.875% and total capital ratio of 9.875%) as described in the above table.

5. OPERATING SEGMENTS:

The Group's reporting segments comprise the following customers: marketing, funds, investment banking and others. The Group classifies reporting segments based on its management organization.

Operations by division for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018						
	Operations	Capital	Investment	Others	Subtotal	Adjustment	K-IFRS
Net interest income	₩ 451,471	₩ (44,266)	₩ 10,350	₩ 50,187	₩ 467,742	₩ 8,216	₩ 475,958
Interest income	947,857	110,656	29,133	69,082	1,156,728	(280,506)	876,222
(Interest income related to external customers)	708,062	70,906	29,133	59,905	868,006	8,216	876,222
Interest expense	(496,386)	(154,922)	(18,783)	(18,895)	(688,986)	288,722	(400,264)
(Interest expense related to external customers)	(292,113)	(94,271)	-	(13,880)	(400,264)	-	(400,264)
Net fee income	32,620	493	5,118	9,672	47,903	(19,969)	27,934
Fee income	34,544	560	5,118	9,787	50,009	(9,785)	40,224
Fee expense	(1,924)	(67)	-	(115)	(2,106)	(10,184)	(12,290)
Net gain (loss) on financial instruments	-	(1,141)	(175)	423	(893)	681	(212)
Bad debt expense	(35,987)	143	(2,677)	19,962	(18,559)	(14)	(18,573)
Other operating income	(210,951)	966	(2,495)	(10,276)	(222,756)	11,095	(211,661)
Operating income	237,153	(43,805)	10,121	69,968	273,437	9	273,446
Non-operating income	309	2	-	(20,200)	(19,889)	-	(19,889)
Net income before income tax expense	237,462	(43,803)	10,121	49,768	253,548	9	253,557
Income tax expense	(57,466)	10,600	(2,449)	(12,050)	(61,365)	1,806	(59,559)
Net income	179,996	(33,203)	7,672	37,718	192,183	1,815	193,998

	For the nine months ended September 30, 2017						
	Operations	Capital	Investment	Others	Subtotal	Adjustment	K-IFRS
Net interest income	₩ 393,760	₩ (54,153)	₩ 11,455	₩ 41,472	₩ 392,534	₩ 2,933	₩ 395,467
Interest income	712,973	68,239	29,079	63,415	873,706	(185,730)	687,976
(Interest income related to external customers)	554,615	48,681	29,079	52,667	685,042	2,934	687,976
Interest expense	(319,213)	(122,392)	(17,624)	(21,943)	(481,172)	188,663	(292,509)
(Interest expense related to external customers)	(194,687)	(80,470)	-	(17,350)	(292,507)	(2)	(292,509)
Net fee income	43,229	491	10,449	1,636	55,805	(14,399)	41,406
Fee income	48,238	623	10,449	1,715	61,025	(8,218)	52,807
Fee expense	(5,009)	(132)	-	(79)	(5,220)	(6,181)	(11,401)
Net gain (loss) on financial instruments	-	6,099	(12,561)	583	(5,879)	1,188	(4,691)
Bad debt expense	(37,013)	433	(2,226)	21,411	(17,395)	-	(17,395)
Other operating income	(186,049)	(2,834)	(2,657)	(15,810)	(207,350)	10,276	(197,074)
Operating income	213,927	(49,964)	4,460	49,292	217,715	(2)	217,713
Non-operating income	220	-	-	(19,227)	(19,007)	(1)	(19,008)
Net income before income tax expense	214,147	(49,964)	4,460	30,065	198,708	(3)	198,705
Income tax expense	(51,824)	12,091	(1,079)	(7,241)	(48,053)	2,320	(45,733)
Net income	162,323	(37,873)	3,381	22,824	150,655	2,317	152,972

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

(1) Accounting policy

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. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period.

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Group determines the fair value using alternative assumptions and developing fair value measurement methods.

Alternative assumptions and fair value measurement methods for each type of financial instruments are as follows:

	Fair value measurement techniques	Alternative assumptions
Securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined by independent third-party pricing services when quoted prices are not available.	Risk-free market rate, credit spread, market risk premium and beta
Loans	Discounted Cash Flow ("DCF") Model is used to determine the fair value of loans.	Risk-free market rate, credit spread and prepayment rate
Derivatives	For derivatives, quoted price in an active market is used to determine fair value. If there is no active market for derivatives, the fair value is determined using the valuations of independent third-party pricing services or internally developed valuation models.	Risk-free market rate, forward rate, foreign exchange rate, etc.
Deposits	The carrying amount of demand deposit is regarded as fair value, as it does not have maturity, and the amount approximates the fair value. Fair value of time deposit is determined using the DCF Model.	Risk-free market rate, credit spread and prepayment rate
Borrowings	Carrying amount of overdraft in foreign currency is regarded as representative of fair value. Fair value of other borrowings is determined using the DCF Model.	Risk-free market rate and forward rate
Debenture	Fair value is determined using the valuations of independent third-party pricing services.	Risk-free market rate and forward rate

(2) Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable, and that the fair values recognized in the consolidated interim statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the consolidated interim statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there are a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses fair value of financial instruments into the following three-level hierarchy:

- Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest-level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

1) Hierarchy of financial assets and liabilities measured at fair value as of September 30, 2018, and December 31, 2017, is as follows (Unit: Korean won in millions):

	September 30, 2018							
	Level 1 (*1)		Level 2 (*1)		Level 3(*2)		Total	
Financial assets:								
Financial assets at FVTPL	W	1,073	W	267,106	W	1,837	W	270,016
Equity securities		1,073		-		1,649		2,722
Debt securities		-		241,891		-		241,891
Beneficiary certificate		-		25,215		188		25,403
Financial assets at FVTOCI		535,037		1,970,716		12,034		2,517,787
Equity securities		4,709		-		12,034		16,743
Debt securities		530,328		1,970,716		-		2,501,044
Derivative assets		-		62,224		-		62,224
Total	W	536,110	W	2,300,046	W	13,871	W	2,850,027
Financial liabilities:								
Derivative liabilities	W	-	W	64,284	W	-	W	64,284

	December 31, 2017							
	Level 1 (*1)		Level 2 (*1)		Level 3(*3)		Total	
Financial assets:								
Financial assets held for trading:	W	66,035	W	180,612	W	-	W	246,647
Equity securities		26,367		-		-		26,367
Debt securities		39,668		180,557		-		220,225
Beneficiary certificate		-		55		-		55
Financial assets designated at FVTPL:		-		-		119		119
Equity securities		-		-		119		119
AFS financial assets:		697,544		2,216,646		13,156		2,927,346
Equity securities		1,165		-		13,156		14,321
Debt securities		696,379		2,216,646		-		2,913,025
Derivative assets		-		82,653		-		82,653
Total	W	763,579	W	2,479,911	W	13,275	W	3,256,765
Financial liabilities:								
Derivative liabilities	W	-	W	89,149	W	-	W	89,149

(*1) There were no significant transfers between Level 1 and Level 2. The Group recognizes transfers between levels at the end of reporting period within which events have occurred or conditions have changed.

(*2) Certain FVTOCI unquoted equity securities were regarded cost as fair value as of September 30, 2018, that amounted to W687 million.

(*3) Certain AFS unquoted equity securities were measured at cost as of December 31, 2017, that amounted to W642 million.

2) The valuation techniques and input variables of Level 2 financial instruments measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Fair value		Valuation technique
Financial assets:			
Financial assets at FVTPL			
Debt securities	₩	241,891	DCF Model
Beneficiary certificate		25,215	DCF Model
Financial assets at FVTOCI			
Debt securities		1,970,716	DCF Model
Derivative assets		62,224	DCF Model
Total	₩	2,300,046	
Financial liabilities:			
Derivative liabilities	₩	64,284	DCF Model

	December 31, 2017		
	Fair value		Valuation technique
Financial assets:			
Financial assets held for trading:			
Debt securities	₩	180,557	DCF Model
Beneficiary certificate		55	DCF Model
AFS financial assets:			
Debt securities		2,216,646	DCF Model
Derivative assets		82,653	DCF Model
Total	₩	2,479,911	
Financial liabilities:			
Derivative liabilities	₩	89,149	DCF Model

3) The valuation techniques, input variables and significant unobservable inputs of Level 3 financial instruments, measured at fair value, as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018			
	Fair value	Valuation techniques	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets at FVTPL:				
Equity securities (*1)		DCF Model	Net sales growth rate, rate of operating profits, liquidating value and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate, liquidating value and rate of operating profits increase (decrease) and weighted-average cost of capital decreases (increases).
	₩ 1,649	Binomial Model	Stock volatility	Fair value increases (decreases) when stock volatility increases (decreases)
Beneficiary certificate	188	Net Asset Value Method	Net asset value	Fair value increases (decreases) when net asset value increases (decreases)
Financial assets at FVTOCI:				
Equity securities (*2)	12,034	DCF Model, Net Asset Value Method and Dividend Discount Model	Net sales growth rate, rate of operating profits, liquidating value and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate, rate of operating profits and liquidating value increase (decrease) and weighted-average cost of capital decreases (increases).
Total	₩13,871			

	December 31, 2017			
	Fair value	Valuation techniques	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets at FVTPL:				
Equity securities	₩ 119	DCF Model	Net sales growth rate, rate of operating profits and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate and rate of operating profits increase (decrease) and weighted-average cost of capital decreases (increases).
AFS financial assets:				
Equity securities	13,156	DCF Model, Net Asset Value Method and Dividend Discount Model	Net sales growth rate, rate of operating profits, liquidating value and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate, rate of operating profits and liquidating value increase (decrease) and weighted- average cost of capital decreases (increases).
Total	₩13,275			

4) As of September 30, 2018, and December 31, 2017, the effects of significant and unobservable inputs of Level 3 financial instruments on net income and other comprehensive income are as follows (Unit: Korean won in millions):

	September 30, 2018					
	Unobservable input variables	Rationally possible changes in unobservable input variables	Net income		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
Financial assets at FVTPL (K-IFRS 1109)	Stock price Volatility	+/- 10.0% +/- 10.0%	₩ 753	₩ (501)	₩ -	₩ -
Financial assets at FVTOCI	Discount rate Growth rate	+/- 1.0%P +/- 1.0%P	-	-	658	(352)
Total			₩ 753	₩ (501)	₩ 658	₩ (352)

	December 31, 2017					
	Unobservable input variables	Rationally possible changes in unobservable input variables	Net income		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
Financial assets designated at FVTPL	Stock price Volatility	+/- 10.0% +/- 10.0%	₩ 2	₩ (2)	₩ -	₩ -
AFS financial assets	Discount rate Growth rate	+/- 1.0%P +/- 1.0%P	250	(694)	1,049	(129)
Total			W 252	W (696)	W 1,049	W (129)

5) As of September 30, 2018, and December 31, 2017, the changes in Level 3 financial instruments that are measured at fair value are as follows (Unit: Korean won in millions):

	September 30, 2018	
	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI
Beginning balance (*1)	₩ 2,100	₩ 11,174
Total comprehensive income (*2)	(163)	878
Net income	(163)	-
Retained earnings	-	17
Other comprehensive income	-	861
Purchases	-	-
Disposals	(100)	(18)
Amounts reclassified from other levels to Level 3	-	-
Amounts reclassified from Level 3 to other levels	-	-
Ending balance	₩ 1,837	₩ 12,034

(*1) It has been restated in accordance with K-IFRS 1109.
(*2) As of September 30, 2018, realized gains and losses of financial assets at FVTPL and Financial assets at FVTOCI are W2 million and W17 million, respectively.

	December 31, 2017	
	Financial assets designated at FVTPL	AFS financial assets
Beginning balance	₩ 120	₩ 23,258
Net income (*1)	(1)	(13,708)
Other comprehensive income (*2)	-	3,913
Purchases	-	166
Disposals	-	(473)
Amounts reclassified from other levels to Level 3	-	-
Amounts reclassified from Level 3 to other levels	-	-
Ending balance	₩ 119	₩ 13,156

(*1) Gains and losses recognized in profit or loss that are related to assets and liabilities held at September 30, 2018, and December 31, 2017, are ₩0 and ₩(13,711) million, respectively. Gains and losses arising from changes in the fair value of these assets and liabilities are included in other non-operating income and other non-operating expenses, respectively (see Note 35).
(*2) Gross gains and losses recognized in other comprehensive income are related to unlisted equity securities held at September 30, 2018, and December 31, 2017. They are recognized as a change in the gain or loss on AFS financial assets (see Note 12).

6) The book value and the fair value by hierarchy level of financial instruments subsequently not measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018				
			Fair value hierarchy		
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	W 1,132,091	W 1,132,091	W 150,462	W -	W 981,629
Loans at amortized cost	28,754,282	28,775,385	-	55,598	28,719,787
Securities at amortized cost	1,661,662	1,666,245	25,706	1,640,539	-
Other financial assets at amortized cost	658,058	665,462	394,169	-	271,293
Total	₩ 32,206,093	₩ 32,239,183	₩ 570,337	₩ 1,696,137	₩ 29,972,709
Financial liabilities:					
Deposits	W 25,013,502	W 25,022,792	W 5,276,220	W -	W 19,746,572
Borrowings (*1)	1,975,232	1,975,327	-	259,732	1,715,595
Debenture	4,753,550	4,756,446	-	4,756,446	-
Other financial liabilities	737,877	738,071	264,417	-	473,654
Total	₩ 32,480,161	₩ 32,492,636	₩ 5,540,637	₩ 5,016,178	₩ 21,935,821

	December 31, 2017				
			Fair value hierarchy		
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	₩ 1,283,663	₩ 1,283,663	₩ 166,426	₩ -	₩ 1,117,237
Loans	25,323,729	25,375,086	-	-	25,375,086
HTM financial assets	1,276,285	1,096,368	25,617	965,179	105,572
Other financial assets	693,300	693,300	446,961	-	246,339
Total	W 28,576,977	W 28,448,417	W 639,004	W 965,179	W 26,844,234
Financial liabilities:					
Deposits	₩ 21,279,863	₩ 21,262,072	₩ 4,604,765	₩ -	₩ 16,657,307
Borrowings (*1)	1,933,288	1,933,391	-	135,500	1,797,891
Debenture	5,224,625	5,234,118	-	5,234,118	-
Other financial liabilities	867,528	867,528	510,823	-	356,705
Total	W 29,305,304	W 29,297,109	W 5,115,588	W 5,369,618	W 18,811,903

(*1) The carrying amount of financial instruments classified as Level 2 is regarded as fair value, as the carrying amount is a reasonable approximation of fair value.

7) The valuation techniques and the input variables of Level 2 financial instruments subsequently not measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	
	Valuation techniques	Input variables
Loans at amortized cost	DCF Model	Discount rate
Financial assets at amortized cost	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Debenture	DCF Model	Discount rate

	December 31, 2017	
	Valuation techniques	Input variables
HTM financial assets	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Debenture	DCF Model	Discount rate

8) The valuation techniques, the input variables and the significant unobservable inputs of Level 3 financial instruments subsequently not measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	Valuation techniques	Significant unobservable inputs
Loans	DCF Model	Discount rate
Securities at amortized cost	DCF Model	Discount rate
HTM financial assets	DCF Model	Discount rate
Deposits	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Other financial assets at amortized cost	DCF Model	Discount rate
Other financial assets	DCF Model	Discount rate
Other financial liabilities	DCF Model	Discount rate

(3) Carrying amount of financial instruments

Financial assets and liabilities are measured at either fair value or amortized cost. The carrying amounts of financial assets and liabilities measured at amortized cost as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018			
	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial liabilities at amortized cost	Total
Financial assets:				
Cash and due from banks	₩ -	₩ -	₩ 1,132,091	₩ 1,132,091
Financial assets at FVTPL (K-IFRS 1109)	270,016	-	-	270,016
Derivative financial instruments	62,224	-	-	62,224
Loans	-	-	28,754,282	28,754,282
Investment	-	2,517,787	1,661,662	4,179,449
Other financial assets	-	-	658,058	658,058
Total	₩ 332,240	₩ 2,517,787	₩ 32,206,093	₩ 35,056,120

	September 30, 2018			
	Financial liabilities at FVTPL (K-IFRS 1109)	Financial liabilities at amortized cost	Hedge derivatives	Total
Financial liabilities:				
Derivative financial instruments	₩ 62,778	₩ -	₩ 1,506	₩ 64,284
Deposits	-	25,013,502	-	25,013,502
Borrowings	-	1,975,232	-	1,975,232
Debenture	-	4,753,550	-	4,753,550
Other financial liabilities	-	737,877	-	737,877
Total	₩ 62,778	₩ 32,480,161	₩ 1,506	₩ 32,544,445

	December 31, 2017				
	Financial assets at FVTPL	Loans	AFS securities	HTM securities	Total
Financial assets:					
Cash and due from banks	₩ -	₩ 1,283,663	₩ -	₩ -	₩ 1,283,663
Financial assets at FVTPL	246,766	-	-	-	246,766
Derivative financial instruments	82,653	-	-	-	82,653
Loans	-	25,323,729	-	-	25,323,729
Investment	-	-	2,927,346	1,276,285	4,203,631
Other financial assets	-	693,300	-	-	693,300
Total	₩ 329,419	₩ 27,300,692	₩ 2,927,346	₩1,276,285	₩ 31,833,742

	December 31, 2017			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedge derivatives	Total
Financial liabilities:				
Derivative financial instruments	W 88,426	W -	W 723	W 89,149
Deposits	-	21,279,863	-	21,279,863
Borrowings	-	1,933,288	-	1,933,288
Debenture	-	5,224,625	-	5,224,625
Other financial liabilities	-	867,528	-	867,528
Total	W 88,426	W 29,305,304	W 723	W 29,394,453

(4) Transfers of financial assets

Details of asset and liability with transfers that do not qualify for derecognition as of September 30, 2018, and December 31, 2017, are as follows:

	September 30, 2018		December 31, 2017	
	Amount of transferred asset	Amount of related liability	Amount of transferred asset	Amount of related liability
Bonds sold under repurchase agreements ("RPs")	W 9,948	W 7,932	W 9,882	W -

(5) The offset with financial assets and liabilities

As of September 30, 2018, and December 31, 2017, the financial assets and liabilities to be set off, and may be covered by master netting agreements and similar agreements, are given as below.

Financial assets	September 30, 2018					
				Related amounts not set off in the consolidated interim statements of financial position		
	Gross amounts of recognized assets	Gross amounts of recognized liabilities set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and receivable spot exchange	W 260,970	W -	W 260,970	W 205,291	W 5	W 55,674
Collateralized securities sold under repurchase agreements	10,000	-	10,000	10,000	-	-
Domestic exchanges receivable	9,948	-	9,948	7,932	-	2,016
Total	604,631	409,208	195,423	-	-	195,423
	₩ 885,549	₩ 409,208	₩ 476,341	₩ 223,223	₩ 5	₩ 253,113

Financial liabilities	September 30, 2018					
				Related amounts not set off in the consolidated interim statements of financial position		
	Gross amounts of recognized liabilities	Gross amounts of recognized assets set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and payable spot exchange	₩ 262,689	₩ -	₩ 262,689	₩ 235,692	₩ -	₩ 26,997
Bonds sold under repurchase agreements	7,932	-	7,932	7,932	-	-
Domestic exchanges payable	475,220	409,208	66,012	-	-	66,012
Total	₩ 745,841	₩ 409,208	336,633	₩ 243,624	₩ -	₩ 93,009

Financial assets	December 31, 2017					
				Related amounts not set off in the consolidated interim statements of financial position		
	Gross amounts of recognized assets	Gross amounts of recognized liabilities set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and receivable spot exchange	₩ 505,260	₩ -	₩ 505,260	₩ 475,965	₩ 66	₩ 29,229
Domestic exchanges receivable	509,303	484,948	24,355	-	-	24,355
Total	₩ 1,014,563	₩ 484,948	₩ 529,615	₩ 475,965	₩ 66	₩ 53,584

Financial liabilities	December 31, 2017					
				Related amounts not set off in the consolidated interim statements of financial position		
	Gross amounts of recognized liabilities	Gross amounts of recognized assets set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and payable spot exchange	W 511,890	W -	W 511,890	W 475,289	W -	W 36,601
Domestic exchanges payable	573,030	484,948	88,082	-	-	88,082
Total	₩ 1,084,920	₩ 484,948	₩ 599,972	₩ 475,289	₩ -	₩ 124,683

7. CASH AND DUE FROM BANKS:

(1) Cash and due from banks are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Cash and Cash equivalents	W	149,616	W	130,497
Due from banks:				
Due from the Bank of Korea ("BOK")		559,796		553,989
Due from others		422,679		599,177
Subtotal		982,475		1,153,166
Total	W	1,132,091	W	1,283,663

(2) Restricted due from banks in Korean won and foreign currencies is as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017		Reason for restriction
Due from banks in Korean won:					
Reserve on deposit with BOK	W	544,614	W	523,821	Deposits for liquidity management required under *BOK Act*
Customer deposit - beneficiary		639		3,093	Required under *Financial Investment Services and Capital Markets Act*
Due from banks in foreign currencies:					
Reserve on deposit with BOK		15,182		30,168	Deposits for liquidity management required under *BOK Act*
Total	W	560,435	W	557,082	

(3) Details of due from banks are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Due from banks in Korean won:				
Reserve on deposit	W	544,614	W	523,821
Customer deposit - beneficiary		639		3,093
Others		18,413		35,966
		563,666		562,880
Due from banks in foreign currencies:				
Reserve on deposit		15,182		30,168
Due from banks on demand		403,627		560,118
		418,809		590,286
	W	982,475	W	1,153,166

8. FINANCIAL INSTRUMENTS DESIGNATED AS AT FVTPL:

(1) Details of financial instruments designated as at FVTPL are as follows (Unit: Korean won in millions):

		December 31, 2017
Equity securities in Korean won	₩	119

The Group designates compound financial instruments with multiple embedded derivatives, which are permitted to be designated as at FVTPL, in accordance with K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, as financial assets at FVTPL.

(2) Gains and losses related to financial assets designated at FVTPL for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Gains on financial instruments designated at FVTPL	₩	167
Losses on financial instruments designated at FVTPL		(22)
Total	₩	145

9. FINANCIAL ASSETS AT FVTPL:

(1) Details of financial assets at FVTPL are as follows (Unit: Korean won in millions):

		September 30, 2018
Debt securities	₩	241,891
Equity securities		2,722
Beneficiary certificate		25,403
Total	₩	270,016

(2) Details of gains and losses related to financial assets at FVTPL for the nine months ended September 30, 2018, are as follows (Unit: Korean won in millions):

		Amount
Gains on financial assets at FVTPL:		
Gains on disposal	₩	1,809
Gains on valuation		502
Dividend income		408
Subtotal		2,719
Losses on financial assets at FVTPL:		
Losses on disposal		3,040
Loss on valuation		232
Subtotal		3,272
Total	₩	(553)

10. FINANCIAL ASSETS HELD FOR TRADING:

(1) Details of financial assets held for trading are as follows (Unit: Korean won in millions):

		December 31, 2017
Debt securities	₩	220,225
Equity securities		26,367
Beneficiary certificate		55
Total	₩	246,647

(2) Details of gains and losses related to financial assets held for trading for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Gains on trading assets:		
Trading income	₩	1,174
Gains on valuation		1,677
Dividend income		44
Subtotal		2,895
Losses on trading assets:		
Trading losses		(665)
Loss on valuation		(647)
Subtotal		(1,312)
Total	₩	1,583

11. FINANCIAL ASSETS AT FVTOCI:

(1) Details of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

		September 30, 2018
Debt securities:		
Government and public bonds	W	599,621
Financial institution bonds		929.918
Corporate bonds		971.505
Subtotal		2,501,044
Equity securities:		
Stocks		11,955
Equity investments		4,788
Subtotal		16.743
Total	₩	2,517,787

(2) Changes in accumulated other comprehensive income (loss) of financial assets at FVTOCI for the nine months ended September 30, 2018, are as follows (Unit: Korean won in millions):

		Beginning Balance (*1)		Valuation		Reclassification adjustments		Ending balance
Equity securities	₩	3,784	₩	(441)	₩	(17)	₩	3,326
Debt securities		(15,849)		14,798		(3,020)		(4,071)
Subtotal		(12,065)		14,357		(3,037)		(745)
Deferred income tax effect		2,920						180
Total	₩	(9,145)					₩	(565)

(*1) It has been restated in accordance with K-IFRS 1109.

(3) Details of the loss allowance of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Debt securities:				
Government and public bonds	₩ 108	₩ -	₩ -	₩ 108
Financial institution bonds	168	-	-	168
Corporate bonds	342	-	-	342
Total	W 618	W -	W -	W 618

(4) Changes in the loss allowance of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Beginning balance	W 695	W -	W -	W 695
Transfer to 12-month expected credit losses	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Net reversal of allowance of credit loss	190	-	-	190
Disposal	(267)	-	-	(267)
Exchange rate effect	-	-	-	-
Ending balance	W 618	W -	W -	W 618

(5) Gains and losses related to financial assets at FVTOCI for the nine months ended September 30. 2018, are as follows (Unit: Korean won in millions):

	Amount
Dividend income	₩ 41
Gains on disposal of financial assets at FVTOCI	3,525
Losses on disposal of financial assets at FVTOCI	(505)
Total	₩ 3,061

12. AFS FINANCIAL ASSETS:

(1) Details of AFS financial assets are as follows (Unit: Korean won in millions):

	December 31, 2017
Debt securities:	
Government and public bonds	₩ 764,927
Financial institution bonds	1,095,812
Corporate bonds	1,052,286
Subtotal	2,913,025
Equity securities:	
Stocks	9,969
Equity investments	4,352
Subtotal	14,321
Total	₩ 2,927,346

(2) Changes in accumulated other comprehensive income (loss) of AFS financial assets for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase (decrease)	Reclassification adjustments (*1)	Ending balance
Equity securities	₩ 2,932	₩ (9,873)	₩ 10,741	₩ 3,800
Debt securities	(3,796)	(1,736)	(1,992)	(7,523)
	(864)	(11,609)	8,749	(3,723)
Deferred income tax effect	209			901
	₩ (655)			₩ (2,822)

(*1) ₩1,669 million was recognized in loss due to impairment of equity securities.

(3) Gains and losses related to AFS financial assets for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Amount
Gains on disposal of AFS financial assets	₩ 5,684
Losses on disposal of AFS financial assets	(1,078)
Dividend income	333
Total	₩ 4,939

(4) Impairment losses related to AFS financial assets for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Amount
Impairment loss on AFS financial assets	W (13,355)

13. SECURITIES AT AMORTIZED COST:

(1) Details of securities at amortized cost are as follows (Unit: Korean won in millions):

	September 30, 2018
Securities at amortized cost in Korean won:	
Government and public bonds	₩ 128,193
Financial institution bonds	110,000
Corporate bonds	1,330,368
Subtotal	1,568,561
Securities at amortized cost in foreign currencies:	
Financial institution bonds	54,205
Corporate bonds	39,379
Subtotal	93,584
Allowance for credit loss	(483)
Total	₩ 1,661,662

(2) Details of the loss allowance of securities at amortized cost are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Securities at amortized cost in Korean won:				
Government and public bonds	₩ 31	₩ -	₩ -	₩ 31
Financial institution bonds	26	-	-	26
Corporate bonds	402	-	-	402
Subtotal	459	-	-	459
Securities at amortized cost in foreign currencies:				
Financial institution bonds	15	-	-	15
Corporate bonds	9	-	-	9
Subtotal	24	-	-	24
Total	₩ 483	₩ -	₩ -	₩ 483

(3) Changes in the loss allowance of securities at amortized cost are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Beginning balance (*1)	₩ 368	₩ -	₩	₩ 368
Transfer to 12-month expected credit losses	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Net reversal of loss allowance	200	-	-	200
Disposal	(85)	-	-	(85)
Exchange rate effect	-	-	-	-
Ending balance	₩ 483	₩-	₩-	₩ 483

(*1) It has been restated in accordance with K-IFRS 1109.

14. HTM FINANCIAL ASSETS:

(1) Details of HTM financial assets are as follows (Unit: Korean won in millions):

	December 31, 2017
HTM financial assets in Korean won:	
Government and public bonds	₩ 60,994
Financial institution bonds	80,000
Corporate bonds	1,029,718
Subtotal	1,170,712
HTM financial assets in foreign currencies:	
Financial institution bonds	58,062
Corporate bonds	47,511
Subtotal	105,573
Total	₩ 1,276,285

15. LOAN AT AMORTIZED COST:

(1) Details of loans are as follows (Unit: Korean won in millions):

		September 30, 2018
Corporate loans in Korean won	W	14,329,494
Household loans in Korean won		11,418,985
Public sector and other loans in Korean won		2,007,133
Call loans		55,635
Loans in foreign currencies		423,954
Interbank loans in Korean won		16,674
Domestic import usance		284,374
Bills bought in foreign currencies		394,490
Credit card loans		111,550
Privately placed corporate bonds		3,000
Others		11,831
Subtotal		29,057,120
Deferred loan origination cost (fee), net		28,713
Allowance for possible loan losses		(331,551)
Total	W	28,754,282

(2) Changes in allowance for possible loan losses are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Beginning balance (*1)	W 73,504	W 121,026	W 154,070	W 348,600
Transfer to 12-month expected credit losses	3,722	(3,719)	(3)	-
Transfer to lifetime expected credit losses	(18,637)	18,673	(36)	-
Transfer to credit-impaired financial assets	(13,774)	(25,205)	38,979	-
Loans written off and others	-	-	(25,547)	(25,547)
Recovery of bad debts and others	-	-	1,830	1,830
Provision for allowance	61,486	(842)	(46,552)	14,092
Disposal of loans	-	(119)	(3,750)	(3,869)
Debt-to-equity swap bond	-	-	(3,665)	(3,665)
Others	(3,543)	(1,851)	5,504	110
Ending balance	W 102,758	W 107,963	W 120,830	W 331,551

(*1) It has been restated in accordance with K-IFRS 1109.

(3) Changes in deferred loan origination cost (fee), net are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fee	W (8,165)	W (8,819)	W 11,714	W (5,270)
Deferred loan origination cost	23,148	28,100	(17,265)	33,983

16. LOANS:

(1) Details of loans are as follows (Unit: Korean won in millions):

		December 31, 2017
Corporate loans in Korean won	₩	14,431,949
Household loans in Korean won		7,906,343
Public sector and other loans in Korean won		2,161,576
Call loans		-
Loans in foreign currencies		442,701
Interbank loans in Korean won		4,451
Domestic import usance		271,852
Bills bought in foreign currencies		318,565
Credit card loans		103,379
Privately placed corporate bonds		3,000
Others		1,531
Subtotal		25,645,347
Deferred loan origination cost (fee), net		14,983
Allowance for possible loan losses		(336,601)
Total	₩	25,323,729

(2) Changes in allowance for possible loan losses for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Beginning balance	₩	427,823
Loans written off and others		(63,088)
Recovery of bad debts and others		5,582
Provision for allowance		17,969
Disposal of loans		(5,167)
Debt-to-equity swap bond		(4,763)
Others		(7,642)
Ending balance	₩	370,714

(3) Changes in deferred loan origination cost (fee), net for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Beginning balance		Increase		Decrease		Ending balance
Deferred loan origination fee	₩	(6,149)	₩	(13,346)	₩	12,398	₩	(7,097)
Deferred loan origination cost		21,480		22,823		(22,839)		21,464

17. TANGIBLE ASSETS:

(1) Tangible assets are as follows (Unit: Korean won in millions):

	September 30, 2018					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Acquisition cost	W 36,010	W 26,625	W 122,915	W 3,247	W 1,047	W 189,844
Accumulated depreciation	-	(1,122)	(95,375)	(2,691)	-	(99,188)
Net carrying value	W 36,010	W 25,503	W 27,540	W 556	W 1,047	W 90,656

	December 31, 2017					
	Land	Building	Properties for business use	Structures in leased office	Constructio n in progress	Total
Acquisition cost	W 36,010	W 26,625	W 116,823	W 3,144	W 1,435	W 184,037
Accumulated depreciation	-	(663)	(92,329)	(2,613)	-	(95,605)
Government subsidies	-	-	(24)	-	-	(24)
Net carrying value	W 36,010	W 25,962	W 24,470	W 531	W 1,435	W 88,408

(2) Changes in tangible assets are as follows (Unit: Korean won in millions):

	September 30, 2018					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Beginning net book value	W 36,010	W 25,962	W 24,470	W 531	W 1,435	W 88,408
Acquisition cost	36,010	26,625	116,823	3,144	1,435	184,037
(Accumulated depreciation)	-	(663)	(92,329)	(2,613)	-	(95,605)
(Government subsidies)	-	-	(24)	-	-	(24)
Changes	-	(459)	3,070	25	(388)	2,248
Acquisition	-	-	8,481	103	1,047	9,631
Disposal	-	-	(98)	-	-	(98)
Depreciation	-	(459)	(6,537)	(78)	-	(7,074)
Reclassification	-	-	1,201	-	(1,201)	-
Others	-	-	23	-	(234)	(211)
Ending net book value	36,010	25,503	27,540	556	1,047	90,656
Acquisition cost	36,010	26,625	122,915	3,247	1,047	189,844
(Accumulated depreciation)	-	(1,122)	(95,375)	(2,691)	-	(99,188)
(Government subsidies)	-	-	-	-	-	-

	December 31, 2017					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Beginning net book value	W 36,010	W 26,574	W 22,637	W 512	W 636	W 86,369
Acquisition cost	36,010	26,625	111,534	3,006	636	177,811
(Accumulated depreciation)	-	(51)	(88,844)	(2,494)	-	(91,389)
(Government subsidies)	-	-	(53)	-	-	(53)
Changes	-	(459)	1,180	(36)	594	1,279
Acquisition	-	-	7,161	123	855	8,139
Disposal	-	-	(81)	-	-	(81)
Depreciation	-	(459)	(6,161)	(159)	-	(6,779)
Reclassification	-	-	261	-	(261)	-
Ending net book value	36,010	26,115	23,817	476	1,230	87,648
Acquisition cost	36,010	26,625	115,963	3,129	1,230	182,957
(Accumulated depreciation)	-	(510)	(92,122)	(2,653)	-	(95,285)
(Government subsidies)	-	-	(24)	-	-	(24)

18. INTANGIBLE ASSETS:

(1) Intangible assets are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018				
	Development cost	Software	Others	Construction in progress	Total
Beginning net book value	₩ 11,053	₩ 4,226	₩ 5,528	₩ 4,302	₩ 25,109
Acquisition	2,282	2,261	1,690	3,998	10,231
Amortization	(2,951)	(1,202)	(196)	-	(4,349)
Government subsidies	13	-	-	-	13
Reclassification	3,632	1,618	77	(5,327)	-
Others	-	-	-	235	235
Ending net book value	₩ 14,029	₩ 6,903	₩ 7,099	₩ 3,208	₩ 31,239

	For the nine months ended September 30, 2017				
	Development cost	Software	Others	Construction in progress	Total
Beginning net book value	₩ 8,834	₩ 3,825	₩ 4,522	₩ 2,443	₩ 19,624
Acquisition	1,291	627	928	5,606	8,452
Amortization	(4,275)	(799)	(193)	-	(5,267)
Government subsidies	139	-	-	-	139
Reclassification	1,801	382	11	(2,194)	-
Ending net book value	₩ 7,790	₩ 4,035	₩ 5,268	₩ 5,855	₩ 22,948

(2) Changes in intangible assets with indefinite useful lives are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Beginning balance	₩ 2,231	₩ 1,022
Acquisition	1,729	884
Ending balance	₩ 3,960	₩ 1,906

19. INVESTMENT PROPERTIES:

(1) Investment properties are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Land	Building	Total
Acquisition cost	₩ 18,496	₩ 2,940	₩ 21,436
Accumulated depreciation	-	(164)	(164)
Net carrying value	₩ 18,496	₩ 2,776	₩ 21,272

	December 31, 2017		
	Land	Building	Total
Acquisition cost	₩ 18,496	₩ 2,940	₩ 21,436
Accumulated depreciation	-	(97)	(97)
Net carrying value	₩ 18,496	₩ 2,843	₩ 21,339

(2) Changes in investment properties are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018					
	Land		Building		Total	
Beginning net book value	₩	18,496	₩	2,843	₩	21,339
Acquisition cost		18,496		2,940		21,436
(Accumulated depreciation)		-		(97)		(97)
Changes		-		(67)		(67)
Depreciation		-		(67)		(67)
Ending net book value		18,496		2,776		21,272
Acquisition cost		18,496		2,940		21,436
(Accumulated depreciation)		-		(164)		(164)

	For the nine months ended September 30, 2017					
	Land		Building		Total	
Beginning net book value	₩	18,496	₩	2,932	₩	21,428
Acquisition cost		18,496		2,940		21,436
(Accumulated depreciation)		-		(8)		(8)
Changes		-		(67)		(67)
Depreciation		-		(67)		(67)
Ending net book value		18,496		2,865		21,361
Acquisition cost		18,496		2,940		21,436
(Accumulated depreciation)		-		(75)		(75)

(3) Gains and losses related to investment properties for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		September 30, 2017	
Rental income earned from investment properties	₩	399	₩	394
Direct operating expenses for investment properties that generated rental income		(67)		(67)

(4) The fair values of investment property are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Investment property	₩	21,436	₩	21,436

20. OTHER FINANCIAL ASSETS AT AMORTIZED COST:

(1) Details of other financial assets at amortized cost are as follows (Unit: Korean won in millions):

	September 30, 2018	
Accounts receivable	₩	217,793
Guarantee deposits		170,975
Domestic exchanges receivable		195,423
Sundry assets		91,391
Subtotal		675,582
Present value of discount		(6,701)
Allowance for other financial asset losses		(10,823)
Total	₩	658,058

(2) Changes in allowance for other financial assets at amortized cost are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Beginning balance (*1)	W 9,822	W 226	W 335	W 10,383
Transfer to 12-month expected credit losses	-	-	-	-
Transfer to lifetime-expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Loans written off	-	-	(94)	(94)
Recovery of depreciable assets	-	-	7	7
Provision for allowance	554	10	(43)	521
Disposal	-	-	(6)	(6)
Others	(7)	-	19	12
Ending balance	W 10,369	W 236	W 218	W 10,823

(*1) It has been restated in accordance with K-IFRS 1109.

21. OTHER FINANCIAL ASSETS:

(1) Details of other financial assets are as follows (Unit: Korean won in millions):

	December 31, 2017
Accounts receivable	W 435,080
Guarantee deposits	164,015
Domestic exchanges receivable	24,355
Sundry assets	77,162
Subtotal	700,612
Present value of discount	(6,535)
Allowance for other financial asset losses	(777)
Total	W 693,300

(2) Changes in allowance for other financial assets losses for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Amount
Beginning balance	W 1,049
Loans written off	(25)
Provision for allowance	(74)
Disposal	(17)
Others	(5)
Ending balance	W 928

22. DERIVATIVES AND HEDGE ACCOUNTING:

(1) Derivatives held for trading

1) Details of derivatives held for trading are as follows (Unit: Korean won in millions):

	September 30, 2018			December 31, 2017		
	Unpaid commitments	Asset	Liability	Unpaid commitments	Asset	Liability
Interest rate:						
Interest rate swaps	₩ 122,900	₩ 3,282	₩ 3,120	₩ 364,900	₩ 4,307	₩ 4,094
Interest rate futures	10,838	-	-	-	-	-
Subtotal	133,738	3,282	3,120	364,900	4,307	4,094
Currency:						
Currency futures	1,999,146	16,642	17,560	3,324,711	55,161	61,359
Currency swaps	1,214,816	42,300	42,098	1,217,110	23,185	22,973
Subtotal	3,213,962	58,942	59,658	4,541,821	78,346	84,332
Total	₩ 3,347,700	₩ 62,224	₩ 62,778	₩ 4,906,721	₩ 82,653	₩ 88,426

2) Gains and losses on valuation of derivatives held for trading for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	For the nine months ended September 30			
	Gains on valuation		Losses on valuation	
	2018	2017	2018	2017
Interest rate:				
Interest rate swaps	₩ 1,104	₩ 2,213	₩ 1,155	₩ 2,234
Currency:				
Currency futures	14,500	22,426	15,215	24,977
Currency swaps	26,664	39,498	26,650	39,770
Subtotal	41,164	61,924	41,865	64,747
Total	₩ 42,268	₩ 64,137	₩ 43,020	₩ 66,981

3) Gains and losses on transaction of derivatives held for trading for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	For the nine months ended September 30			
	Gain on transaction		Loss on transaction	
	2018	2017	2018	2017
Interest rates related derivative	₩ 1,988	₩ 2,339	₩ 1,975	₩ 2,386
Currency-related derivative	139,178	155,436	141,076	150,548
Equity-related derivative	153	-	236	-
Total	₩ 141,319	₩ 157,775	₩ 143,287	₩ 152,934

(2) Hedge accounting

1) As of September 30, 2018, the Group has adopted fair value hedge accounting using foreign currency interest rate swaps to hedge fair value changes due to interest rate changes of USD 300,000,000 bond issued at fixed rates.
The hedged items of such hedge accounting are the fair value of the bond issued as a result of changes in foreign currency interest rates. As a means of interest rate swap that receives fixed interest rates and pays variable interest rates that reflect the additional rate of interest, the Group removes the risk of changes in the fair value of the foreign currency bond by converting a fixed-rate foreign currency bond into a variable-rate foreign currency bond.

For effective hedging, the main conditions, such as contract amount of hedged item and hedging instruments, maturity, fixed rate and fixed interest rate cash flow cycle are aligned. The relative weight of the nominal amounts of the hedged item and hedging instruments is 1:1.

By periodically reviewing the timing of the initial application of hedge accounting and whether the hedged items and key instruments meet the conditions, the Group considers that there is an economic relationship between the hedged items and the instrument. In addition, the Group periodically reviews statistical correlations of changes in the fair value of the hedged items and instruments.

Only the changes in the market interest rate, which is considered to be the most significant risk of the hedged item, are designated as the hedged risk and changes in credit risk and timing of cash flow are not included in the hedged risk. As a result, there may be an ineffective portion of the hedge, due to changes in the credit risk of the counterparty of hedged items or hedging instruments or the inconsistency in the timing of the cash flows.

2) The nominal cash flow timing of hedged items and hedging instruments and average risk hedge ratio for the period ended September 30, 2018, are as follows.

	September 30, 2018		
	Less than one year	More than one year	Total
Fair value hedge			
Hedged item			
Nominal amount	W 333,810	W -	W 333,810
Average interest rate/payment cycle	2.625% / 6 months	-	-
Hedging instruments			
Nominal amount	W 333,810	-	W 333,810
Average interest rate/exchange period	Receiving: 2.625% / 6 months Payment: 3 Months USD London InterBank Offered Rate ("LIBOR") + 0.8372% / 3 months	-	-
Average risk hedge ratio	100%	-	100%

3) Details of derivatives held for hedging are as follows (Unit: Korean won in millions):

	September 30, 2018			December 31, 2017		
	Unpaid commitments	Asset	Liability	Unpaid commitments	Asset	Liability
Fair value hedging instruments						
Interest rate swap	W 333,810	W -	W 1,506	W 321,420	W -	W 723

4) The carrying amounts of hedged items as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	Face value	Amortized cost	Accumulated gain (loss) on fair value hedge	Book value
September 30, 2018	W 333,810	W 331,123	W (1,459)	W 329,664
December 31, 2017	321,420	320,641	(690)	319,951

5) Gains and losses related to derivatives held for hedging for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	September 30, 2017
Gains and losses related to hedged items for fair value	W 770	W 1,472
Gains and losses related to hedging instruments for fair value	(783)	(1,209)
Total	W (13)	W 263

6) The ineffective portion of gains or losses on derivatives of hedged instruments for the nine months ended September 30, 2018, is as follows (Unit: Korean won in millions):

		September 30, 2018	
		Ineffective hedge portion recognized in profit or loss	Title of account recognized in profit or loss
Fair value hedge	Interest rate risk	W (13)	Net other operating income

23. DEPOSITS:

(1) Details of deposits are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Demand deposits:		
Deposits in Korean won	W 2,120,179	W 1,985,674
Deposits in foreign currencies	149,924	207,125
Subtotal	2,270,103	2,192,799
Demand saving deposits:		
Deposits in Korean won	3,006,385	2,412,908
Time deposits:		
Deposits in Korean won	18,015,930	14,179,352
Deposits in foreign currencies	311,801	327,358
Subtotal	18,327,731	14,506,710
Certificates of deposit	1,409,283	2,167,446
Total	W 25,013,502	W 21,279,863

24. BORROWINGS:

Details of borrowings are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Lender	Annual interest rate (%)	Amount
Borrowings in Korean won:			
BOK borrowings	BOK	0.50–0.75	W 52,701
Financial fund borrowings	Ministry of Strategy and Finance	1.98	46,600
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00–2.75	43,579
Fisheries development fund borrowings	Fisheries Development Fund	0.00–3.92	565,692
Other borrowings	Korea Development Bank and others	0.00–2.80	419,794
			1,128,366
Borrowings in foreign currencies	Oversea-Chinese Banking Corporation Seoul and others	0.00–2.79	846,866
Total			W 1,975,232

	December 31, 2017		
	Lender	Annual interest rate (%)	Amount
Borrowings in Korean won:			
BOK borrowings	BOK	0.50–0.75	W 94,554
Financial fund borrowings	Ministry of Strategy and Finance	1.45	62,600
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00–2.75	52,510
Fisheries development fund borrowings	Fisheries Development Fund	0.00–4.36	602,883
Other borrowings	Korea Development Bank and others.	0.00–2.80	307,076
			1,119,623
Borrowings in foreign currencies	Oversea-Chinese Banking Corporation Seoul and others	0.00–2.04	813,665
Total			W 1,933,288

25. DEBENTURES:

(1) Details of debentures are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Lender	Annual interest rate (%)	Amount
Debentures in Korean won:			
Subordinated debentures	Financial institutions	5.15	W 150,000
Ordinary debentures	Financial institutions	1.61–2.55	4,210,222
Discounts on debentures			(5,448)
			4,354,774
Debentures in foreign currencies:			
Ordinary debentures	Deutsche Bank	2.60–2.63, Six-Month LIBOR + 1.05	399,113
Discounts on debentures			(337)
			398,776
Total			W 4,753,550

	December 31, 2017		
	Lender	Annual interest rate (%)	Amount
Debentures in Korean won:			
Subordinated debentures	Financial institutions	5.15	W 150,000
Ordinary debentures	Financial institutions	1.27–3.13	4,710,222
Discounts on debentures			(19,832)
			4,840,390
Debentures in foreign currencies:			
Ordinary debentures	Deutsche Bank	2.60–3.50, Six-Month LIBOR + 1.05	385,015
Discounts on debentures			(780)
			384,235
Total			W 5,224,625

26. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Accounts payable	W	248,579	W	455,482
Accrued expenses		25,882		44,949
Suspense receipts		6,953		7,521
Accrued interest		229,579		170,858
Borrowings from trust accounts		99,429		51,210
Domestic exchanges settlement account-credit		66,012		88,082
Guarantee deposits for agency affairs		6,695		8,413
Deposits received		25,123		17,197
Others		29,625		23,816
Total	W	737,877	W	867,528

27. PROVISIONS:

(1) Details of provisions are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Provision for guarantee	W	1,872	W	2,133
Provision for loan commitments		13,760		6,727
Asset retirement obligation		4,548		4,458
Provision for credit card points		7		26
Provision for financial guarantee		1,608		14
Other provisions		726		882
Total	W	22,521	W	14,240

(2) Details of provision for loan commitments and provision for financial guarantee for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Provision for loan commitments							
	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance (*1)	W	6,303	W	3,446	W	-	W	9,749
Transfer to 12-month expected credit losses		84		(84)		-		-
Transfer to lifetime-expected credit losses		(957)		957		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Provided		4,101		-		-		4,101
Reversal		-		(113)		-		(113)
Others		1,493		(1,470)		-		23
Ending balance	W	11,024	W	2,736	W	-	W	13,760

	Provision for financial guarantee							
	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance	W	-	W	14	W	-	W	14
Transfer to 12-month expected credit losses		-		-		-		-
Transfer to lifetime-expected credit losses		(11)		11		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Provided		26		1,568		-		1,594
Reversal		-		-		-		-
Others		-		-		-		-
Ending balance	W	15	W	1,593	W	-	W	1,608

(*1) It has been restated in accordance with K-IFRS 1109.

	For the nine months ended September 30, 2017					
	Provision for loan commitments		Provision for financial guarantee		Total	
Beginning balance	W	5,817	W	10	W	5,827
Provided		-		-		-
Reversal		(224)		(6)		(230)
Used		(77)		-		(77)
Ending balance	W	5,516	W	4	W	5,520

(3) Changes in other provisions are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018									
	Provision for guarantee		Asset retirement obligation		Provision for credit card points		Other provisions		Total	
Beginning balance	W	2,133	W	4,458	W	26	W	882	W	7,499
The cumulative effect of changes in accounting policies		(8)		-		-	-			(8)
Provided		-		57		-	-			57
Reversal		(281)		-		(14)		(150)		(445)
Used		-		(114)		(5)		(6)		(125)
Others		28		147		-		-		175
Ending balance	W	1,872	W	4,548	W	7	W	726	W	7,153

	For the nine months ended September 30, 2017									
	Provision for guarantee		Asset retirement obligation		Provision for credit card points		Other provisions		Total	
Beginning balance	W	1,585	W	4,339	W	120	W	1,332	W	7,376
Provided		318		-		-		-		318
Reversal		-		(23)		(87)		(433)		(543)
Used		(42)		113		(5)		(101)		(35)
Ending balance	W	1,861	W	4,429	W	28	W	798	W	7,116

28. NET DEFINED BENEFIT LIABILITY:

(1) The Group operates a defined benefit pension plan, and its own characteristics are as follows:

- The obligation of the Group is to pay promised retirement benefits to the existing and former employees.
- The Group will have the actuarial risk (the risk that actual benefits exceed expected benefits) and the investment risk.

The net defined benefit liability recognized in the consolidated interim statements of financial position is calculated in accordance with actuarial valuation methods using data, such as interest rates, future salary increase rate and mortality rate, based on historical data. Actuarial assumptions may differ from actual results due to changes in the market, economic trends and mortality trends.

(2) Changes in defined benefit obligations and plan assets are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018		
	Defined benefit obligations	Plan assets	Net defined benefit liabilities
Beginning balance	W 115,710	W (8,184)	W 107,526
Current service cost	9,690	-	9,690
Interest expense (income)	2,754	(311)	2,443
Subtotal	128,154	(8,495)	119,659
Employer's contributions		-	-
Retirement benefit paid	(1,278)	359	(919)
Others (*1)	35	-	35
Ending balance	W 126,911	W (8,136)	W 118,775

(*1) Amount of retirement benefits for dispatched employees of NFFC.

	For the nine months ended September 30, 2017		
	Defined benefit obligations	Plan assets	Net defined benefit liabilities
Beginning balance	W 106,956	W (8,234)	W 98,722
Current service cost	9,463	-	9,463
Interest expense (income)	2,612	-	2,612
Subtotal	119,031	(8,234)	110,797
Employer's contributions	(1,930)	178	(1,752)
Retirement benefit paid	122	(88)	34
Ending balance	W 117,223	W (8,144)	W 109,079

(3) Details of net defined benefit liability are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Present value of defined benefit obligations	W 126,911	W 115,710
Fair value of plan assets	(8,136)	(8,184)
Net defined benefit liability	W 118,775	W 107,526

(4) Key actuarial assumptions used in defined benefit liability assessment are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017	Reference
Discount rate	3.62%	3.62%	Based on the yield of AA0 corporate bonds
Future salary increase rate	2.00%	2.00%	(*1)

(*1) The rate is calculated based on the average of salary increase rate, including promotion rate of employees aged between 30 and retirement age.

29. SHAREHOLDERS' EQUITY:

(1) CAPITAL STOCK

Details of capital stock are as follows:

	September 30, 2018	December 31, 2017
Authorized shares of common stock	500,000,000 shares	500,000,000 shares
Par value	W 5,000	W 5,000
Issued shares of common stock	132,000,000 shares	132,000,000 shares

(2) HYBRID SECURITIES

The bond-type hybrid securities classified as owner's equity are as follows (Unit: Korean won in millions):

September 30, 2018

Issuance date	Maturity date	Amount	Annual interest rate
2013-06-12	2043-06-12	W 100,000	4.65%
2018-05-18	2023-05-17	100,000	4.60%

December 31, 2017

Issuance date	Maturity date	Amount	Annual interest rate
2008-03-12	2038-03-12	W 100,000	7.36%
2013-06-12	2043-06-12	100,000	4.65%

With respect to the hybrid securities issued, the contractual agreements allow the Group to indefinitely extend the maturity date and defer the payment of interest. If the Group makes a resolution to not pay dividends on common stock, the Group is exonerated from interest payment on the hybrid securities.

(3) CAPITAL SURPLUS

Details of capital surplus are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Capital in excess of par value	W 1,157,319	W 1,157,319
Others	1,852	1,852
Total	W 1,159,171	W 1,159,171

(4) ACCUMULATED OTHER COMPREHENSIVE INCOME

Details of accumulated other comprehensive income are as follows (Unit: Korean won in millions):

	September 30, 2018
Items that may be reclassified to profit or loss	
Gain on valuation of financial assets at FVTOCI	
Gain on valuation	W (3,086)
The expected credit loss allowance	618
Subtotal	(2,468)
Items that will not be reclassified to profit or loss:	
Gain on valuation of equity securities at FVTOCI	2,521
Remeasurement of the net defined benefit liability	3,692
Subtotal	6,213
Total	W 3,745

		December 31, 2017
Gain on valuation of AFS financial assets	W	(8,497)
Remeasurement of the net defined benefit liability		3,692
Total	W	(4,805)

(5) RETAINED EARNINGS

1) Details of retained earnings are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Legal reserve	W	20,921	W	1,404
Voluntary reserve		171,046		190,104
Regulatory reserve for credit loss		136,795		64,099
Unappropriated retained earnings		167,820		183,030
Total	W	496,582	W	438,637

In accordance with the Banking Act, legal reserve is appropriated at least one-tenth of the earnings after tax on every dividend declaration, not exceeding the paid-in capital. This reserve may not be used other than for offsetting a deficit or transferring to capital.

In accordance with paragraphs 1 and 2 of Article 29 of the Regulation on Supervision of Banking Business ("RSBB"), if provisions for credit loss under K-IFRSs for the accounting purpose are lower than the provisions under RSBB, the Group discloses such shortfall amount as regulatory reserve for credit loss.

In accordance with paragraphs 1 and 2 of Article 29 of the RSBB, if the estimated provisions for credit loss under K-IFRSs for the accounting purpose are lower than those in accordance with the provisions under the RSBB, the Group shall disclose the difference as the planned regulatory reserve for credit loss.

2) Regulatory reserve for credit loss

Regulatory reserve for credit loss is calculated and disclosed in accordance with paragraphs 1 and 2 of Article 29 of the RSBB.

Balance of the planned regulatory reserve for credit loss is as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Beginning balance	W	136,795	W	64,099
Estimated regulatory reserve for credit loss		44,508		72,696
Ending balance	W	181,303	W	136,795

Provision for regulatory reserve for credit loss, net income adjusted for regulatory reserve for credit loss and EPS adjusted for regulatory reserve for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions, except EPS):

	2018		2017	
Provision for (reversal of) regulatory reserve for credit loss (*1)	W	44,508	W	49,539
Net income adjusted for regulatory reserve (*2)		149,490		103,433
EPS adjusted for regulatory reserve in Korean won	W	1,082	W	716

(*1) The amount is calculated using W136,795 million and W64,099 million of reserve for credit loss included in unappropriated retained earnings for the years ended September 30, 2018, and December 31, 2017, separately.
(*2) Net income and EPS after reserve for bad debts are not in accordance with K-IFRSs, but are calculated on the assumption that provision or reversal of reserve for bad debts before income tax effect is adjusted to the net income.

30. NET INTEREST INCOME:

Details of net interest income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018
Interest income calculated by effective interest rate:		
Financial assets at FVTOCI	W	35,128
Financial assets at amortized cost		
Securities		23,149
Loans		812,130
Other financial assets		1,599
Subtotal		872,006
Other interest income		
Financial assets at FVTPL (K-IFRS 1109)		4,216
Total		876,222
Interest expense:		
Deposits		291,341
Borrowings		23,125
Debentures		80,598
Others		5,200
Subtotal		400,264
Net interest income	W	475,958

		2017
Interest income:		
Due from banks	W	1,030
Loans		643,368
Financial assets held for trading		3,284
AFS financial assets		28,518
HTM financial assets		11,776
Subtotal		687,976
Interest expense:		
Deposits		194,519
Borrowings		22,989
Debentures		70,878
Others		4,123
Subtotal		292,509
Net interest income	W	395,467

31. FEES AND COMMISSIONS INCOME:

Details of net fees and commissions income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Fees and commissions income:				
Fees and commissions received for guarantee	W	1,788	W	1,958
Fees and commissions received		37,777		50,194
Fees and commissions received on credit card		623		634
Charge on securities lent		36		21
Subtotal		40,224		52,807

		2018		2017
Fees and commissions expense:				
Fees paid in Korean won		8,028		7,778
Commission paid in foreign currency		907		1,148
Credit card commissions		3,309		2,368
Fees and commissions paid to financial instruments measured at fair value		46		107
Subtotal		12,290		11,401
Net fees and commissions income	₩	27,934	₩	41,406

32. DIVIDEND INCOME:

Details of dividend income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Dividend from financial assets at FVTPL (K-IFRS 1109)	₩	408	₩	-
Dividend from financial assets at FVTOCI		41		-
Dividend from financial assets held for trading		-		44
Dividend from AFS financial assets		-		333
Total	₩	449	₩	377

33. NET OTHER OPERATING INCOME:

Details of net other operating income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Other operating income:				
Gain on sales of loans	₩	4,581	₩	4,334
Gain on fair value hedged items		770		1,472
Gain on cooperative insurance service special account		5,057		5,212
Gain on trust account		5,274		4,693
Gain on effect of exchange rate fluctuations		6,274		1,986
Others		858		869
Subtotal		22,814		18,566
Other operating expense:				
Loss on sales of loans		2,652		3,800
Loss on derivatives for hedging purposes		783		1,209
Contribution to fund		26,688		23,146
Deposit insurance		19,575		17,321
Loss on cooperative insurance service special account		1,238		1,279
Others		1,790		1,992
Subtotal		52,726		48,747
Net operating income	₩	(29,912)	₩	(30,181)

34. GENERAL AND ADMINISTRATIVE EXPENSES:

Details of general and administrative expenses for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Salaries	₩	98,417	₩	94,434
Retirement benefit service costs		9,690		9,463
Employee benefits		13,105		9,207
Rent expenses		10,595		9,550
Depreciation expense of tangible assets		7,074		6,779
Depreciation expense of investment properties		67		67
Amortization of intangible assets		4,349		5,128
Taxes and dues		6,489		6,108
Advertising		3,733		1,831
Computer- and Information Technology-related expenses		5,020		4,202
Service fee		5,110		4,555
Supplies expense		659		499
Printing expenses		594		478
Communication expenses		4,309		3,987
Event expenses		403		192
Vehicle maintenance expenses		786		703
Electricity and water expenses		1,037		992
Others		10,312		8,718
Total	W	181,749	W	166,893

35. NET OTHER NON-OPERATING INCOME (LOSS):

Details of net other non-operating income (loss) for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Other non-operating income:				
Contribution income	W	2,648	W	3,286
Rental income		399		407
Amortized rental income		46		-
Others		1,118		420
Subtotal		4,211		4,113
Other non-operating expense:				
Loss on disposal of fixed assets		98		81
Other		1,408		759
Common administrative contributions		22,594		22,281
Subtotal		24,100		23,121
Net non-operating loss	₩	(19,889)	₩	(19,008)

36. INCOME TAX EXPENSES:

(1) Details of income tax expenses for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018	2017
Current tax expense in respect of the current year	W 48,863	W 57,171
Changes in deferred tax due to temporary differences	13,408	(12,130)
Subtotal	62,271	45,041
Income tax expense directly charged or credited to equity	(2,712)	692
Income taxes	W 59,559	W 45,733

(2) Income tax expense reconciled to net income before income tax expense for the nine months ended September 30, 2018 and 2017, is as follows (Unit: Korean won in millions):

	2018	2017
Net income before income tax expense (A)	W 253,557	W 198,705
Tax calculated at statutory tax rate	61,021	47,707
Adjustments:		
Effect of income that is exempt from taxation	(1,599)	(2,171)
Effect of expense not deductible in determining taxable profit	441	277
Others	(304)	(80)
Income tax expense (B)	W 59,559	W 45,733
Effective tax rate (B/A)	23.49%	23.02%

(3) Unrealizable temporary differences for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018		
	Beginning balance	Increase (decrease)	Ending balance
Accrued interest	W (16,191)	W (361)	W (16,552)
Provision for severance insurance	(4,945)	47	(4,898)
Other provision	10,281	3,977	14,258
Depreciation disallowance	(1,574)	(159)	(1,733)
Accrued expenses	21,486	(17,831)	3,655
Loan origination fees and costs	(15,552)	(13,160)	(28,712)
Allowance for possible loan loss	48,245	(16,563)	31,682
Derivatives	6,743	(6,431)	312
Allowance for employee retirement benefits	120,544	6,331	126,875
Accrued donation	812	(20)	792
Financial assets at FVTPL	(1,093)	27,101	26,008
Allowance for possible acceptances and guarantees	2,124	(252)	1,872
Securities at amortized cost	5,831	(2,066)	3,765
Provision for financial guarantee	348	2,739	3,087
Financial assets at FVTOCI	54,503	(37,559)	16,944
Others	19,802	(1,978)	17,824
Total	251,364	W (56,185)	195,179
Tax rate (%)	24.20%		24.20%
Deferred tax assets	W 60,830		W 47,233

	2017					
	Beginning balance		Increase (decrease)		Ending balance	
Accrued interest	W	(5,039)	W	(6,097)	W	(11,136)
Provision for severance insurance		(4,995)		89		(4,906)
Other provision		6,375		(493)		5,882
Depreciation disallowance		(1,363)		3,657		2,294
Accrued expenses		4,550		(1,606)		2,944
Loan origination fees and costs		(15,331)		964		(14,367)
Allowance for possible loan loss		31,320		6,789		38,109
Derivatives		(4,104)		(341)		(4,445)
Allowance for employee retirement benefits		106,783		14,730		121,513
Accrued donation		660		616		1,276
Trading securities		98		(1,097)		(999)
Allowance for possible acceptances and guarantees		1,584		277		1,861
HTM securities		5,134		291		5,425
Provision for financial guarantee		1,749		(979)		770
Others		33,200		33,323		66,523
Total		160,621	W	50,123		210,744
Tax rate (%)		24.20%				24.20%
Deferred tax assets	W	38,870			W	51,000

The Group has W253,317 million of deductible temporary difference. In assessing the realizability of deferred tax assets, the Group considers various factors, such as its performance, the overall economic environment and outlook, expected future returns, etc. The Group reviews such factors on a regular basis. As of September 30, 2018, the entire amount of deductible temporary difference is recognized as deferred tax assets, and such amount may vary due to changes in estimate of future taxable income.

(4) Deferred tax assets and liabilities that were directly charged or credited to equity as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018							
	Beginning balance (*)		Increase (decrease)		Ending balance		Deferred tax assets (liabilities)	
Gain on valuation of financial assets at FVTOCI								
Gain on valuation	W	(12,065)	W	11,320	W	(745)	W	180
The expected credit loss allowance		917		(102)		815		(197)
Remeasurement of the net defined benefit liability		4,871		-		4,871		(1,179)
Total	W	(6,277)	W	11,218	W	4,941	W	(1,196)

	December 31, 2017							
	Beginning balance (*)		Increase (decrease)		Ending balance		Deferred tax assets (liabilities)	
Valuation of AFS securities	W	(864)	W	(10,346)	W	(11,210)	W	2,713
Remeasurement of the net defined benefit liability		2,781		2,090		4,871		(1,179)
Total	W	1,917	W	(8,256)	W	(6,339)	W	1,534

(*) Does not reflect income tax effects

(5) Details of comprehensive income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018	2017
Net income	₩ 193,998	₩ 152,972
Other comprehensive income:		
Gain (loss) on valuation of debt securities at FVTOCI	(330)	-
Gain (loss) on valuation of equity securities at FVTOCI	8,850	-
Gain (loss) on valuation of AFS securities	-	(2,167)
Remeasurement of net defined benefit liability	-	-
Total comprehensive income	₩ 202,518	₩ 150,805

37. EPS:

Basic EPS for the nine months ended September 30, 2018 and 2017, is calculated by dividing net income with weighted-average number of common shares outstanding (Unit: Korean won in millions, except for EPS and number of shares):

	2018	2017
Net income	₩ 193,998	₩ 152,972
Dividends to hybrid securities	(6,704)	(8,969)
Net income attributable to common shareholders	187,294	144,003
Weighted-average number of common shares outstanding (Unit: million shares)	132	132
Basic EPS	₩ 1,419	₩ 1,091

Diluted EPS is equal to basic EPS because there is no dilution effect for the nine months ended September 30, 2018 and 2017.

38. CONTINGENCIES AND COMMITMENTS:

(1) Details of guarantees as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Confirmed guarantees in Korean won:		
Guarantee for loans	₩ 1,690	₩ 1,780
Others	74,829	59,656
Subtotal	76,519	61,436
Confirmed guarantees in foreign currencies:		
Acceptances	14,826	14,180
Letters of guarantees	4,301	2,985
Subtotal	19,127	17,165
Unconfirmed guarantees:		
Letter of credit, etc.	226,977	213,191
Total	₩ 322,623	₩ 291,792

(2) Details of commitments and others as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Commitments in Korean won:				
Loan commitments	₩	4,088,546	₩	1,419,979
Purchasing marketable securities		67,441		67,441
Subtotal		4,155,987		1,487,420
Commitments in foreign currencies:				
Loan commitments		65,163		108,352
Others		735,491		773,843
Subtotal		800,654		882,195
Total	W	4,956,641	W	2,369,615

The limit on commitments on purchase of asset-backed commercial papers is ₩65,500 million, and the nominal amount of credit lines of asset-backed securities is ₩10,563 million. The Group provided commitments related to real estate project financing of W20,000 million and W14,800 million as of September 30, 2018, and December 31, 2017, respectively.

(3) As of September 30, 2018, the Group is involved in 18 lawsuits as a plaintiff and 27 lawsuits as a defendant. The aggregate amount of claims as a plaintiff and a defendant is W11,098 million and W9,097 million, respectively. The uncertainty of litigation is not reflected in the consolidated interim financial statements as of September 30, 2018.

(4) The Group endorsed bills of ₩15,161 million and ₩24,077 million as of September 30, 2018, and December 31, 2017, respectively.

(5) PLEDGED ASSETS:

Assets provided as collateral as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

		September 30, 2018		
Assets	Provided to	Book value	Collateral amount	Provided for
Financial assets at FVTOCI	BOK	W 90,268	W 90,000	BOK settlement
	BOK	60,180	60,000	Brokerage
	BOK	259,457	260,000	Overdraft
	Korea Securities Depository ("KSD")	9,948	10,000	RPs
	ING Bank	49,356	49,373	Derivative trading
Financial assets at amortized cost	BOK	60,037	60,000	BOK settlement
	BOK	20,033	20,000	Brokerage
	KSD	50	50	Settlement of stock charge
	Samsung Futures, etc.	5,002	5,000	Futures settlement
	Korea Exchange	300	300	Bond Damage Compensation Fund
	Korea Exchange	110	110	Joint Compensation Fund for Central Counterparty ("CCP")
Total		W 554,741	W 554,833	

Assets	Provided to	December 31, 2017 Book value	Collateral amount	Provided for
AFS financial assets	BOK	W 100,342	W 100,000	BOK settlement
	BOK	90,124	90,000	Brokerage
	BOK	148,763	150,000	Overdraft
	KSD	9,882	10,000	RPs
	ING Bank	10,863	10,786	Derivative trading
HTM financial assets	BOK	50,259	50,000	BOK settlement
	BOK	40,057	40,000	Brokerage
	BOK	30,029	30,000	Overdraft
	KSD	50	50	Settlement of stock charge
	Samsung Futures, etc.	6,505	6,500	Futures settlement
	Korea Exchange	110	110	Bond Damage Compensation Fund
	Korea Exchange	300	300	Joint Compensation Fund for CCP
Total		W 487,284	W 487,746	

39. TRUST ACCOUNTS:

(1) Trust accounts of the Bank as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
	Total assets	Operating income	Total assets	Operating income
Scope of consolidation	W 61,431	W 1,768	W 61,508	W 2,421
Out of scope of consolidation (non-guaranteed)	4,962,587	16,783	4,468,350	24,231
Total	W 5,024,018	W 18,551	W 4,529,858	W 26,652

(2) Receivables and payables from the transactions between the Bank and trust accounts as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Receivables:		
Accrued interest	W 206	W 206
Accrued revenue	4,173	2,179
Prepaid expenses	292	275
Total	W 4,671	W 2,660
Payables:		
Trust fees payable	W 650	W 327
Accrued trust income	15,290	13,030
Accrued expenses	9	10
Total	W 15,949	W 13,367

(3) Key transactions between the Bank and trust accounts for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018		2017	
Revenue:				
Trust fees and commissions received from trust account	₩	5,498	₩	4,914
Expense:				
Interest payable on trust accounts	₩	1,309	₩	820

(*) Financial information of trust accounts is prepared in accordance with Korea Financial Accounting Standards 5004, '*Trust Account of Trust Vendor,*' based on the Financial Investment Services and Capital Markets Act and Financial Industry Detailed Regulatory.

There are no amounts that the Bank must pay under the capital-guaranteed contract or the operating results of the principal- and return-guaranteed trusts as of September 30, 2018, and December 31, 2017.

40. STATEMENTS OF CASH FLOWS:

Details of material transactions without cash inflows and outflows for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018		2017	
Debt-to-equity swap and write-off of loans	W	28,588	W	68,469
Reclassification of capital surplus to retained earnings		-		21,300
Reclassification of retained earnings to dividends payable		126		627
Changes in gain or loss on valuation of financial assets at FVTOCI		11,320		-
Changes in gain on valuation of AFS securities		-		2,167
The transfer from assets under construction to property and equipment and intangible assets		6,760		2,455
Write-off of allowance for other assets		94		25

41. RELATED-PARTY TRANSACTIONS:

(1) Related parties of the Group during the current year are as follows:

	Related parties
Controlling party	NFFC (*1)
Other related parties	Suhyup Maintenance Service, National Federation of Fisheries Cooperatives FC Flow Co., Ltd. ("NFFC FC Flow Co., Ltd."), Suhyup Noryangjin Fisheries Co., Ltd. and Suhyup Feed Co., Ltd.

(*1) The whole NFFC, including the Special Banking Service Accounts of NFFC, is identified as controlling party.

(2) Gain or loss from transactions with related parties for the nine months ended September 30, 2018 and 2017, is as follows (Unit: Korean won in millions):

Related party		Title of account	2018	2017
Controlling party	NFFC	Income:	W 5,243	W 5,390
		Loan interest	60	50
		Fee and commission	125	127
		Others	5,058	5,213
		Expenses: (*1)	27,785	27,922
		Interest expense of deposits	5,192	3,184
		Interest expense of borrowings	-	2,457
		Fees paid	-	-
		Others	22,593	22,281
Other related parties	Suhyup Maintenance Service	Income:	3	2
		Fee and commission	2	2
		Reversal of allowance and provision	1	-
		Expenses:	34	30
		Interest expense of deposits	34	29
		Transfers of allowances and provisions	-	1
	NFFC FC Flow Co., Ltd.	Income:	194	167
		Loan interest	178	154
		Fee and commission	16	13
		Expenses:	72	74
		Interest expense of deposits	1	-
		Transfers of allowances and provisions	71	74
	Suhyup Noryangjin Fisheries Co., Ltd.	Income:	7	9
		Loan interest	-	2
		Fee and commission	7	7
		Expenses:	301	228
		Interest expense of deposits	293	228
		Transfers of allowances and provisions	8	-
	Suhyup Feed Co., Ltd.	Income:	125	99
		Loan interest	116	81
		Fee and commission	9	18
		Expenses:	17	6
		Transfers of allowances and provisions	17	6

(*1) The Group received the cost of workers dispatched to NFFC (salaries W438 million, employee benefits cost W32 million and retirement benefit service costs W35 million) and deducted related expenses.

(3) Assets and liabilities from transactions with related parties as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

Related party		Title of account	September 30, 2018	December 31, 2017
Controlling party	NFFC	Loans	W 2,025	W 862
		Allowance for credit loss	(1)	-
		Other assets	45,419	38,368
		Deposits	391,678	440,873
		Provisions	16	15
		Other liabilities	9,489	8,405
Other related parties	Suhyup Maintenance Service	Loans	4	4
		Allowance for credit loss	-	-
		Deposits	3,743	3,135
		Provisions	-	1
	NFFC FC Flow Co., Ltd.	Loans	6,041	4,131
		Allowance for credit loss	(140)	(60)
		Other assets	4	3
		Deposits	14	18
		Provisions	21	30
	Suhyup Noryangjin Fisheries Co., Ltd.	Loans	17	26
		Allowance for credit loss	(2)	(1)
		Deposits	19,214	19,458
		Provisions	8	1
	Suhyup Feed Co., Ltd.	Loans	3,837	1,523
		Allowance for credit loss	(44)	(14)
		Other assets	3	2
		Deposits	-	167
		Provisions	6	19

(4) Borrowing transactions with related parties for the nine months ended September 30, 2017, are as follows, and there are no borrowing transactions with related parties for the nine months ended September 30, 2018 (Unit: Korean won in millions):

	For the nine months ended September 30, 2017					
	Related party	Beginning balance	Lending	Collection	Others	Ending balance
Controlling party	NFFC	W 248,100	W -	W (248,100)	W -	W -

(5) Other than payments made in the ordinary course of business and deposit transactions with related parties, there were no borrowing transactions with related parties.

(6) Guarantees and commitments provided to the related parties as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

Related party		Contents	September 30, 2018	December 31, 2017
Controlling party	NFFC	Credit card commitment	W 3,104	W 2,753
		Loan commitment in Korean won	180,000	180,000
		Loan commitment in foreign currency	2,069	-
		Unconfirmed guarantees	-	3,242
Other related parties	Suhyup Maintenance Service	Credit card commitment	44	44
	NFFC FC Flow Co., Ltd.	Credit card commitment	173	174
		Loan commitment in Korean won	1,489	3,413
	Suhyup Noryangjin Fisheries Co., Ltd.	Credit card commitment	73	56
		Loan commitment in Korean won	2,000	-
	Suhyup Feed Co., Ltd.	Credit card commitment	44	46
		Unconfirmed guarantees	-	1,353
		Loan commitment in Korean won	1,384	2,500
		Loan commitment in foreign currency	1,216	-

(7) Compensation for key management for the nine months ended September 30, 2018 and 2017, is as follows (Unit: Korean won in millions):

	2018	2017
Short-term benefits	W 752	W 688
Other long-term benefits	-	605
Severance payments	71	41

SUHYUP BANK

SEPARATE INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017, AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

ATTACHMENT: INDEPENDENT ACCOUNTANTS' REVIEW REPORT

SUHYUP BANK

Deloitte.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

English Translation of Independent Accountants' Review Report Originally Issued in Korean on November 21, 2018, 2018.

**To the Shareholders and the Board of Directors of
Suhyup Bank:**

Report on the Separate Interim Financial Statements

We have reviewed the accompanying separate interim financial statements of Suhyup Bank (the "Bank"). These separate interim financial statements consist of the separate interim statement of financial position as of September 30, 2018, and the related separate interim statements of comprehensive income, separate interim statements of changes in shareholders' equity and separate interim statements of cash flows, all expressed in Korean won, for the nine months ended September 30, 2018 and 2017, respectively, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Interim Financial Statements

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

Independent Accountants' Responsibility

Our responsibility is to review and express conclusion on the accompanying separate interim financial statements based on our reviews.

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

Review Conclusion

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

Deloitte.

Other Matters

We audited the separate statement of financial position as of December 31, 2017, and the related separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year ended December 31, 2017 (not presented in the accompanying separate financial statements, all expressed in Korean Won), in accordance with Korean Standards on Auditing ("KSAs") in the Republic of Korea. We expressed an unqualified opinion in our independent auditors' report dated on March 15, 2018. The separate statement of financial position as of December 31, 2017, presented for a comparative purpose in the accompanying financial statements does not differ, in all material respects, from the audited separate statement of financial position as of December 31, 2017.

Deloitte Anjin LLC

Notice to Readers

This report is effective as of November 21, 2018, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying separate interim financial statements and may result in modifications to the accountants' review report.

SUHYUP BANK

SEPARATE INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017,
AND FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017

The accompanying separate interim financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the management of Suhyup Bank.

Lee, Dong-Bin
CHIEF EXECUTIVE OFFICER
SUHYUP BANK

Headquarters: (Road Name and Address) 62 Ogeum-ro, Songpa-gu, Seoul
(Phone Number) 1588-1515

SUHYUP BANK
SEPARATE INTERIM STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

	September 30, 2018	December 31, 2017
	(Korean won in millions)	
ASSETS:		
Cash and due from banks (Notes 4, 6 and 7)	W 1,114,544	W 1,249,663
Financial assets at fair value through profit or loss ("FVTPL") (K-IFRS 1109) (Notes 4, 6 and 9)	248,826	-
Financial assets held for trading (Notes 4, 6 and 10)	-	225,519
Financial assets designated at FVTPL (Notes 4, 6 and 8)	-	119
Derivative assets (Notes 4, 6 and 23)	62,224	82,653
Financial assets at fair value through other comprehensive income ("FVTOCI") (Notes 4, 6 and 11)	2,517,741	-
Available-for-sale ("AFS") financial assets (Notes 4, 6 and 12)	-	2,927,300
Loans at amortized cost (Notes 4, 6 and 15)	28,744,295	-
Securities at amortized cost (Notes 4, 6 and 13)	1,661,662	-
Other financial assets at amortized cost (Notes 4, 6 and 21)	658,308	-
Loans (Notes 4, 6 and 16)	-	25,323,583
Held-to-maturity ("HTM") financial assets (Notes 4, 6 and 14)	-	1,276,285
Other financial assets (Notes 4, 6 and 22)	-	693,074
Investments in subsidiaries (Note 17)	3	3
Tangible assets (Note 18)	90,656	88,408
Investment properties (Note 20)	21,272	21,339
Intangible assets (Note 19)	31,239	25,109
Deferred tax assets (Note 37)	46,254	53,722
Current tax assets	935	-
Other assets	11,499	7,124
Total assets	W 35,209,458	W 31,973,901
LIABILITIES:		
Deposits (Notes 4, 6 and 24)	W 24,966,066	W 21,231,976
Derivative liabilities (Notes 4, 6 and 23)	64,284	89,149
Borrowings (Notes 4, 6 and 25)	1,975,232	1,933,288
Debentures (Notes 4, 6 and 26)	4,753,328	5,224,403
Other financial liabilities (Notes 4, 6 and 27)	737,620	860,319
Provisions (Note 28)	22,521	14,240
Net defined benefit liability (Note 29)	118,775	107,526
Current tax liabilities	29,385	35,388
Other liabilities	24,681	26,537
Total liabilities	W 32,691,892	W 29,522,826

(Continued)

SUHYUP BANK
SEPARATE INTERIM STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

		September 30, 2018		December 31, 2017
		(Korean won in millions)		
SHAREHOLDERS' EQUITY (Note 30):				
Capital stock	W	660,000	W	660,000
Hybrid securities		199,649		199,799
Capital surplus		1,157,319		1,157,319
Retained earnings (September 30, 2018 Regulatory reserve for credit loss: W136,795 million Required provision of regulatory reserve for credit loss: W44,508 million Planned provision of regulatory reserve for credit loss: W44,508 million December 31, 2017 Regulatory reserve for credit loss: W64,099 million Required provision of regulatory reserve for credit loss: W72,696 million Planned provision of regulatory reserve for credit loss: W72,696 million)		496,853		438,762
Accumulated other comprehensive income		3,745		(4,805)
Total shareholders' equity		2,517,566		2,451,075
Total liabilities and shareholders' equity	W	35,209,458	W	31,973,901

(Concluded)

See accompanying notes to separate interim financial statements.

SUHYUP BANK
SEPARATE INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	For the nine months ended September 30	
	2018	2017
	(Korean won in millions)	
Interest income	W 875,525	W 687,150
Interest expense	399,844	291,991
Net interest income (Note 31)	475,681	395,159
Fees and commissions income	40,280	52,897
Fees and commissions expense	12,175	11,330
Net fees and commissions income (Note 32)	28,105	41,567
Net loss on financial instruments at FVTPL (K-IFRS 1109) (Notes 9, 23 and 33)	(3,298)	-
Net gain on financial instruments held for trading (Notes 10, 23 and 33)	-	3,581
Net gain on financial instruments at FVTPL (Note 8)	-	145
Net gain on financial instruments at FVTOCI (Notes 11 and 33)	3,061	-
Net loss on AFS financial instruments (Notes 12 and 33)	-	(8,416)
Net other operating loss (Note 34)	(29,562)	(29,837)
Other operating loss	(29,799)	(34,527)
General and administrative expenses (Note 35)	(181,749)	(166,893)
Net transfers of allowances and provisions (Notes 11, 13, 15, 16, 21 and 22)	(18,602)	(17,532)
Total operating revenues	273,636	217,774
Other non-operating income	4,211	4,111
Other non-operating expenses	24,162	23,182
Other non-operating loss (Note 36)	(19,951)	(19,071)
Net income before income tax expense	253,685	198,703
Income tax expense (Note 37)	59,584	45,766
Net income	194,101	152,937
(Net income after the provision of regulatory reserve for credit loss for the nine months ended September 30, 2018 and 2017, is W149,593 million and W103,398 million, respectively)		
Items that may be reclassified to profit or loss:		
Net gain on financial instruments at FVTOCI	8,850	-
Gain on valuation of AFS financial assets	-	(2,167)
Items that will not be reclassified to profit or loss:		
Net loss on financial instruments at FVTOCI	(330)	-
Other comprehensive gain (loss), net of tax	8,520	(2,167)
Total comprehensive income	W 202,621	W 150,770
Earnings per share ("EPS") (Note 38):		
Basic and diluted net income per share (in Korean won)	W 1,420	W 1,091

See accompanying notes to separate interim financial statements.

SUHYUP BANK
SEPARATE INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	Capital stock	Hybrid securities	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
			(Korean won in millions)			
As of January 1, 2017	W 660,000	W 199,799	W 1,178,619	W 1,453	W 243,013	W 2,282,884
Total comprehensive income:	-	-	-	(2,167)	152,937	150,770
Net income	-	-	-	-	152,937	152,937
Gain (loss) on valuation of AFS financial assets	-	-	-	(2,167)	-	(2,167)
Remeasurement of the net defined benefit liability	-	-	-	-	-	-
Transactions recognized directly in shareholders' equity:	-	-	(21,300)	-	3,625	(17,675)
Transfer of capital surplus to retained earnings	-	-	(21,300)	-	21,300	-
Dividends to hybrid securities	-	-	-	-	(8,969)	(8,969)
Dividends	-	-	-	-	(8,706)	(8,706)
As of September 30, 2017	W 660,000	W 199,799	W 1,157,319	W (714)	W 399,575	W 2,415,979
As of December 31, 2017	₩ 660,000	₩ 199,799	₩ 1,157,319	₩ (4,805)	₩ 438,762	₩ 2,451,075
Adjustment according to K-IFRS 1109 (Note 2)	-	-	-	47	(19,323)	(19,276)
As of January 1, 2018	₩ 660,000	₩ 199,799	₩ 1,157,319	₩ (4,758)	₩ 419,439	₩ 2,431,799
Total comprehensive income:	-	-	-	8,520	194,101	202,621
Net income	-	-	-	-	194,101	194,101
Net gain on valuation of debt instrument at FVTOCI	-	-	-	8,850	-	8,850
Net loss on valuation of equity instrument at FVTOCI	-	-	-	(330)	-	(330)
Remeasurement of the net defined benefit liability	-	-	-	-	-	-
Transactions recognized directly in shareholders' equity:	-	(150)	-	(17)	(116,687)	(116,854)
Dividends to hybrid securities	-	-	-	-	(6,704)	(6,704)
Repayment of hybrid securities	-	(99,900)	-	-	-	(99,900)
Issuance of hybrid securities	-	99,750	-	-	-	99,750
Transfer of net gain on disposal of equity instrument at FVTOCI	-	-	-	(17)	17	-
Dividends	-	-	-	-	(110,000)	(110,000)
As of September 30, 2018	W 660,000	W 199,649	W 1,157,319	W 3,745	W 496,853	W 2,517,566

See accompanying notes to separate interim financial statements.

SUHYUP BANK
SEPARATE INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	For the nine months ended September 30	
	2018	2017
	(Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 194,101	₩ 152,937
Additions of expenses not involving cash outflows:		
Loss on valuation of financial instruments at FVTPL (K-IFRS 1109)	231	-
Loss on sale of financial assets at FVTOCI	505	-
Loss on valuation of financial instruments designated at FVTPL	-	9
Loss on valuation of trading securities	-	629
Impairment loss on AFS securities	-	13,355
Provision for credit losses allowance	13,408	17,987
Loss on disposal of tangible assets	98	81
Depreciation expense of tangible assets	7,074	6,779
Depreciation expense of investment properties	67	67
Amortization expense of intangible assets	4,349	5,128
Loss on valuation of derivatives held for trading	43,020	66,981
Interest expense	399,844	291,991
Retirement benefits	12,133	12,075
Income taxes	59,584	45,766
Loss on valuation of derivative instruments (for hedging)	783	1,209
Transfer to provisions	5,441	318
Losses related to fluctuation of foreign exchange rate	80,889	3,088
Other losses	2,344	2,311
	629,770	467,774
Deduction of revenues not involving cash inflows:		
Gain on valuation of financial instruments at FVTPL (K-IFRS 1109)	501	-
Gain on sale of financial assets at FVTOCI	3,525	-
Gain on valuation of financial assets held for trading	-	1,635
Gain on valuation of derivative instruments (for trading)	42,268	64,137
Interest income	875,525	687,150
Reversal of provision	246	773
Dividends income	449	377
Gain on valuation related to hedged items	770	1,472
Gain related to fluctuation of foreign exchange rate	74,755	22,419
Other revenues	83	-
	(998,122)	(777,963)
Changes in assets and liabilities resulting from operations:		
Net decrease (increase) in due from banks	136,612	(289,262)
Net decrease in financial instruments at FVTPL (K-IFRS 1109)	11,183	-
Net increase in financial assets held for trading	-	(10,899)
Net decrease in financial instruments designated at FVTPL	-	40,190
Net increase in loans	(3,391,208)	(2,225,574)
Net decrease in other financial assets at amortized cost	46,374	-
Net increase in other financial assets	-	(298,308)
Net increase in other assets	(4,375)	(412)
Net increase in derivative instruments	(5,972)	(2,634)
Net increase in deposits	3,718,107	3,433,258
Net decrease in provisions	(558)	(112)
Net decrease (increase) in other financial liabilities	(184,031)	399,767

(Continued)

SUHYUP BANK

SEPARATE INTERIM STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	For the nine months ended September 30	
	2018	2017
	(Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net decrease in other liabilities	₩ (1,856)	₩ (718)
Payment of severance benefits	(919)	(1,752)
	323,357	1,043,544
Interest income received	855,205	678,441
Dividends received	449	377
Interest expense paid	(328,276)	(235,812)
Income tax paid	(55,615)	(28,894)
Net cash used in operating activities	620,869	1,300,404
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of tangible assets	(9,528)	(8,139)
Acquisition of intangible assets	(10,231)	(8,452)
Increase in guarantee deposits	(6,914)	(5,052)
Disposal of financial assets at FVTOCI	2,073,854	-
Acquisition of financial assets at FVTOCI	(1,644,327)	-
Disposal of financial assets at amortized cost	150,217	-
Acquisition of financial assets at amortized cost	(562,875)	-
Disposal of AFS financial assets	-	2,323,793
Acquisition of AFS financial assets	-	(2,581,812)
Disposal of HTM financial assets	-	149,552
Acquisition of HTM financial assets	-	(656,387)
Net cash provided by investing activities	(9,804)	(786,497)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in borrowings	21,742	(189,848)
Issuance of debentures	1,553,584	2,970,361
Repayment of debentures	(2,051,534)	(3,262,550)
Dividends paid	(116,580)	(17,715)
Issuance of hybrid securities	99,750	-
Repayment of hybrid securities	(99,900)	-
Net cash provided by financing activities	(592,938)	(499,752)
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,127	14,155
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	130,497	124,244
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	992	170
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	₩ 149,616	₩ 138,569

(Concluded)

See accompanying notes to separate interim financial statements.

1. BANK INFORMATION:

Suhyup Bank (the "Bank") was established on December 1, 2016, after the spin-off from the National Federation of Fisheries Cooperatives ("NFFC"). The purpose of the spin-off was to contribute to economic growth in Korea and ensure the achievement of NFFC's goals. The Bank's headquarters is located at 62 Ogeum-ro, Songpa-gu, Seoul.

As of September 30, 2018, the Bank's issued and outstanding common stock (132,000,000 shares) amounted to W660,000 million, and the Bank is wholly owned by the Special Banking Service Accounts of NFFC.

The Bank has 131 branches in Korea as of September 30, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Bank's separate interim financial statements are prepared in accordance with Korean International Financial Reporting Standards ("K-IFRSs") 1034, *Interim Financial Reporting* and K-IFRS 1027, *Separate Financial Statements*. It is necessary to use the annual separate financial statements for the year ended December 31, 2017, for understanding of the accompanying separate interim financial statements.

Unless stated below, the accounting policies applied in preparing the accompanying separate interim financial statements have been applied consistently with the annual separate financial statements as of and for the year ended December 31, 2017.

(1) The Bank has newly adopted the following amendment to K-IFRSs that affected the Bank's accounting policies:

- Enactment to K-IFRS 1109 – *Financial instruments*

The Bank applied for the first time as of January 1, 2018, the enactment to K-IFRS 1109. There have been significant changes in K-IFRS 1109 from K-IFRS 1039, *Financial Instruments: Recognition and Measurement.*

The Bank did not reclassify the prior period when applying the standard, and accordingly, the comparative financial statements have not been reclassified.

The main contents of K-IFRS 1109 are classification and measurement of financial assets and financial liabilities, the impairment model that reflects expected credit losses, more flexibility in the types of transactions that are eligible for hedge accounting and in the types of hedging instruments or changes in the effectiveness assessment requirements.

The Bank has reviewed the internal management process repair or accounting system change concerning the financial instruments reporting related to the introduction of K-IFRS 1109. The financial effects of this standard on separate interim financial statements with major issues are as follows:

1) Classification and measurement of financial assets

All recognized financial assets that are currently within the scope of K-IFRS 1109 will be subsequently measured either at amortized cost, FVTOCI or FVTPL in the following table, based on the business model and the nature of the contractual cash flows. If a hybrid contract includes a financial asset as a master contract, the financial asset is classified based on the entire hybrid contract without separating the embedded derivative.

Business model	The nature of contractual cash flows	
	Contractual cash flows that are solely payments of principal and interest	Other
Objective is to collect the contractual cash flows.	Measured at amortized cost (*1)	Measured at FVTPL (*2)
Objective is achieved both by collecting the contractual cash flows and selling financial assets.	Measured at FVTOCI (*1)	
Objective is to sell financial assets and so on.	Measured at FVTPL	

(*1) An irrevocable election is available to designate a financial asset to be classified as at FVTPL for eliminating or reducing accounting discrepancies.
(*2) For equity securities held for purposes other than short-term trading, an irrevocable election is available to designate them as FVTOCI financial assets.

Classification of financial assets is determined based on the business model and the nature of the contractual cash flows in accordance with K-IFRS 1109. K-IFRS 1109 removed the classification of HTM financial assets, loans and receivables, and AFS assets under K-IFRS 1039. Also, in case hybrid contracts include financial assets as host contracts, embedded derivatives are not separated and the whole host contracts are classified as financial assets.

The estimated impact resulting from the adoption of K-IFRS 1109 as of January 1, 2018, is as follows:

(Unit: Korean won in millions)

Accounts	Classification per K-IFRS 1039	Classification per K-IFRS 1109	Amount per K-IFRS 1039	Amount per K-IFRS 1109
Due from banks	Loans and receivables	Amortized cost	W 1,119,166	W 1,119,166
Loans (*1)			25,599,691	25,599,691
Other financial assets (*1)			700,386	700,386
Debt securities	HTM financial assets	Amortized cost	1,244,665	1,244,665
Debt securities		FVTPL	31,620	31,254
Debt securities	AFS financial assets	FVTOCI	2,913,025	2,913,025
Equity securities	AFS financial assets	FVTOCI	11,246	11,246
Equity securities		FVTPL	3,029	3,029
Equity securities	Financial assets designated at FVTPL	FVTPL	119	119
Equity securities	Financial assets at FVTPL	FVTPL	26,367	26,367
Debt securities	Financial assets at FVTPL	FVTPL	199,152	199,152
Total financial assets			W 31,848,466	W 31,848,100

(*1) Except for deferred loan origination effect and impairment

Financial instruments from the above were reclassified as a result of changes in accounting policies in accordance with K-IFRS 1109.

(1) Corporate bond included in specified portfolio that can be sold to satisfy liquidity needs in general business operation and which independent finance department in the Bank holds for interest income are classified as AFS financial assets under K-IFRS 1039. The Bank decided that these debt instruments are included in the business model in which objective is achieved both by collecting the contractual cash flows and selling the financial assets. The corporate bond has cash flows, which consists of payment of principal at a specified date under contractual terms, which is classified as FVTOCI under K-IFRS 1109. In accordance with the adoption of K-IFRS 1109, allowance for expected credit loss of ₩917 million was recognized in retained earnings as of January 1, 2018.

(2) Some of the equity instruments are invested to hold them in long term for strategic purposes. As permitted in K-IFRS 1109, the Bank designated these assets as FVTOCI at initial adoption.

(3) In accordance with K-IFRS 1109, equity instruments and their performance are managed on a fair value basis and were designated as financial assets at FVTPL. These assets were classified as FVTPL.

(4) In accordance with K-IFRS 1039, loans and other receivables, which were previously classified as loans and receivables, are classified as financial assets at amortized costs. Under K-IFRS 1109, the Bank additionally recognized ₩21,605 million of allowance for loss in retained earnings as of January 1, 2018.

(5) Corporate bonds, which were previously classified as HTM financial assets, are classified as financial assets at amortized cost. The Bank plans to hold the assets to maturity to collect the contractual cash flows. Also, the cash flows of such products consist of principal and interest on the residual principal at a specified date under the terms of the contract. Under K-IFRS 1109, the Bank additionally recognized ₩368 million of allowance for loss in retained earnings as of January 1, 2018.

2) Classification and measurement of financial liabilities

According to K-IFRS 1109, changes in fair value of financial liabilities designated as at FVTPL, attributable to changes in credit risks, are presented in other comprehensive income, not in profit and loss, and other comprehensive income is not reclassified to profit and loss. However, if the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, those changes in fair value are recognized in profit and loss.

Some of the changes in the fair value of a financial liability designated as at FVTPL are presented in other comprehensive income, which were previously recognized in profit and loss under K-IFRS 1039, which may result in decrease in profit and loss related to assessment of financial liability.

The Bank does not hold financial liabilities designated as at FVTPL as of January 1, 2018.

3) Impairment methodology: Financial assets and contractual assets

Under current K-IFRS 1039, the impairment is recognized only when there is objective evidence of an impairment according to the incurred loss model; however, in accordance with K-IFRS 1109, debt instruments, lease receivables, contract assets, loan commitments measured at amortization cost or other comprehensive income are recognized in accordance with the expected credit loss model.

In accordance with K-IFRS 1109, the level of credit risk after the initial recognition of financial assets is divided into three levels as shown in the table below. To measure the allowance for losses at an amount equal to the expected 12-month credit loss or the expected total credit loss, the credit loss can be recognized early compared to the K-IFRS 1039 incurred loss model.

	Stage 1	Stage 2	Stage 3
Stage (*1)	In case the exposure's credit risk has not increased significantly since initial recognition (*2)	In case the exposure has suffered a significant increase in credit risk	In case the exposure meets the accounting definition of impaired credit
Allowance recognition	The Bank recognizes only 12-month expected credit losses as a loss allowance.	The Bank recognizes a loss allowance equal to lifetime-expected credit losses.	

(*1) For accounts receivable or assets recognized for contracts that apply K-IFRS 1115, *Revenue from Contracts with Customers*, loss reserve should be measured for the expected credit loss for the entire period. An accounting policy can be chosen in which provision for loss can be measured for the expected credit loss for the entire period if there is a significant financing component. For lease receivables, loss reserve can be measured for the expected credit loss amount for the entire period as an accounting policy.

(*2) If credit risk is low at the end of the reporting period, it can be considered that there was no significant increase in credit risk.

In accordance with K-IFRS 1109, a financial asset that is impaired by credit at initial recognition and has a significant financing component is accounted for as an allowance for the cumulative change in expected future credit losses after initial recognition. At the end of the reporting period, simplified method is used when the credit risk is low and it is unlikely for credit risks to increase significantly.

The expected impact on the allowance for credit losses as of January 1, 2018, is as follows:

(Unit: Korean won in millions)

Accounts	Allowance for credit losses per K-IFRS 1039 (A)	Allowance for credit losses per K-IFRS 1109 (B)	Increases (B-A)
Loans at amortized cost	W 291,091	W 303,090	W 11,999
Other financial assets at amortized cost	777	10,383	9,606
Securities at amortized cost	-	368	368
Debt securities at FVTOCI	-	917	917
Provisions	6,741	9,763	3,022
Total	W 298,609	W 324,521	W 25,912

4) Hedge accounting

The general hedge accounting requirements of K-IFRS 1109 retain the three types of hedge accounting mechanisms in K-IFRS 1039: Fair Value Hedge, Cash Flow Hedge and Hedge of Net Investment in a Foreign Operation. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. That is, more financial instruments now may be considered to be a hedged item and/or a hedging instrument, the quantitative basis for evaluating high-hedge effectiveness (80%–125%) has been abolished and the retroactive assessment requirement has also been abolished. These allow the firms to concentrate on hedging activities.

In case of adopting K-IFRS 1109, some trading not quantified for hedge accounting in K-IFRS 1039 would be eligible for hedge accounting in K-IFRS 1109, and the volatility of net income can be reduced.

As of January 1, 2018, the Bank holds a trading applied to hedge accounting amounting to ₩321,420 million.

In accordance with K-IFRS 1109, hedging activities by the firm not applied to K-IFRS 1039, hedge accounting to be not qualified for requirements, are not added to trading applied to K-IFRS 1109, Hedge accounting.

5) Transitional provisions

Unless stated below, changes in accounting policy resulting from the implementation of K-IFRS 1109 are applied retrospectively.

(1) The differences in book value of financial assets and financial liabilities are recognized in retained earnings as of January 1, 2018. As a result, information presented in 2017 generally does not meet the requirements of K-IFRS 1109 and the information is not comparable to the information under K-IFRS 1109.
(2) The judgment was made based on the facts and circumstances existing at initial application with regard to the following.
- Determination of business model, which includes financial assets held
- Designation of FVTOCI for investments to equity instruments, not short-term items
(3) At initial application of K-IFRS 1109, if investment to debt securities has low-credit risk, the Bank assumes that the credit risk did not increase significantly.
(4) All hedging relationships designated in accordance with K-IFRS 1039 on December 31, 2017, satisfy hedging accounting under K-IFRS 1109 as of January 1, 2018. Therefore, it is assumed that hedging relationships continue.

6) Effects of adoption

Effects of adoption of K-IFRS 1109 as of January 1, 2018, are as follows:

(1) Fair value

(Unit: Korean won in millions)

		Book value
December 31, 2017 (amounts after the adoption of K-IFRS 1039)	₩	8,497
Recognition of expected credit losses of debt securities at FVTOCI		(917)
Deferred tax effect		222
Beginning balance as of January 1, 2018 (amounts after the adoption of K-IFRS 1109)	₩	7,802

(2) Retained earnings

(Unit: Korean won in millions)

		Book value
December 31, 2017 (amounts after the adoption of K-IFRS 1039)	₩	438,762
Recognition of expected credit losses in accordance with K-IFRS 1109		(25,912)
Others		435
Deferred tax effect		6,154
Beginning balance as of January 1, 2018 (amounts after the adoption of K-IFRS 1109)	₩	419,439

- Enactments to K-IFRS 1115 – Revenue from Contracts with Customers

K-IFRS 1115 will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018 - Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115 - Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031 - Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

K-IFRS 1018 - *Revenue* recognizes revenue based on the types of contracts, such as sale of goods, service, interest income, royalty income, dividend income and construction, but in accordance with K-IFRS 1115, revenue is recognized based on the five steps: 1) Identify the contract 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 and 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The Bank has organized a task force team in connection with the introduction of K-IFRS 1115 and evaluated the potential effect on the separate interim financial statements based on the present situation as of December 31, 2017, and the available information for evaluating the financial effect by initial adoption of K-IFRS 1115 preliminarily. The Bank is expecting that there are no significant impacts on its separate interim financial statements as a result of adopting K-IFRS 1109. The result of the potential effect on the separate interim financial statements based on the present situation as of December 31, 2017, may be changed depending on the available information for evaluating the financial effect afterward. As a result of this amendment, there is no significant effect on the Bank's separate interim financial statements.

- Amendments to K-IFRS 1102 – Classification and Measurement of Share-Based Payment Transaction

The amendments clarify the following: i) In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled, share-based payments; ii) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability, which is then remitted to the tax authority, i.e., the share-based payment arrangement has a 'net settlement feature,' such an arrangement should be classified as equity settled in its entirety, provided that the share-based payment would have been classified as equity settled had it not included the net settlement feature; iii) A modification of a share-based payment that changes the transaction from cash settled to equity settled should be accounted for as follows: a) the original liability is derecognized, b) the equity-settled share-based payment is recognized at the modification-date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date and c) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

- Amendments to K-IFRS 1040 – Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in K-IFRS 1040 may evidence a change in use, and that a change in use is possible for properties under construction (i.e., a change in use is not limited to completed properties).
There are no significant impacts on the Bank's separate interim financial statements resulting from these amendments.

- Enactments to K-IFRS 2122 – Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the 'date of transaction' for determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency that resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).
The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.
The Bank already accounts the payment or receipt of advance consideration in foreign currency consistently as the interpretations, and thus there is no impact on the separate interim financial statements resulting from the interpretations.

- Annual Improvements to K-IFRS 2014-2016 Cycle

The amendments include partial amendments to K-IFRS 1101 'First-time Adoption of K-IFRS' and K-IFRS 1028 'Investments in Associates and Joint Ventures.' Amendments to K-IFRS 1028 provide that an investment company, such as a venture capital investment vehicle, may selectively designate each of its investment in associates and/or joint ventures to be measured at FVTPL, and that such designation must be made at the time of each investment's initial recognition. In addition, when non-investment companies apply equity method to investment in associates and/or joint ventures that are investment companies, these companies may apply the same fair value measurement used by the said associates to value their own subsidiaries. This accounting treatment may be selectively applied to each associate. These amendments should be applied retrospectively and are available for early adoption.
The Bank is neither a venture capital investment vehicle nor is adopting K-IFRS for the first time; thus, it is expected that the amendments explained above will not affect the Bank's separate interim financial statements. Furthermore, the Bank does not own shares of an associate or a joint venture that are classified as investment companies.

(3) K-IFRSs that have not applied yet due to the non-arrivals of effective date, but have enacted or amended are as follows:

- Enactments to K-IFRS 1116 – Leases

K-IFRS 1116 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. K-IFRS 1116 will supersede the current lease guidance, including K-IFRS 1017 Leases and the related interpretations, and the Bank plans to adopt this standard for the accounting year starting from January 1, 2019.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and are replaced by a model where a right-of-use asset and a corresponding liability must be recognized for all leases by lessees, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows; whereas, under the K-IFRS 1116 model, the lease payments will be split into a principal portion and an interest portion, which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017 and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by K-IFRS 1116.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under K-IFRS 1116, and hence, the Bank will recognize a right-of-use asset and a corresponding liability in respect of all these leases, unless they qualify for low-value or short-term leases upon the application of K-IFRS 1116, and the Bank is currently assessing its potential impact.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS:

The significant accounting estimates and assumptions are continually evaluated and are based on historical experiences and various factors, including expectations of future events that are considered to be reasonable. Actual results can differ from those estimates based on such definitions. The accounting estimates and assumptions, which involve potential significant risks that may materially affect the book values of assets and liabilities in the Bank's separate interim financial statements, are as follows:

(1) Fair value of financial instruments

As described in Note 6, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. The details of assumptions and sensitivity analysis used to estimate fair value of financial instruments are described in Note 6. The management believes that the valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(2) Allowance for credit losses (allowance for losses on loans, allowance for losses on acceptances and guarantees and allowance for losses on unused credit limits)

The Bank recognizes allowance for losses on individual loans and receivables by assessing the occurrence of loss events and assesses impairment for the group of loans and receivables with similar credit risk characteristics. The Bank maintains allowance for credit losses on off-statement-of-financial-position credit instruments, including commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments to absorb estimated probable losses related to these unused credit facilities. The provision for the allowance may vary due to the borrower's expected cash flows for the individually assessed loans and receivables, and the changes in assumptions and parameters for the collectively assessed loans and receivables, the acceptances and guarantees and the unused credit limits.

(3) Measurement of defined benefit obligation

The Bank's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Bank's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. The details of defined benefit obligation are provided in Note 29.

4. FINANCIAL RISK MANAGEMENT:

The Bank is exposed to various financial risks, such as credit, liquidity and market, associated with financial instruments. This outline indicates the level of exposure to such risks and the objectives, policies, risk assessment, management procedures and capital management of the Bank. Additional quantitative information is disclosed throughout the separate interim financial statements.

(1) Risk management policy

The primary purpose of risk management is to maintain stability of the Bank by analyzing risks arising from business activities and managing such risks in an effective and efficient manner. The Bank establishes and manages limits per risk and business division to improve capital efficiency, maintain the appropriate balance between risk and return and create an efficient risk portfolio.

The Risk Management Committee establishes risk management strategy in accordance with the strategic direction chosen by the board of directors, determines the possible level of risk and manages the level of risk that the Bank faced and the condition of risk management activities as an ultimate decision-making organization.

The Risk Management Council is a consultative group that reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Bank's risk management. The Bank's risk management council is composed of seven members, including the Bank's chief risk management officer and strategic planning team members.

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work relating to risk management plan and operates the Interest Rate and Credit Risk Management Practices Committee.

To manage risks arising from business activities in an efficient manner, the Bank established the Risk Management Department, which is separated from the business division. Additionally, the Risk Management Committee and the Risk Management Council monitor the Bank's risks on an ongoing basis, hence enhancing transparency and fairness of the management's decision-making process. The Bank also designs and operates risk management systems (credit risk management system, market risk management system, asset-liability management system, etc.) for each type of risk.

Furthermore, the Bank manages significant risks arising from the Bank's business activities within the adequate level of capital, hence designing and operating capital adequacy management system and risk-adjusted performance assessment systems. Such systems are used for the management's decision-making process.

(2) Credit risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. The Bank calculates both expected and unexpected losses, considering credit risk characteristics of all assets (including on-statement-of-financial-position and off-statement-of-financial-position items) exposed to credit risk.

Expected loss is calculated using expected PD (Probability of Default) and LGD (Loss Given Default). Unexpected loss, the maximum unexpected loss within a given confidence interval, is calculated using Credit metrics, an internally developed model.

Credit risk management is the process of managing assets in an efficient manner and enhancing asset quality by analyzing changes in value of assets, considering total exposures and changes in borrowers' financial condition.

The Bank establishes and manages credit risk limits for each business division to improve capital efficiency, maintain the appropriate balance between risk and return and create an efficient risk portfolio. The Risk Management Committee establishes limits per group, and each business division conducts business within the limits.

1) The Bank's maximum exposure of financial instruments (excluding equity securities) to credit risk that does not consider mortgage value as of September 30, 2018, and December 31, 2017, is summarized as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
On-statement-of-financial-position items:				
Due from banks	₩	964,928	₩	1,119,166
Financial assets at FVTPL (K-IFRS 1109)		245,916		-
Financial assets at FVTOCI		2,501,044		-
Securities at amortized cost		1,662,145		-
Loans at amortized cost		29,001,611		-
Financial assets at FVTPL (K-IFRS 1039):				
Financial assets held for trading		-		199,152
AFS financial assets		-		2,913,025
HTM financial assets		-		1,276,285
Loans		-		25,323,583
Derivative assets		62,224		82,653
Other financial assets (*1)		-		693,074
Other financial assets at amortized cost (*1)		675,832		-
Total	₩	35,113,700	₩	31,606,938
Off-statement-of-financial-position items:				
Acceptances and guarantees	₩	337,784	₩	291,792
Commitments		4,889,199		2,369,615
Total	₩	5,226,983	₩	2,661,407

(*1) It is composed of receivables, accrued revenues, guarantee deposits for leases, domestic exchanges receivable, temporary payment, etc.

2) As of September 30, 2018, the credit risk exposure for the financial instruments held by the Company is as follows (Unit: Korean won in millions):

	Stage 1	Stage 2	Stage 3	Subtotal	Allowance for bad debt	Total
Due from banks						
Above appropriate credit rating (*1)	W 964,928	W -	W -	W 964,928	W -	W 964,928
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	964,928	-	-	964,928	-	964,928
Mortgage value (*3)	-	-	-	-	-	-
Loans at amortized cost						
Loan to consumers						
Above appropriate credit rating (*1)	13,043,612	126,994	28,868	13,199,474	(14,862)	13,184,612
Less than a limited credit rating (*2)	358,551	246,173	27,004	631,728	(10,938)	620,790
Subtotal	13,402,163	373,167	55,872	13,831,202	(25,800)	13,805,402
Mortgage value	9,959,341	260,073	38,121	10,257,535	-	10,257,535
Loans to non-consumers						
Above appropriate credit rating (*1)	12,996,845	1,354,874	19,154	14,370,873	(109,158)	14,261,715
Less than a limited credit rating (*2)	-	631,586	167,950	799,536	(151,071)	648,465
Subtotal	12,996,845	1,986,460	187,104	15,170,409	(260,229)	14,910,180
Mortgage value	6,053,834	821,692	65,505	6,941,031	-	6,941,031
Loan total	26,399,008	2,359,627	242,976	29,001,611	(286,029)	28,715,582
Mortgage value of loan total	16,013,175	1,081,765	103,626	17,198,566	-	17,198,566
Financial assets at FVTOCI (*4)						
Above appropriate credit rating (*1)	2,501,044	-	-	2,501,044	(815)	2,500,229
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	2,501,044	-	-	2,501,044	(815)	2,500,229
Mortgage value	-	-	-	-		-
Securities at amortized cost						
Above appropriate credit rating (*1)	1,662,145	-	-	1,662,145	(483)	1,661,162
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	1,662,145	-	-	1,662,145	(483)	1,661,162
Mortgage value	-	-	-	-		-
Other financial asset						
Above appropriate credit rating (*1)	675,832	-	-	675,832	(10,823)	665,009
Less than a limited credit rating (*2)	-	-	-	-	-	-
Subtotal	675,832	-	-	675,832	(10,823)	665,009
Mortgage value	-	-	-	-		-

(*1) Non-consumers are AAA – BBB, and consumers are grades 1 – 6.
(*2) Non-consumers are BBB- – C, and consumers are grades 7 – 10.
(*3) Mortgage value is the amount distributed when allowance for bad debt is calculated.
(*4) It is included in accumulated other comprehensive income because allowance for bad debt of financial assets at FVTOCI does not decrease the carrying amount.

3) As of December 31, 2017, loans are classified as follows (Unit: Korean won in millions):

	December 31, 2017					
	Consumers		Non-consumers		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Loans neither overdue nor impaired	W 10,098,201	99.75	W 15,288,405	98.69	W 25,386,606	99.11
Loans overdue, but not impaired	12,711	0.13	19,167	0.12	31,878	0.12
Impaired loans	12,146	0.12	184,044	1.19	196,190	0.77
Gross loans	10,123,058	100.00	15,491,616	100.00	25,614,674	100.00
Allowance for credit losses	(15,813)		(275,278)		(291,091)	
Net	₩ 10,107,245		₩ 15,216,338		₩ 25,323,583	

4) As of December 31, 2017, details of loans that are neither past due nor impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Above appropriate credit rating (*1)	₩ 9,631,771	₩ 14,656,982	₩ 24,288,753
Less than a limited credit rating (*2)	466,430	631,423	1,097,853
Total	₩ 10,098,201	₩ 15,288,405	₩ 25,386,606
Mortgage value (*3)	₩ 8,967,397	₩ 10,884,230	₩ 19,851,627

5) As of December 31, 2017, details of loans that are past due, but not impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Less than 30 days	₩ 9,009	₩ 17,242	₩ 26,251
31–59 days	2,036	377	2,413
60–89 days	1,666	1,548	3,214
Total	₩ 12,711	₩ 19,167	₩ 31,878
Mortgage value	₩ 11,016	₩ 17,944	₩ 28,960

6) As of December 31, 2017, details of loans that are impaired are summarized as follows (Unit: Korean won in millions):

	December 31, 2017		
	Consumers	Non-consumers	Total
Loans	₩ 12,146	₩ 184,044	₩ 196,190
Mortgage value	6,618	124,840	131,458

7) As of September 30, 2018, the credit risk exposure of off-balance accounts is as follows (Unit: Korean won in millions):

	Provision for financial guarantee				Acceptance and guarantee and other credit-related liabilities				
	Stage 1	Stage 2	Stage 3	Subtotal	12-month expected credit losses	Lifetime-expected credit losses	Credit-impaired financial assets	Subtotal	Total
Above appropriate credit rating (*1)	W 40,000	W 37,800	W -	W 77,800	W 2,300,963	W 83,980	W -	W2,384,943	W 2,462,743
Less than a limited credit rating (*2)	-	-	-	-	36,310	21,885	1,000	59,195	59,195
Subtotal	W 40,000	W 37,800	W -	W 77,800	W 2,337,273	W 105,865	W 1,000	W2,444,138	W 2,521,938

(*1) Non-consumers are AAA – BBB, and consumers are grades 1–6.
(*2) Non-consumers are BBB- – C, and consumers are grades 7–10.

8) As of September 30, 2018, detail of debt instrument is as follows (Unit: Korean won in millions):

	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial assets at amortized cost	Total
AAA	W 220,701	W 2,361,190	W 1,469,689	W 4,051,580
AA- – AA+	-	139,854	173,579	313,433
BBB- – A+	-	-	18,877	18,877
Less than BBB-	-	-	-	-
Non-graded	25,215	-	-	25,215
Total	W 245,916	W 2,501,044	W 1,662,145	W 4,409,105

9) As of December 31, 2017, creditworthiness of securities (excluding equity securities) is summarized as follows (Unit: Korean won in millions):

	December 31, 2017
Securities neither overdue nor impaired	W 4,388,462
Impaired securities	-
Total	W 4,388,462

10) As of December 31, 2017, details of securities (excluding equity securities) that are past due, but not impaired are summarized as follows (Unit: Korean won in millions):

	Financial assets held for trading	AFS financial assets	HTM financial assets	Total
AAA	W 199,152	W 2,773,490	W 1,081,630	W 4,054,272
AA- – AA+	-	139,535	181,723	321,258
BBB- – A+	-	-	12,932	12,932
Total	W 199,152	W 2,913,025	W 1,276,285	W 4,388,462

11) As of September 30, 2018, and December 31, 2017, the following tables analyze credit risk exposure by geographical areas (Unit: Korean won in millions):

	September 30, 2018						
	Due from banks	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial assets at amortized cost		Off-balance accounts	Total
				Securities	Loans		
Domestic	₩ 579,199	₩ 245,916	₩2,501,044	₩ 1,662,145	₩28,806,336	₩ 2,521,938	₩ 36,316,578
Foreign	385,729	-	-	-	195,275	-	581,004
Total	₩ 964,928	₩ 245,916	₩2,501,044	₩ 1,662,145	₩29,001,611	₩ 2,521,938	₩ 36,897,582

	December 31, 2017				
	Loans	Financial assets held for trading	AFS financial assets	HTM financial assets	Total
Domestic	₩ 25,115,180	₩ 199,152	₩ 2,913,025	₩ 1,276,285	₩ 29,503,642
Foreign	208,403	-	-	-	208,403
Total	₩ 25,323,583	₩ 199,152	₩ 2,913,025	₩ 1,276,285	₩ 29,712,045

12) The following table analyzes credit risk exposure of financial instrument by industries as of September 30, 2018, and credit risk exposure of loans by industries as of December 31, 2017 (Unit: Korean won in millions):

	September 30, 2018						
	Due from banks	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial assets at amortized cost		Off-balance accounts	Total
				Securities	Loans		
Finance	₩ 964,928	₩214,769	₩ 1,590,084	₩ 1,263,165	₩ 2,612,494	₩ 243,434	₩ 6,888,874
Construction	-	-	89,757	107,081	228,416	14,227	439,481
Wholesale and retail	-	-	-	-	1,448,133	163,160	1,611,293
Real estates and lease business	-	31,147	30,342	9,839	5,441,732	124,403	5,637,463
Lodging and restaurant business	-	-	-	-	1,416,915	11,775	1,428,690
Households	-	-	-	-	11,471,980	-	11,471,980
Others	-	-	790,861	282,060	6,381,941	1,964,939	9,419,801
Total	₩ 964,928	₩245,916	₩ 2,501,044	₩ 1,662,145	₩29,001,611	₩2,521,938	₩36,897,582

	December 31, 2017	
	Amount	Ratio (%)
Finance	₩ 2,401,570	9.48
Construction	364,827	1.44
Wholesale and retail	1,430,381	5.65
Real estates and lease business	5,271,285	20.82
Lodging and restaurant business	1,456,483	5.75
Households	7,931,561	31.32
Others	6,467,476	25.54
Total	₩ 25,323,583	100.00

13) If the Bank determines that it is not feasible to recover the principal amount of the impaired financial asset, it shall amortize some or all of the net book value of the financial asset. These judgments are carried out in accordance with internal rules of the bank and continue to be managed by the collection policy of banks even after bad debt default. Amount recovered after amortization is recognized in profit or loss. Although the bank amortized, the balance of the claim that can be claimed due to the incompleteness of the statute of limitations is ₩356,552 million and ₩406,077 million as of September 30, 2018, and December 31, 2017, respectively. The Bank continues to manage the financial instruments in accordance with the internal collection rules.

(3) Liquidity risk

Liquidity risk is the risk that the Bank becomes insolvent due to uncertain liquidity caused by unexpected cash outflows or the risk of borrowing high-interest debts or disposal of liquid and other assets at a substantial discount.

The Bank sets allowable limits for liquidity risk management index more than once a year, considering changes in market environment and business policies. Compliance of the allowable limits is monitored on a regular basis. Additionally, the Bank develops contingency plans to identify liquidity trends worsened as a result of dramatic changes in financial market and provides effective countermeasures against cash outflows and liquidity risk. The Bank monitors its contingency plans on a regular basis.

1) Remaining contractual maturity and future cash flows of non-derivative financial liabilities as of September 30, 2018, and December 31, 2017, are summarized as follows (Unit: Korean won in millions):

	September 30, 2018					
	Less than 3 months	3 months –1 year	1 year –3 years	3 years –5 years	Above 5 years	Total
Deposits	₩ 11,274,904	₩ 11,620,638	₩ 1,735,071	₩ 632,755	₩ 87	₩ 25,263,455
Borrowings	719,843	759,438	243,811	173,473	111,487	2,008,052
Corporate bonds	727,138	1,750,891	2,258,958	177,090	-	4,914,077
Other liabilities	237,740	-	-	499,880	-	737,620
Total	₩ 12,959,625	₩ 14,130,967	₩ 4,237,840	₩ 1,483,198	₩ 111,574	₩ 32,923,204
Off-statement-of-financial-position items (*)						
Acceptance and guarantee	₩ 337,784	₩ -	₩ -	₩ -	₩ -	₩ 337,784
Commitments	4,889,199	-	-	-	-	4,889,199
Total	₩ 5,226,983	₩ -	₩ -	₩ -	₩ -	₩ 5,226,983

	December 31, 2017					
	Less than 3 months	3 months –1 year	1 year –3 years	3 years –5 years	Above 5 years	Total
Deposits	₩ 8,123,337	₩ 11,137,402	₩ 1,536,902	₩ 671,930	₩ 144	₩ 21,469,715
Borrowings	797,301	582,511	224,603	259,826	106,900	1,971,141
Corporate bonds	649,732	2,171,882	2,384,149	204,578	-	5,410,341
Other liabilities	606,612	-	-	253,772	-	860,384
Total	₩ 10,176,982	₩ 13,891,795	₩ 4,145,654	₩ 1,390,106	₩ 107,044	₩ 29,711,581
Off-statement-of-financial-position items (*)						
Acceptance and guarantee	₩ 291,792	₩ -	₩ -	₩ -	₩ -	₩ 291,792
Commitments	2,369,615	-	-	-	-	2,369,615
Total	₩ 2,661,407	₩ -	₩ -	₩ -	₩ -	₩ 2,661,407

(*) The earliest period in which the commitment could be executed is regarded as the beginning.

2) Remaining contractual maturity and future cash flows of derivative financial liabilities as of September 30, 2018, and December 31, 2017, are summarized as follows (Unit: Korean won in millions):

	September 30, 2018					
	Less than 3 months	3 months–1 year	1 year–3 years	3 years–5 years	Above 5 years	Total
Derivatives	W 15,902	W 43,318	W 1,945	W 136	W 2,983	W 64,284

	December 31, 2017					
	Less than 3 months	3 months–1 year	1 year–3 years	3 years–5 years	Above 5 years	Total
Derivatives	W 44,268	W 21,226	W 20,408	W 70	W 3,177	W 89,149

(4) Market risk

Market risk is the risk of possible losses on trading positions resulting from changes in market factors, such as interest rate, stock price, foreign exchange rate and market value of instruments. The Bank's approach to hedge or mitigate market risk includes internal processes, such as root cause analysis for each risk factor, measurement of the risk factors and appropriateness test on its risk management methods. The Bank calculates 10-day Value at Risk ("VaR") using the variance-covariance method and a 99.5% confidence level when calculating market risk.

The Risk Management Council annually sets VaR limits, position limits and loss limits of each division and instrument. Compliance of such limits is monitored daily and reported to the management and the Risk Management Council on a regular basis.

The Standardized Approach and the internal model (VaR) are used to estimate market risk. The Standardized Approach is used to calculate the required capital from market risk, and the internal model is used to manage risks internally.

1) The following tables show VaR as of September 30, 2018, and December 31, 2017 (Unit: Korean won in millions):

	September 30, 2018			
	Maximum	Minimum	Average	Ending balance
Interest rate risk	W 504	W 86	W 222	W 178
Stock price risk	1,448	-	795	-
Foreign exchange rate risk	976	3	88	83
Diversification	(967)	58	(223)	(68)
Total VaR	W 1,961	W 147	W 882	W 193

	December 31, 2017			
	Maximum	Minimum	Average	Ending balance
Interest rate risk	W 584	W 126	W 352	W 302
Stock price risk	1,538	139	791	1,483
Foreign exchange rate risk	1,867	9	155	203
Diversification	(2,199)	36	(335)	(381)
Total VaR	W 1,790	W 310	W 963	W 1,607

2) The following table shows interest rate VaR and Earnings at Risk ("EaR") as of September 30, 2018, and December 31, 2017 (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017	Increase (decrease)
Interest rate VaR	W 26,220	W 58,168	W (31,948)
Interest rate EaR	94,445	99,026	(4,581)

3) Details of assets and liabilities denominated in foreign currency, which are then converted into Korean won, as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018					
	USD	EUR	JPY	GBP	Others	Total
Cash and due from banks	W 420,512	W 11,980	W 12,508	W 898	W 6,026	W 451,924
Securities at amortized cost	93,937	-	-	-	-	93,937
Loans at amortized cost	1,013,437	41,830	97,412	2,414	2,179	1,157,272
Other financial assets at amortized cost	125,477	6,085	14,139	-	1,678	147,379
Total	W 1,653,363	W 59,895	W 124,059	W 3,312	W 9,883	W 1,850,512
Deposits	W 437,696	W 5,125	W 15,382	W 253	W 3,269	W 461,725
Borrowings	735,432	32,054	79,380	-	-	846,866
Corporate bonds	398,776	-	-	-	-	398,776
Provisions	694	176	39	-	-	909
Other liabilities	90,016	22,146	28,591	148	1,962	142,863
Total	W 1,662,614	W 59,501	W 123,392	W 401	W 5,231	W 1,851,139
Off-statement-of-financial-position items	W 1,014,773	W 27,687	W 15,089	W 453	W -	W 1,058,002

	December 31, 2017					
	USD	EUR	JPY	GBP	Others	Total
Cash and due from banks	W 574,301	W 12,612	W 21,854	W 2,132	W 4,113	W 615,012
Loans and receivables	926,355	36,750	84,303	1,084	1,073	1,049,565
HTM financial assets	105,573	-	-	-	-	105,573
Other assets	759,992	30,016	74,220	1,128	3,281	868,637
Total	W 2,366,221	W 79,378	W 180,377	W 4,344	W 8,467	W 2,638,787
Deposits	W 500,570	W 8,471	W 23,949	W 194	W 1,300	W 534,484
Borrowings	721,186	13,667	78,824	-	7	813,684
Corporate bonds	385,014	-	-	-	-	385,014
Other liabilities	242,137	27,237	5,684	3	198	275,259
Total	W 1,848,907	W 49,375	W 108,457	W 197	W 1,505	W 2,008,441
Off-statement-of-financial-position items	W 975,964	W 27,565	W 21,603	W 168	W 130	W 1,025,430

(5) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Events are classified into seven categories: a) internal fraud; b) external fraud; c) employment practices and workplace safety; d) clients/products and business practices; e) damage to physical assets; f) business disruption and system failure and g) execution, delivery and process management.

To fulfill its purpose to control or mitigate operational risk, the Bank sets risk limits, assesses the feasibility of its control strategies and selects appropriate approaches suitable for operational risk. The approaches include internal processes, such as identification of controls over operational risk, assessment of the effectiveness of the controls, data management, measurement of operational risk and ongoing monitoring of operational risk.

(6) Capital management

The Bank monitors and manages internal capital, which supports various risks and ensures that the Bank continues to engage in its businesses. Internal capital is the amount of capital to prevent the inability of payment due to unexpected loss in the future.

The purpose of monitoring capital is to monitor the soundness of finance and provide risk-adjusted basis for performance review by comparing internal capital and available capital (actual amount of available capital). The Bank adopts Basel III, which is the standard of capital regulation of the Basel Committee on Banking Supervision of Bank for International Settlement ("BIS").

The Bank's BIS capital ratios, which are calculated based on the separate interim financial statements, as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Total risk-adjusted capital	W	2,915,139	W	2,807,127
Tier 1 common capital		2,283,716		2,113,351
Other Tier 1 capital		199,649		199,799
Tier 2 capital		431,774		493,977
Total risk-weighted assets		20,813,487		19,285,026
Risk-weighted assets for credit risk		19,792,499		18,317,722
Risk-weighted assets for operational risk		966,719		867,520
Risk-weighted assets for market risk		54,269		99,784
Capital adequacy ratio (%)				
Common equity Tier 1 ratio (%)		10.97		10.96
Tier 1 capital ratio (%)		11.93		11.99
Total capital ratio (%)		14.01		14.56

The Bank meets the minimum capital requirements (capital stock-common ratio of 6.375%, Tier 1 capital ratio of 7.875% and total capital ratio of 9.875%) as described in the above table.

5. OPERATING SEGMENTS:

The Bank's reporting segments comprise the following customers: marketing, funds, investment banking and others. The Bank classifies reporting segments based on its management organization.

Operations by division for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018						
	Operations	Capital	Investment	Others	Subtotal	Adjustment	K-IFRS
Net interest income	₩ 451,471	₩ (44,266)	₩ 10,350	₩ 49,910	₩ 467,465	₩ 8,216	₩ 475,681
Interest income	947,857	110,656	29,133	68,385	1,156,031	(280,506)	875,525
(Interest income related to external customers)	708,062	70,906	29,133	59,208	867,309	8,216	875,525
Interest expense	(496,386)	(154,922)	(18,783)	(18,475)	(688,566)	288,722	(399,844)
(Interest expense related to external customers)	(292,113)	(94,271)	-	(13,460)	(399,844)	-	(399,844)
Net fee income	32,620	493	5,118	9,843	48,074	(19,969)	28,105
Fee income	34,544	560	5,118	9,843	50,065	(9,785)	40,280
Fee expense	(1,924)	(67)	-	-	(1,991)	(10,184)	(12,175)
Net gain (loss) on financial instruments	-	(1,141)	(175)	398	(918)	681	(237)
Bad debt expense	(35,987)	143	(2,677)	19,933	(18,588)	(14)	(18,602)
Other operating income	(210,951)	966	(2,495)	(9,926)	(222,406)	11,095	(211,311)
Operating income	237,153	(43,805)	10,121	70,158	273,627	9	273,636
Non-operating income	309	2	-	(20,262)	(19,951)	-	(19,951)
Net income before income tax expense	237,462	(43,803)	10,121	49,896	253,676	9	253,685
Income tax expense	(57,466)	10,600	(2,449)	(12,075)	(61,390)	1,806	(59,584)
Net income	179,996	(33,203)	7,672	37,821	192,286	1,815	194,101

	For the nine months ended September 30, 2017						
	Operations	Capital	Investment	Others	Subtotal	Adjustment	K-IFRS
Net interest income	₩ 393,760	₩ (54,153)	₩ 11,455	₩ 41,164	₩ 392,226	₩ 2,933	₩ 395,159
Interest income	712,973	68,239	29,079	62,589	872,880	(185,730)	687,150
(Interest income related to external customers)	554,615	48,681	29,079	51,841	684,216	2,934	687,150
Interest expense	(319,213)	(122,392)	(17,624)	(21,425)	(480,654)	188,663	(291,991)
(Interest expense related to external customers)	(194,687)	(80,470)	-	(16,832)	(291,989)	(2)	(291,991)
Net fee income	43,229	491	10,449	1,797	55,966	(14,399)	41,567
Fee income	48,238	623	10,449	1,805	61,115	(8,218)	52,897
Fee expense	(5,009)	(132)	-	(8)	(5,149)	(6,181)	(11,330)
Net gain (loss) on financial instruments	-	6,099	(12,561)	584	(5,878)	1,188	(4,690)
Bad debt expense	(37,013)	433	(2,226)	21,274	(17,532)	-	(17,532)
Other operating income	(186,049)	(2,834)	(2,657)	(15,466)	(207,006)	10,276	(196,730)
Operating income	213,927	(49,964)	4,460	49,353	217,776	(2)	217,774
Non-operating income	220	-	-	(19,290)	(19,070)	(1)	(19,071)
Net income before income tax expense	214,147	(49,964)	4,460	30,063	198,706	(3)	198,703
Income tax expense	(51,824)	12,091	(1,079)	(7,274)	(48,086)	2,320	(45,766)
Net income	162,323	(37,873)	3,381	22,789	150,620	2,317	152,937

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

(1) Accounting policy

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. For each class of financial assets and financial liabilities, the Bank discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period.

Financial instruments are measured at fair value using a quoted market price in active markets. If there is no active market for a financial instrument, the Bank determines the fair value using alternative assumptions and developing fair value measurement methods.

Alternative assumptions and fair value measurement methods for each type of financial instruments are as follows:

	Fair value measurement techniques	Alternative assumptions
Securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined by independent third-party pricing services when quoted prices are not available.	Risk-free market rate, credit spread, market risk premium and beta
Loans	Discounted Cash Flow ("DCF") Model is used to determine the fair value of loans.	Risk-free market rate, credit spread and prepayment rate
Derivatives	For derivatives, quoted price in an active market is used to determine fair value. If there is no active market for derivatives, the fair value is determined using the valuations of independent third-party pricing services or internally developed valuation models.	Risk-free market rate, forward rate, foreign exchange rate, etc.
Deposits	The carrying amount of demand deposit is regarded as fair value, as it does not have maturity, and the amount approximates the fair value. Fair value of time deposit is determined using the DCF Model.	Risk-free market rate, credit spread and prepayment rate
Borrowings	Carrying amount of overdraft in foreign currency is regarded as representative of fair value. Fair value of other borrowings is determined using the DCF Model.	Risk-free market rate and forward rate
Debenture	Fair value is determined using the valuations of independent third-party pricing services.	Risk-free market rate and forward rate

(2) Fair value hierarchy

The Bank believes that valuation methods used for measuring the fair values of financial instruments are reasonable, and that the fair values recognized in the separate interim statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the separate interim statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there are a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Bank classifies and discloses fair value of financial instruments into the following three-level hierarchy:

- Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3: The fair values are based on unobservable inputs for the asset or liability.
The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest-level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

1) Hierarchy of financial assets and liabilities measured at fair value as of September 30, 2018, and December 31, 2017, is as follows (Unit: Korean won in millions):

	September 30, 2018			
	Level 1 (*1)	Level 2 (*1)	Level 3(*2)	Total
Financial assets:				
Financial assets at FVTPL	W 1,073	W 245,916	W 1,837	W 248,826
Equity securities	1,073	-	1,649	2,722
Debt securities	-	220,701	-	220,701
Beneficiary certificate	-	25,215	188	25,403
Financial assets at FVTOCI	535,037	1,970,716	11,988	2,517,741
Equity securities	4,709	-	11,988	16,697
Debt securities	530,328	1,970,716	-	2,501,044
Derivative assets	-	62,224	-	62,224
Total	W 536,110	W 2,278,856	W 13,825	W 2,828,791
Financial liabilities:				
Derivative liabilities	W -	W 64,284	W -	W 64,284

	December 31, 2017			
	Level 1 (*1)	Level 2 (*1)	Level 3(*3)	Total
Financial assets:				
Financial assets held for trading:	W 66,035	W 159,484	W -	W 225,519
Equity securities	26,367	-	-	26,367
Debt securities	39,668	159,484	-	199,152
Financial assets designated at FVTPL:	-	-	119	119
Equity securities	-	-	119	119
AFS financial assets:	697,544	2,216,646	13,110	2,927,300
Equity securities	1,165	-	13,110	14,275
Debt securities	696,379	2,216,646	-	2,913,025
Derivative assets	-	82,653	-	82,653
Total	W 763,579	W 2,458,783	W 13,229	W 3,235,591
Financial liabilities:				
Derivative liabilities	W -	W 89,149	W -	W 89,149

(*1) There were no significant transfers between Level 1 and Level 2. The Bank recognizes transfers between levels at the end of reporting period within which events have occurred or conditions have changed.
(*2) Certain FVTOCI unquoted equity securities were regarded cost as fair value as of September 30, 2018, that amounted to W642 million.
(*3) Certain AFS unquoted equity securities were measured at cost as of December 31, 2017, that amounted to ₩642 million.

2) The valuation techniques and input variables of Level 2 financial instruments measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Fair value		Valuation technique
Financial assets:			
Financial assets at FVTPL			
Debt securities	W	220,701	DCF Model
Beneficiary certificate		25,215	DCF Model
Financial assets at FVTOCI			
Debt securities		1,970,716	DCF Model
Derivative assets		62,224	DCF Model
Total	₩	2,278,856	
Financial liabilities:			
Derivative liabilities	W	64,284	DCF Model

	December 31, 2017		
	Fair value		Valuation technique
Financial assets:			
Financial assets held for trading:			
Debt securities	W	159,484	DCF Model
AFS financial assets:			
Debt securities		2,216,646	DCF Model
Derivative assets		82,653	DCF Model
Total	W	2,458,783	
Financial liabilities:			
Derivative liabilities	₩	89,149	DCF Model

3) The valuation techniques, input variables and significant unobservable inputs of Level 3 financial instruments, measured at fair value, as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018			
	Fair value	Valuation techniques	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets at FVTPL:				
Equity securities (*1)		DCF Model	Net sales growth rate, rate of operating profits, liquidating value and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate, liquidating value and rate of operating profits increase (decrease) and weighted-average cost of capital decreases (increases).
	₩ 1,649	Binomial Model	Stock volatility	Fair value increases (decreases) when stock volatility increases (decreases)
Beneficiary certificate	188	Net Asset Value Method	Net asset value	Fair value increases (decreases) when net asset value increases (decreases)
Financial assets at FVTOCI:				
Equity securities (*2)	11,988	DCF Model, Net Asset Value Method and Dividend Discount Model	Net sales growth rate, rate of operating profits, liquidating value and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate, rate of operating profits and liquidating value increase (decrease) and weighted-average cost of capital decreases (increases).
Total	₩13,825			

	December 31, 2017			
	Fair value	Valuation techniques	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets designated at FVTPL:				
Equity securities	₩ 119	DCF Model	Net sales growth rate, rate of operating profits and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate and rate of operating profits increase (decrease) and weighted-average cost of capital decreases (increases).
AFS financial assets:				
Equity securities	13,110	DCF Model, Net Asset Value Method and Dividend Discount Model	Net sales growth rate, rate of operating profits, liquidating value and weighted-average cost of capital	Fair value increases (decreases) when net sales growth rate, rate of operating profits and liquidating value increase (decrease) and weighted-average cost of capital decreases (increases).
Total	₩13,229			

4) As of September 30, 2018, and December 31, 2017, the effects of significant and unobservable inputs of Level 3 financial instruments on net income and other comprehensive income are as follows (Unit: Korean won in millions):

	September 30, 2018					
	Unobservable input variables	Rationally possible changes in unobservable input variables	Net income		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
Financial assets at FVTPL (K-IFRS 1109)	Stock price Volatility	+/- 10.0% +/- 10.0%	₩ 753	₩ (501)	₩ -	₩ -
Financial assets at FVTOCI	Discount rate Growth rate	+/- 1.0%P +/- 1.0%P	-	-	658	(352)
Total			₩ 753	₩ (501)	₩ 658	₩ (352)

	December 31, 2017					
	Unobservable input variables	Rationally possible changes in unobservable input variables	Net income		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
Financial assets designated at FVTPL	Stock price Volatility	+/- 10.0% +/- 10.0%	W 2	W (2)	W -	W -
AFS financial assets	Discount rate Growth rate	+/- 1.0%P +/- 1.0%P	250	(694)	1,049	(129)
Total			₩ 252	₩ (696)	₩ 1,049	₩ (129)

5) As of September 30, 2018, and December 31, 2017, the changes in Level 3 financial instruments that are measured at fair value are as follows (Unit: Korean won in millions):

	September 30, 2018	
	Financial assets at FVTPL(K-IFRS 1109)	Financial assets at FVTOCI
Beginning balance (*1)	₩ 2,100	₩ 11,129
Total comprehensive income (*2)	(163)	877
Net income	(163)	-
Retained earnings	-	17
Other comprehensive income	-	860
Purchases	-	-
Disposals	(100)	(18)
Amounts reclassified from other levels to Level 3	-	-
Amounts reclassified from Level 3 to other levels	-	-
Ending balance	₩ 1,837	₩ 11,988

(*1) It has been restated in accordance with K-IFRS 1109.
(*2) As of September 30, 2018, realized gains and losses of financial assets at FVTPL and Financial assets at FVTOCI are ₩2 million and ₩17 million, respectively.

	December 31, 2017	
	Financial assets designated at FVTPL	AFS financial assets
Beginning balance	₩ 120	₩ 23,258
Net income (*1)	(1)	(13,708)
Other comprehensive income (*2)	-	3,913
Purchases	-	120
Disposals	-	(473)
Amounts reclassified from other levels to Level 3	-	-
Amounts reclassified from Level 3 to other levels	-	-
Ending balance	₩ 119	₩ 13,110

(*1) Gains and losses recognized in profit or loss that are related to assets and liabilities held at September 30, 2018, and December 31, 2017, are ₩0 and ₩(13,711) million, respectively. Gains and losses arising from changes in the fair value of these assets and liabilities are included in other non-operating income and other non-operating expenses, respectively (see Note 34).
(*2) Gross gains and losses recognized in other comprehensive income are related to unlisted equity securities held at September 30, 2018, and December 31, 2017. They are recognized as a change in the gain or loss on AFS financial assets (see Note 12).

6) The book value and the fair value by hierarchy level of financial instruments subsequently not measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018				
			Fair value hierarchy		
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	W 1,114,544	W 1,114,544	W 150,462	W -	W 964,082
Loans at amortized cost	28,744,295	28,765,397	-	55,598	28,709,799
Securities at amortized cost	1,661,662	1,666,245	25,706	1,640,539	-
Other financial assets at amortized cost	658,308	665,712	394,169	-	271,543
Total	W 32,178,809	W 32,211,898	W 570,337	W 1,696,137	W 29,945,424
Financial liabilities:					
Deposits	W 24,966,066	W 24,975,355	W 5,276,220	W -	W 19,699,135
Borrowings (*1)	1,975,232	1,975,327	-	259,732	1,715,595
Debenture	4,753,328	4,756,224	-	4,756,224	-
Other financial liabilities	737,620	737,814	264,417	-	473,397
Total	W 32,432,246	W 32,444,720	W 5,540,637	W 5,015,956	W 21,888,127

	December 31, 2017				
			Fair value hierarchy		
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	W 1,249,663	W 1,249,663	W 132,426	W -	W 1,117,237
Loans	25,323,583	25,375,086	-	-	25,375,086
HTM financial assets	1,276,285	1,096,368	25,617	965,179	105,572
Other financial assets	693,074	693,074	446,961	-	246,113
Total	W 28,542,605	W 28,414,191	W 605,004	W 965,179	W 26,844,008
Financial liabilities:					
Deposits	W 21,231,976	W 21,214,185	W 4,605,198	W -	W 16,608,987
Borrowings (*1)	1,933,288	1,933,391	-	135,500	1,797,891
Debenture	5,224,403	5,233,896	-	5,233,896	-
Other financial liabilities	860,319	860,319	510,823	-	349,496
Total	W 29,249,986	W 29,241,791	W 5,116,021	W 5,369,396	W 18,756,374

(*1) The carrying amount of financial instruments classified as Level 2 is regarded as fair value, as the carrying amount is a reasonable approximation of fair value.

7) The valuation techniques and the input variables of Level 2 financial instruments subsequently not measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	
	Valuation techniques	Input variables
Loans at amortized cost	DCF Model	Discount rate
Financial assets at amortized cost	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Debenture	DCF Model	Discount rate

	December 31, 2017	
	Valuation techniques	Input variables
HTM financial assets	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Debenture	DCF Model	Discount rate

8) The valuation techniques, the input variables and the significant unobservable inputs of Level 3 financial instruments subsequently not measured at fair value as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	Valuation techniques	Significant unobservable inputs
Loan at amortized cost	DCF Model	Discount rate
Securities at amortized cost	DCF Model	Discount rate
HTM financial assets	DCF Model	Discount rate
Deposits	DCF Model	Discount rate
Borrowings	DCF Model	Discount rate
Other financial assets	DCF Model	Discount rate
Other financial liabilities	DCF Model	Discount rate

(3) Carrying amount of financial instruments

Financial assets and liabilities are measured at either fair value or amortized cost. The carrying amounts of financial assets and liabilities measured at amortized cost as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018			
	Financial assets at FVTPL (K-IFRS 1109)	Financial assets at FVTOCI	Financial liabilities at amortized cost	Total
Financial assets:				
Cash and due from banks	₩ -	₩ -	₩ 1,114,544	₩ 1,114,544
Financial assets at FVTPL (K-IFRS 1109)	248,826	-	-	248,826
Derivative financial instruments	62,224	-	-	62,224
Loans		-	28,744,295	28,744,295
Investment	-	2,517,741	1,661,662	4,179,403
Other financial assets	-	-	658,308	658,308
Total	₩ 311,050	₩ 2,517,741	₩ 32,178,809	₩ 35,007,600

	September 30, 2018			
	Financial liabilities at FVTPL (K-IFRS 1109)	Financial liabilities at amortized cost	Hedge derivatives	Total
Financial liabilities:				
Derivative financial instruments	₩ 62,778	₩ -	₩ 1,506	₩ 64,284
Deposits	-	24,966,066	-	24,966,066
Borrowings	-	1,975,232	-	1,975,232
Debenture	-	4,753,328	-	4,753,328
Other financial liabilities	-	737,620	-	737,620
Total	₩ 62,778	₩ 32,432,246	₩ 1,506	₩ 32,496,530

	December 31, 2017				
	Financial assets at FVTPL	Loans	AFS securities	HTM securities	Total
Financial assets:					
Cash and due from banks	₩ -	₩ 1,249,663	₩ -	₩ -	₩ 1,249,663
Financial assets at FVTPL	225,638	-	-	-	225,638
Derivative financial instruments	82,653	-	-	-	82,653
Loans	-	25,323,583	-	-	25,323,583
Investment	-	-	2,927,300	1,276,285	4,203,585
Other financial assets	-	693,074	-	-	693,074
Total	₩ 308,291	₩ 27,266,320	₩2,927,300	₩ 1,276,285	₩31,778,196

	December 31, 2017			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedge derivatives	Total
Financial liabilities:				
Derivative financial instruments	W 88,426	W -	W 723	W 89,149
Deposits	-	21,231,976	-	21,231,976
Borrowings	-	1,933,288	-	1,933,288
Debenture	-	5,224,403	-	5,224,403
Other financial liabilities	-	860,319	-	860,319
Total	W 88,426	W 29,249,986	W 723	W 29,339,135

(4) Transfers of financial assets

Details of asset and liability with transfers that do not qualify for derecognition as of September 30, 2018, and December 31, 2017, are as follows:

	September 30, 2018		December 31, 2017	
	Amount of transferred asset	Amount of related liability	Amount of transferred asset	Amount of related liability
Bonds sold under repurchase agreements ("RPs")	W 9,948	W 7,932	W 9,882	W -

(5) The offset with financial assets and liabilities

As of September 30, 2018, and December 31, 2017, the financial assets and liabilities to be set off, and may be covered by master netting agreements and similar agreements, are given as below.

Financial assets	September 30, 2018					
				Related amounts not set off in the separate interim statements of financial position		
	Gross amounts of recognized assets	Gross amounts of recognized liabilities set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and receivable spot exchange	W 260,970	W -	W 260,970	W 205,291	W 5	W 55,674
Collateralized securities sold under repurchase agreements	9,948	-	9,948	7,932	-	2,016
Domestic exchanges receivable	604,631	409,208	195,423	-	-	195,423
Total	W 875,549	W 409,208	W 466,341	W 213,223	W 5	W 253,113

Financial liabilities	September 30, 2018					
				Related amounts not set off in the separate interim statements of financial position		
	Gross amounts of recognized liabilities	Gross amounts of recognized assets set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and payable spot exchange	₩ 262,689	₩ -	₩ 262,689	₩ 235,692	₩ -	₩ 26,997
Bonds sold under repurchase agreements	7,932	-	7,932	7,932	-	-
Domestic exchanges payable	475,220	409,208	66,012	-	-	66,012
Total	₩ 745,841	₩ 409,208	₩ 336,633	₩ 243,624	₩ -	₩ 93,009

Financial assets	December 31, 2017					
				Related amounts not set off in the separate interim statements of financial position		
	Gross amounts of recognized assets	Gross amounts of recognized liabilities set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and receivable spot exchange	₩ 505,260	₩ -	₩ 505,260	₩ 475,965	₩ 66	₩ 29,229
Domestic exchanges receivable	509,303	484,948	24,355	-	-	24,355
Total	₩ 1,014,563	₩ 484,948	₩ 529,615	₩ 475,965	₩ 66	₩ 53,584

Financial liabilities	December 31, 2017					
				Related amounts not set off in the separate interim statements of financial position		
	Gross amounts of recognized liabilities	Gross amounts of recognized assets set off	Net amounts presented	Financial instruments	Cash collateral received	Net amounts
Derivatives and payable spot exchange	₩ 511,890	₩ -	₩ 511,890	₩ 475,289	₩ -	₩ 36,601
Domestic exchanges payable	573,030	484,948	88,082	-	-	88,082
Total	₩ 1,084,920	₩ 484,948	₩ 599,972	₩ 475,289	₩ -	₩ 124,683

7. CASH AND DUE FROM BANKS:

(1) Cash and due from banks are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Cash and Cash equivalents	W 149,616	₩ 130,497
Due from banks:		
Due from the Bank of Korea ("BOK")	559,796	553,989
Due from others	405,132	565,177
Subtotal	964,928	1,119,166
Total	₩ 1,114,544	₩ 1,249,663

(2) Restricted due from banks in Korean won and foreign currencies is as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017		Reason for restriction
Due from banks in Korean won:					
Reserve on deposit with BOK	W	544,614	W	523,821	Deposits for liquidity management required under *BOK Act*
Customer deposit - beneficiary		639		3,093	Required under *Financial Investment Services and Capital Markets Act*
Due from banks in foreign currencies:					
Reserve on deposit with BOK		15,182		30,168	Deposits for liquidity management required under *BOK Act*
Total	W	560,435	W	557,082	

(3) Details of due from banks are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Due from banks in Korean won:				
Reserve on deposit	W	544,614	W	523,821
Customer deposit - beneficiary		639		3,093
Others		866		1,966
		546,119		528,880
Due from banks in foreign currencies:				
Reserve on deposit		15,182		30,168
Due from banks on demand		403,627		560,118
		418,809		590,286
	W	964,928	W	1,119,166

8. FINANCIAL INSTRUMENTS DESIGNATED AS AT FVTPL:

(1) Details of financial instruments designated as at FVTPL are as follows (Unit: Korean won in millions):

	December 31, 2017	
Equity securities in Korean won	W	119

The Bank designates compound financial instruments with multiple embedded derivatives, which are permitted to be designated as at FVTPL, in accordance with K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, as financial assets at FVTPL.

(2) Gains and losses related to financial assets designated at FVTPL for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Amount	
Gains on financial instruments designated at FVTPL	W	167
Losses on financial instruments designated at FVTPL		(22)
Total	W	145

9. FINANCIAL ASSETS AT FVTPL:

(1) Details of financial assets at FVTPL are as follows (Unit: Korean won in millions):

		September 30, 2018
Debt securities	₩	220,701
Equity securities		2,722
Beneficiary certificate		25,403
Total	₩	248,826

(2) Details of gains and losses related to financial assets at FVTPL for the nine months ended September 30, 2018, are as follows (Unit: Korean won in millions):

		Amount
Gains on financial assets at FVTPL:		
Gains on disposal	₩	1,784
Gains on valuation		501
Dividend income		408
Subtotal	₩	2,693
Losses on financial assets at FVTPL:		
Losses on disposal	₩	3,040
Loss on valuation		231
Subtotal	₩	3,271
Total	₩	(578)

10. FINANCIAL ASSETS HELD FOR TRADING:

(1) Details of financial assets held for trading are as follows (Unit: Korean won in millions):

		December 31, 2017
Debt securities	₩	199,152
Equity securities		26,367
Total	₩	225,519

(2) Details of gains and losses related to financial assets held for trading for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Gains on trading assets		
Trading income	₩	1,159
Gains on valuation		1,635
Dividend income		44
		2,838
Losses on trading assets		
Trading losses		(625)
Loss on valuation		(629)
		(1,254)
Total	₩	1,584

11. FINANCIAL ASSETS AT FVTOCI:

(1) Details of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

		September 30, 2018
Debt securities:		
Government and public bonds	W	599,621
Financial institution bonds		929,918
Corporate bonds		971,505
Subtotal		2,501,044
Equity securities:		
Stocks		11,909
Equity investments		4,788
Subtotal		16,697
Total	W	2,517,741

(2) Changes in accumulated other comprehensive income (loss) of financial assets at FVTOCI for the nine months ended September 30, 2018, are as follows (Unit: Korean won in millions):

		Beginning Balance (*1)		Valuation		Reclassification adjustments		Ending balance
Equity securities	W	3,784	W	(441)	W	(17)	W	3,326
Debt securities		(15,849)		14,798		(3,020)		(4,071)
Subtotal		(12,065)		14,357		(3,037)		(745)
Deferred income tax effect		2,920						180
Total	W	(9,145)					W	(565)

(*1) It has been restated in accordance with K-IFRS 1109.

(3) Details of the loss allowance of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
		Stage 1		Stage 2		Stage 3		Total
Debt securities:								
Government and public bonds	W	108	W	-	W	-	W	108
Financial institution bonds		168		-		-		168
Corporate bonds		342		-		-		342
Total	W	618	W	-	W	-	W	618

(4) Changes in the loss allowance of financial assets at FVTOCI are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
		Stage 1		Stage 2		Stage 3		Total
Beginning balance	W	695	W	-	W	-	W	695
Transfer to 12-month expected credit losses		-		-		-		-
Transfer to lifetime-expected credit losses		-		-		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Net reversal of allowance for credit loss		190		-		-		190
Disposal		(267)		-		-		(267)
Exchange rate effect		-		-		-		-
Ending balance	W	618	W	-	W	-	W	618

(5) Gains and losses related to financial assets at FVTOCI for the nine months ended September 30, 2018, are as follows (Unit: Korean won in millions):

		Amount
Dividend income	₩	41
Gains on disposal of financial assets at FVTOCI		3,525
Losses on disposal of financial assets at FVTOCI		(505)
Total	₩	3,061

12. AFS FINANCIAL ASSETS:

(1) Details of AFS financial assets are as follows (Unit: Korean won in millions):

		December 31, 2017
Debt securities:		
Government and public bonds	₩	764,927
Financial institution bonds		1,095,812
Corporate bonds		1,052,286
Subtotal		2,913,025
Equity securities:		
Stocks		9,923
Equity investments		4,352
Subtotal		14,275
Total	₩	2,927,300

(2) Changes in accumulated other comprehensive income (loss) of AFS financial assets for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Beginning balance		Increase (decrease)		Reclassification adjustments (*1)		Ending balance
Equity securities	₩	2,932	₩	(9,873)	₩	10,741	₩	3,800
Debt securities		(3,796)		(1,735)		(1,992)		(7,523)
		(864)		(11,608)		8,749		(3,723)
Deferred income tax effect		209						901
	₩	(655)					₩	(2,822)

(*1) ₩1,669 million was recognized in loss due to impairment of equity securities.

(3) Gains and losses related to AFS financial assets for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Gains on disposal of AFS financial assets	W	5,684
Losses on disposal of AFS financial assets		(1,078)
Dividend income		333
Total	₩	4,939

(4) Impairment losses related to AFS financial assets for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Impairment loss on AFS financial assets	₩	(13,355)

13. SECURITIES AT AMORTIZED COST:

(1) Details of securities at amortized cost are as follows (Unit: Korean won in millions):

		September 30, 2018
Securities at amortized cost in Korean won:		
Government and public bonds	₩	128,193
Financial institution bonds		110,000
Corporate bonds		1,330,368
Subtotal		1,568,561
Securities at amortized cost in foreign currencies:		
Financial institution bonds		54,205
Corporate bonds		39,379
Subtotal		93,584
Allowance for credit loss		(483)
Total	₩	1,661,662

(2) Details of the loss allowance of securities at amortized cost are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Securities at amortized cost in Korean won:								
Government and public bonds	₩	31	₩	-	₩	-	₩	31
Financial institution bonds		26		-		-		26
Corporate bonds		402		-		-		402
Subtotal		459		-		-		459
Securities at amortized cost in foreign currencies:								
Financial institution bonds		15		-		-		15
Corporate bonds		9		-		-		9
Subtotal		24		-		-		24
Total	₩	483	₩	-	₩	-	₩	483

(3) Changes in the loss allowance of securities at amortized cost are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance (*1)	₩	368	₩	-	₩	-	₩	368
Transfer to 12-month expected credit losses		-		-		-		-
Transfer to lifetime expected credit losses		-		-		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Net reversal of loss allowance		200		-		-		200
Disposal		(85)		-		-		(85)
Exchange rate effect		-		-		-		-
Ending balance	₩	483	₩	-	₩	-	₩	483

(*1) It has been restated in accordance with K-IFRS 1109.

14. HTM FINANCIAL ASSETS:

(1) Details of HTM financial assets are as follows (Unit: Korean won in millions):

		December 31, 2017
HTM financial assets in Korean won:		
Government and public bonds	W	60,994
Financial institution bonds		80,000
Corporate bonds		1,029,718
Subtotal		1,170,712
HTM financial assets in foreign currencies:		
Financial institution bonds		58,062
Corporate bonds		47,511
Subtotal		105,573
Total	₩	1,276,285

15. LOAN AT AMORTIZED COST:

(1) Details of loans are as follows (Unit: Korean won in millions):

		September 30, 2018
Corporate loans in Korean won	W	14,283,985
Household loans in Korean won		11,418,985
Public sector and other loans in Korean won		2,007,133
Call loans		55,635
Loans in foreign currencies		423,954
Interbank loans in Korean won		16,674
Domestic import usance		284,374
Bills bought in foreign currencies		394,490
Credit card loans		111,550
Privately placed corporate bonds		3,000
Others		1,831
Subtotal		29,001,611
Deferred loan origination cost (fee), net		28,713
Allowance for possible loan losses		(286,029)
Total	₩	28,744,295

(2) Changes in allowance for possible loan losses are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance (*1)	₩	73,502	₩	121,026	₩	108,562	₩	303,090
Transfer to 12-month expected credit losses		3,722		(3,719)		(3)		-
Transfer to lifetime expected credit losses		(18,637)		18,673		(36)		-
Transfer to credit-impaired financial assets		(13,774)		(25,205)		38,979		-
Loans written off and others		-		-		(25,547)		(25,547)
Recovery of bad debts and others		-		-		1,830		1,830
Provision for allowance		61,474		(842)		(46,552)		14,080
Disposal of loans		-		(119)		(3,750)		(3,869)
Debt-to-equity swap bond		-		-		(3,665)		(3,665)
Others		(3,543)		(1,851)		5,504		110
Ending balance	₩	102,744	₩	107,963	₩	75,322	₩	286,029

(*1) It has been restated in accordance with K-IFRS 1109.

(3) Changes in deferred loan origination cost (fee), net are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
	Beginning balance		Increase		Decrease		Ending balance	
Deferred loan origination fee	₩	(8,165)	₩	(8,819)	₩	11,714	₩	(5,270)
Deferred loan origination cost		23,148		28,100		(17,265)		33,983

16. LOANS:

(1) Details of loans are as follows (Unit: Korean won in millions):

	December 31, 2017	
Corporate loans in Korean won	W	14,386,439
Household loans in Korean won		7,906,343
Public sector and other loans in Korean won		2,161,576
Call loans		-
Loans in foreign currencies		442,701
Interbank loans in Korean won		4,451
Domestic import usance		271,852
Bills bought in foreign currencies		318,565
Credit card loans		103,379
Privately placed corporate bonds		3,000
Others		1,385
Subtotal		25,599,691
Deferred loan origination cost (fee), net		14,983
Allowance for possible loan losses		(291,091)
Total	W	25,323,583

(2) Changes in allowance for possible loan losses for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Amount	
Beginning balance	₩	382,789
Loans written off and others		(64,008)
Recovery of bad debts and others		5,582
Provision for allowance		18,061
Disposal of loans		(5,167)
Debt-to-equity swap bond		(4,415)
Others		(7,641)
Ending balance	₩	325,201

(3) Changes in deferred loan origination cost (fee), net for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

	Beginning balance		Increase		Decrease		Ending balance	
Deferred loan origination fee	₩	(6,149)	₩	(13,346)	₩	12,398	₩	7,097
Deferred loan origination cost		21,480		22,823		(22,839)		21,464

17. INVESTMENTS IN SUBSIDIARIES:

(1) Details of investments in subsidiaries are as follows (Unit: Korean won in millions):

Subsidiaries	Main business	Location	Percentage of ownership (%) September 30, 2018	Percentage of ownership (%) December 31, 2017	Financial statements as of	Book value September 30, 2018	Book value December 31, 2017
Principal and Interest Guaranteed Trust (*1)	Trust	Korea	-	-	December 31	₩ -	₩ -
2007 Kiwoom IBK First Co., Ltd. (*2)	Asset securitization	Korea	-	-	December 31	-	-
Kamco Creation Value 5th Securitization Specialty Co., Ltd. (*2)	Asset securitization	Korea	15	15	December 31	1.5	1.5
Kamco Creation Value 8th Securitization Specialty Co., Ltd. (*2)	Asset securitization	Korea	15	15	December 31	1.5	1.5
Total						₩ 3	₩ 3

(*1) The Bank controls the trust because it has power that determines the operating performance of the trust and is exposed to variable returns to absorb losses through the guarantees of the principal or the 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 the amount of those returns, even though it holds less than a majority of the voting rights of the investees.

18. TANGIBLE ASSETS:

(1) Tangible assets are as follows (Unit: Korean won in millions):

	September 30, 2018					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Acquisition cost	₩ 36,010	₩ 26,625	₩ 122,915	₩ 3,247	₩ 1,047	₩ 189,844
Accumulated depreciation	-	(1,122)	(95,375)	(2,691)	-	(99,188)
Net carrying value	₩ 36,010	₩ 25,503	₩ 27,540	₩ 556	₩ 1,047	₩ 90,656

	December 31, 2017					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Acquisition cost	₩ 36,010	₩ 26,625	₩ 116,823	₩ 3,144	₩ 1,435	₩ 184,037
Accumulated depreciation	-	(663)	(92,329)	(2,613)	-	(95,605)
Government subsidies	-	-	(24)	-	-	(24)
Net carrying value	₩ 36,010	₩ 25,962	₩ 24,470	₩ 531	₩ 1,435	₩ 88,408

(2) Changes in tangible assets are as follows (Unit: Korean won in millions):

	September 30, 2018					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Beginning net book value	W 36,010	W 25,962	W 24,470	W 531	W 1,435	W 88,408
Acquisition cost	36,010	26,625	116,823	3,144	1,435	184,037
(Accumulated depreciation)	-	(663)	(92,329)	(2,613)	-	(95,605)
(Government subsidies)	-	-	(24)	-	-	(24)
Changes	-	(459)	3,070	25	(388)	2,248
Acquisition	-	-	8,481	103	1,047	9,631
Disposal	-	-	(98)	-	-	(98)
Depreciation	-	(459)	(6,537)	(78)	-	(7,074)
Reclassification	-	-	1,201	-	(1,201)	-
Others	-	-	23	-	(234)	(211)
Ending net book value	36,010	25,503	27,540	556	1,047	90,656
Acquisition cost	36,010	26,625	122,915	3,247	1,047	189,844
(Accumulated depreciation)	-	(1,122)	(95,375)	(2,691)	-	(99,188)
(Government subsidies)	-	-	-	-	-	-

	December 31, 2017					
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Total
Beginning net book value	W 36,010	W 26,574	W 22,637	W 512	W 636	W 86,369
Acquisition cost	36,010	26,625	111,534	3,006	636	177,811
(Accumulated depreciation)	-	(51)	(88,844)	(2,494)	-	(91,389)
(Government subsidies)	-	-	(53)	-	-	(53)
Changes	-	(459)	1,180	(36)	594	1,279
Acquisition	-	-	7,161	123	855	8,139
Disposal	-	-	(81)	-	-	(81)
Depreciation	-	(459)	(6,161)	(159)	-	(6,779)
Reclassification	-	-	261	-	(261)	
Ending net book value	36,010	26,115	23,817	476	1,230	87,648
Acquisition cost	36,010	26,625	115,963	3,129	1,230	182,957
(Accumulated depreciation)	-	(510)	(92,122)	(2,653)	-	(95,285)
(Government subsidies)	-	-	(24)	-	-	(24)

19. INTANGIBLE ASSETS:

(1) Intangible assets are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018				
	Development cost	Software	Others	Construction in progress	Total
Beginning net book value	₩ 11,053	₩ 4,226	₩ 5,528	₩ 4,302	₩ 25,109
Acquisition	2,282	2,261	1,690	3,998	10,231
Amortization	(2,951)	(1,202)	(196)	-	(4,349)
Government subsidies	13	-	-	-	13
Reclassification	3,632	1,618	77	(5,327)	-
Others	-	-	-	235	235
Ending net book value	₩ 14,029	₩ 6,903	₩ 7,099	₩ 3,208	₩ 31,239

	For the nine months ended September 30, 2017				
	Development cost	Software	Others	Construction in progress	Total
Beginning net book value	₩ 8,834	₩ 3,825	₩ 4,522	₩ 2,443	₩ 19,624
Acquisition	1,291	627	928	5,606	8,452
Amortization	(4,275)	(799)	(193)	-	(5,267)
Government subsidies	139	-	-	-	139
Reclassification	1,801	382	11	(2,194)	-
Ending net book value	₩ 7,790	₩ 4,035	₩ 5,268	₩ 5,855	₩ 22,948

(2) Changes in intangible assets with indefinite useful lives are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Beginning balance	₩ 2,231	₩ 1,022
Acquisition	1,729	884
Ending balance	₩ 3,960	₩ 1,906

20. INVESTMENT PROPERTIES:

(1) Investment properties are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Land	Building	Total
Acquisition cost	₩ 18,496	₩ 2,940	₩ 21,436
Accumulated depreciation	-	(164)	(164)
Net carrying value	₩ 18,496	₩ 2,776	₩ 21,272

	December 31, 2017		
	Land	Building	Total
Acquisition cost	₩ 18,496	₩ 2,940	₩ 21,436
Accumulated depreciation	-	(97)	(97)
Net carrying value	W 18,496	W 2,843	W 21,339

(2) Changes in investment properties are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018		
	Land	Building	Total
Beginning net book value	₩ 18,496	₩ 2,843	₩ 21,339
Acquisition cost	18,496	2,940	21,436
(Accumulated depreciation)	-	(97)	(97)
Changes	-	(67)	(67)
Depreciation	-	(67)	(67)
Ending net book value	18,496	2,776	21,272
Acquisition cost	18,496	2,940	21,436
(Accumulated depreciation)	-	(164)	(164)

	For the nine months ended September 30, 2017		
	Land	Building	Total
Beginning net book value	₩ 18,496	₩ 2,932	₩ 21,428
Acquisition cost	18,496	2,940	21,436
(Accumulated depreciation)	-	(8)	(8)
Changes	-	(67)	(67)
Depreciation	-	(67)	(67)
Ending net book value	18,496	2,865	21,361
Acquisition cost	18,496	2,940	21,436
(Accumulated depreciation)	-	(75)	(75)

(3) Gains and losses related to investment properties for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	September 30, 2017
Rental income earned from investment properties	₩ 399	₩ 393
Direct operating expenses for investment properties that generated rental income	(67)	(67)

(4) The fair values of investment property are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Investment property	₩ 21,436	₩ 21,436

21. OTHER FINANCIAL ASSETS AT AMORTIZED COST:

(1) Details of other financial assets at amortized cost are as follows (Unit: Korean won in millions):

		September 30, 2018
Accounts receivable	₩	217,793
Guarantee deposits		170,975
Domestic exchanges receivable		195,423
Sundry assets		91,641
Subtotal		675,832
Present value of discount		(6,701)
Allowance for other financial asset losses		(10,823)
Total	₩	658,308

(2) Changes in allowance for other financial assets at amortized cost are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance (*1)	₩	9,822	₩	226	₩	335	₩	10,383
Transfer to 12-month expected credit losses		-		-		-		-
Transfer to lifetime-expected credit losses		-		-		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Loans written off		-		-		(94)		(94)
Recovery of depreciable assets		-		-		7		7
Provision for allowance		554		10		(43)		521
Disposal		-		-		(6)		(6)
Others		(7)		-		19		12
Ending balance	₩	10,369	₩	236	₩	218	₩	10,823

(*1) It has been restated in accordance with K-IFRS 1109.

22. OTHER FINANCIAL ASSETS:

(1) Details of other financial assets are as follows (Unit: Korean won in millions):

		December 31, 2017
Accounts receivable	W	435,080
Guarantee deposits		164,015
Domestic exchanges receivable		24,355
Sundry assets		76,936
Subtotal		700,386
Present value of discount		(6,535)
Allowance for other financial asset losses		(777)
Total	₩	693,074

(2) Changes in allowance for other financial assets losses for the nine months ended September 30, 2017, are as follows (Unit: Korean won in millions):

		Amount
Beginning balance	₩	1,049
Loans written off		(25)
Provision for allowance		(74)
Disposal		(17)
Others		(5)
Ending balance	W	928

23. DERIVATIVES AND HEDGE ACCOUNTING:

(1) Derivatives held for trading

1) Details of derivatives held for trading are as follows (Unit: Korean won in millions):

	September 30, 2018			December 31, 2017		
	Unpaid commitments	Asset	Liability	Unpaid commitments	Asset	Liability
Interest rate:						
Interest rate swaps	₩ 122,900	₩ 3,282	₩ 3,120	₩ 364,900	₩ 4,307	₩ 4,094
Interest rate futures	10,838	-	-	-	-	-
Subtotal	133,738	3,282	3,210	364,900	4,307	4,094
Currency:						
Currency futures	1,999,146	16,642	17,560	3,324,711	55,161	61,359
Currency swaps	1,214,816	42,300	42,098	1,217,110	23,185	22,973
Subtotal	3,213,962	58,942	59,658	4,541,821	78,346	84,332
Total	₩ 3,347,700	₩ 62,224	₩ 62,778	₩ 4,906,721	₩ 82,653	₩ 88,426

2) Gains and losses on valuation of derivatives held for trading for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	For the nine months ended September 30			
	Gains on valuation		Losses on valuation	
	2018	2017	2018	2017
Interest rate:				
Interest rate swaps	₩ 1,104	₩ 2,213	₩ 1,155	₩ 2,234
Currency:				
Currency futures	14,500	22,426	15,215	24,977
Currency swaps	26,664	39,498	26,650	39,770
Subtotal	41,164	61,924	41,865	64,747
Total	₩ 42,268	₩ 64,137	₩ 43,020	₩ 66,981

3) Gains and losses on transaction of derivatives held for trading for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	For the nine months ended September 30			
	Gain on transaction		Loss on transaction	
	2018	2017	2018	2017
Interest rates-related derivative	₩ 1,988	₩ 2,339	₩ 1,975	₩ 2,386
Currency-related derivative	139,178	155,436	141,076	150,548
Equity-related derivative	153	-	236	-
Total	₩ 141,319	₩ 157,775	₩ 143,287	₩ 152,934

(2) Hedge accounting

1) As of September 30, 2018, the Bank has adopted fair value hedge accounting using foreign currency interest rate swaps to hedge fair value changes due to interest rate changes of USD 300,000,000 bond issued at fixed rates.
The hedged items of such hedge accounting are the fair value of the bond issued as a result of changes in foreign currency interest rates. As a means of interest rate swap that receives fixed interest rates and pays variable interest rates that reflect the additional rate of interest, the Bank removes the risk of changes in the fair value of the foreign currency bond by converting a fixed-rate foreign currency bond into a variable-rate foreign currency bond.

For effective hedging, the main conditions, such as contract amount of hedged item and hedging instruments, maturity, fixed rate and fixed interest rate cash flow cycle are aligned. The relative weight of the nominal amounts of the hedged item and hedging instruments is 1:1.

By periodically reviewing the timing of the initial application of hedge accounting and whether the hedged items and key instruments meet the conditions, the Bank considers that there is an economic relationship between the hedged items and the instrument. In addition, the Bank periodically reviews statistical correlations of changes in the fair value of the hedged items and instruments.

Only the changes in the market interest rate, which is considered to be the most significant risk of the hedged item, are designated as the hedged risk and changes in credit risk and timing of cash flow are not included in the hedged risk. As a result, there may be an ineffective portion of the hedge, due to changes in the credit risk of the counterparty of hedged items or hedging instruments or the inconsistency in the timing of the cash flows.

2) The nominal cash flow timing of hedged items and hedging instruments and average risk hedge ratio for the period ended September 30, 2018, are as follows.

	September 30, 2018		
	Less than one year	More than one year	Total
Fair value hedge			
Hedged item			
Nominal amount	W 333,810	W -	W 333,810
Average interest rate/payment cycle	2.625%/6 months	-	-
Hedging instruments			
Nominal amount	W 333,810	-	W 333,810
Average interest rate/exchange period	Receiving: 2.625%/6 months Payment: 3 Months USD London InterBank Offered Rate ("LIBOR")+0.8372%/ 3 months	-	-
Average risk hedge ratio	100%	-	100%

3) Details of derivatives held for hedging are as follows (Unit: Korean won in millions):

	September 30, 2018			December 31, 2017		
	Unpaid commitments	Asset	Liability	Unpaid commitments	Asset	Liability
Fair value hedging instruments						
Interest rate swap	W 333,810	W -	W 1,506	W 321,420	W -	W 723

4) The carrying amounts of hedged items as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	Face value	Amortized cost	Accumulated gain (loss) on fair value hedge	Book value
September 30, 2018	W 333,810	W 331,123	W (1,459)	W 329,664
December 31, 2017	321,420	320,641	(690)	319,951

5) Gains and losses related to derivatives held for hedging for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	September 30, 2017
Gains and losses related to hedged items for fair value	W 770	W 1,472
Gains and losses related to hedging instruments for fair value	(783)	(1,209)
Total	W (13)	W 263

6) The ineffective portion of gains or losses on derivatives of hedged instruments for the nine months ended September 30, 2018, is as follows (Unit: Korean won in millions):

		September 30, 2018		
		Ineffective hedge portion recognized in profit or loss		Title of account recognized in profit or loss
Fair value hedge	Interest rate risk	₩	(13)	Net other operating income

24. DEPOSITS:

(1) Details of deposits are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Demand deposits:		
Deposits in Korean won	₩ 2,120,604	₩ 1,986,107
Deposits in foreign currencies	149,924	207,125
Subtotal	2,270,528	2,193,232
Demand saving deposits:		
Deposits in Korean won	3,006,385	2,412,908
Time deposits:		
Deposits in Korean won	17,968,068	14,131,032
Deposits in foreign currencies	311,801	327,358
Subtotal	18,279,869	14,458,390
Certificates of deposit	1,409,284	2,167,446
Total	W 24,966,066	W 21,231,976

25. BORROWINGS:

Details of borrowings are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Lender	Annual interest rate (%)	Amount
Borrowings in Korean won:			
BOK borrowings	BOK	0.50–0.75	₩ 52,701
Financial fund borrowings	Ministry of Strategy and Finance	1.98	46,600
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00–2.75	43,579
Fisheries development fund borrowings	Fisheries Development Fund	0.00–3.92	565,692
Other borrowings	Korea Development Bank and others	0.00–2.80	419,794
			1,128,366
Borrowings in foreign currencies	Oversea-Chinese Banking Corporation Seoul and others	0.00–2.79	846,866
Total			₩ 1,975,232

	December 31, 2017		
	Lender	Annual interest rate (%)	Amount
Borrowings in Korean won:			
BOK borrowings	BOK	0.50–0.75	₩ 94,554
Financial fund borrowings	Ministry of Strategy and Finance	1.45	62,600
Farming and fishing village account borrowings	Management of Agriculture Policy Fund	0.00–2.75	52,510
Fisheries development fund borrowings	Fisheries Development Fund	0.00–4.36	602,883

	September 30, 2018		
	Lender	Annual interest rate (%)	Amount
Other borrowings	Korea Development Bank and others	0.00–2.80	307,076
			1,119,623
Borrowings in foreign currencies	Oversea-Chinese Banking Corporation Seoul and others	0.00–2.04	813,665
Total			₩ 1,933,288

26. DEBENTURES:

(1) Details of debentures are as follows (Unit: Korean won in millions):

	September 30, 2018		
	Lender	Annual interest rate (%)	Amount
Debentures in Korean won:			
Subordinated debentures	Financial institutions	5.15	₩ 150,000
Ordinary debentures	Financial institutions	1.61–2.55	4,210,000
Discounts on debentures			(5,448)
			4,354,552
Debentures in foreign currencies:			
Ordinary debentures	Deutsche Bank	2.60–2.63, Six-Month LIBOR + 1.05	399,113
Discounts on debentures			(337)
			398,776
	Total		₩ 4,753,328

	December 31, 2017		
	Lender	Annual interest rate (%)	Amount
Debentures in Korean won:			
Subordinated debentures	Financial institutions	5.15	₩ 150,000
Ordinary debentures	Financial institutions	1.27–3.13	4,710,000
Discounts on debentures			(19,832)
			4,840,168
Debentures in foreign currencies:			
Ordinary debentures	Deutsche Bank	2.60–3.50, Six-Month LIBOR + 1.05	385,015
Discounts on debentures			(780)
			384,235
	Total		₩ 5,224,403

27. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Accounts payable	W	236,870	W	443,563
Accrued expenses		25,193		44,140
Suspense receipts		6,953		7,521
Accrued interest		229,579		170,858
Borrowings from trust accounts		111,571		56,729
Domestic exchanges settlement account-credit		66,012		88,082
Guarantee deposits for agency affairs		6,695		8,413
Deposits received		25,123		17,197
Others		29,624		23,816
Total	W	737,620	W	860,319

28. PROVISIONS:

(1) Details of provisions are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Provision for guarantee	W	1,872	W	2,133
Provision for loan commitments		13,760		6,727
Asset retirement obligation		4,548		4,458
Provision for credit card points		7		26
Provision for financial guarantee		1,608		14
Other provisions		726		882
Total	W	22,521	W	14,240

(2) Details of provision for loan commitments and provision for financial guarantee for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Provision for loan commitments							
	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance (*1)	W	6,303	W	3,446	W	-	W	9,749
Transfer to 12-month expected credit losses		84		(84)		-		-
Transfer to lifetime expected credit losses		(957)		957		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Provided		4,101		-		-		4,101
Reversal		-		(113)		-		(113)
Others		1,493		(1,470)		-		23
Ending balance	W	11,024	W	2,736	W	-	W	13,760

	Provision for financial guarantee							
	For the nine months ended September 30, 2018							
	Stage 1		Stage 2		Stage 3		Total	
Beginning balance	W	-	W	14	W	-	W	14
Transfer to 12-month expected credit losses		-		-		-		-
Transfer to lifetime expected credit losses		(11)		11		-		-
Transfer to credit-impaired financial assets		-		-		-		-
Provided		26		1,568		-		1,594
Reversal		-		-		-		-
Others		-		-		-		-
Ending balance	W	15	W	1,593	W	-	W	1,608

(*1) It has been restated in accordance with K-IFRS 1109.

	For the nine months ended September 30, 2017					
	Provision for loan commitments		Provision for financial guarantee		Total	
Beginning balance	₩	5,817	₩	10	₩	5,827
Provided		-		-		-
Reversal		(224)		(6)		(230)
Used		(77)		-		(77)
Ending balance	₩	5,516	₩	4	₩	5,520

(3) Changes in other provisions are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018									
	Provision for guarantee		Asset retirement obligation		Provision for credit card points		Other provisions		Total	
Beginning balance	₩	2,133	₩	4,458	₩	26	₩	882	₩	7,499
The cumulative effect of changes in accounting policies		(8)		-		-		-		(8)
Provided		-		57		-		-		57
Reversal		(281)		-		(14)		(150)		(445)
Used		-		(114)		(5)		(6)		(125)
Others		28		147		-		-		175
Ending balance	₩	1,872	₩	4,548	₩	7	₩	726	₩	7,153

	For the nine months ended September 30, 2017									
	Provision for guarantee		Asset retirement obligation		Provision for credit card points		Other provisions		Total	
Beginning balance	₩	1,585	₩	4,339	₩	120	₩	1,332	₩	7,376
Provided		318		-		-		-		318
Reversal		-		(23)		(87)		(433)		(543)
Used		(42)		113		(5)		(101)		(35)
Ending balance	₩	1,861	₩	4,429	₩	28	₩	798	₩	7,116

29. NET DEFINED BENEFIT LIABILITY:

(1) The Bank operates a defined benefit pension plan, and its own characteristics are as follows:

- The obligation of the Bank is to pay promised retirement benefits to the existing and former employees.
- The Bank will have the actuarial risk (the risk that actual benefits exceed expected benefits) and the investment risk.

The net defined benefit liability recognized in the separate interim statements of financial position is calculated in accordance with actuarial valuation methods using data, such as interest rates, future salary increase rate and mortality rate, based on historical data. Actuarial assumptions may differ from actual results due to changes in the market, economic trends and mortality trends.

(2) Changes in defined benefit obligations and plan assets are as follows (Unit: Korean won in millions):

	For the nine months ended September 30, 2018					
	Defined benefit obligations		Plan assets		Net defined benefit liabilities	
Beginning balance	W	115,710	W	(8,184)	W	107,526
Current service cost		9,690		-		9,690
Interest expense (income)		2,754		(311)		2,443
Subtotal		128,154		(8,495)		119,659
Employer's contributions		-		-		-
Retirement benefit paid		(1,278)		359		(919)
Others (*1)		35		-		35
Ending balance	W	126,911	W	(8,136)	W	118,775

(*1) Amount of retirement benefits for dispatched employees of NFFC

	For the nine months ended September 30, 2017					
	Defined benefit obligations		Plan assets		Net defined benefit liabilities	
Beginning balance	W	106,956	W	(8,234)	W	98,722
Current service cost		9,463		-		9,463
Interest expense (income)		2,612		-		2,612
Subtotal		119,031		(8,234)		110,797
Employer's contributions		-		-		-
Retirement benefit paid		(1,930)		178		(1,752)
Others(*1)		122		(88)		34
Ending balance	W	117,223	W	(8,144)	W	109,079

(3) Details of net defined benefit liability are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Present value of defined benefit obligations	W	126,911	W	115,710
Fair value of plan assets		(8,136)		(8,184)
Net defined benefit liability	W	118,775	W	107,526

(4) Key actuarial assumptions used in defined benefit liability assessment are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017	Reference
Discount rate	3.62%	3.62%	Based on the yield of AA0 corporate bonds
Future salary increase rate	2.00%	2.00%	(*1)

(*1) The rate is calculated based on the average of salary increase rate, including promotion rate of employees aged between 30 and retirement age.

30. SHAREHOLDERS' EQUITY:

(1) CAPITAL STOCK

Details of capital stock are as follows:

	September 30, 2018	December 31, 2017
Authorized shares of common stock	500,000,000 shares	500,000,000 shares
Par value	W 5,000	W 5,000
Issued shares of common stock	132,000,000 shares	132,000,000 shares

(2) HYBRID SECURITIES

The bond-type hybrid securities classified as owner's equity are as follows (Unit: Korean won in millions):

September 30, 2018

Issuance date	Maturity date	Amount	Annual interest rate
2013-06-12	2043-06-12	W 100,000	4.65%
2018-05-18	2023-05-17	100,000	4.60%

December 31, 2017

Issuance date	Maturity date	Amount	Annual interest rate
2008-03-12	2038-03-12	W 100,000	7.36%
2013-06-12	2043-06-12	100,000	4.65%

With respect to the hybrid securities issued, the contractual agreements allow the Bank to indefinitely extend the maturity date and defer the payment of interest. If the Bank makes a resolution to not pay dividends on common stock, the Bank is exonerated from interest payment on the hybrid securities.

(3) CAPITAL SURPLUS

Details of capital surplus are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Capital in excess of par value	W 1,157,319	W 1,157,319

(4) ACCUMULATED OTHER COMPREHENSIVE INCOME

Details of accumulated other comprehensive income are as follows (Unit: Korean won in millions):

	September 30, 2018
Items that may be reclassified to profit or loss	
Gain on valuation of financial assets at FVTOCI	
Gain on valuation	W (3,086)
The expected credit loss allowance	618
Subtotal	(2,468)
Items that will not be reclassified to profit or loss:	
Gain on valuation of equity securities at FVTOCI	2,521
Remeasurement of the net defined benefit liability	3,692
Subtotal	6,213
Total	W 3,745

	December 31, 2017
Gain on valuation of AFS financial assets	W (8,497)
Remeasurement of the net defined benefit liability	3,692
Total	W (4,805)

(5) RETAINED EARNINGS

1) Details of retained earnings are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Legal reserve	₩	20,921	₩	1,404
Voluntary reserve		171,046		190,104
Regulatory reserve for credit loss		136,795		64,099
Unappropriated retained earnings		168,091		183,155
Total	₩	496,853	₩	438,762

In accordance with the Banking Act, legal reserve is appropriated at least one-tenth of the earnings after tax on every dividend declaration, not exceeding the paid-in capital. This reserve may not be used other than for offsetting a deficit or transferring to capital.

In accordance with paragraphs 1 and 2 of Article 29 of the Regulation on Supervision of Banking Business ("RSBB"), if provisions for credit loss under K-IFRSs for the accounting purpose are lower than the provisions under RSBB, the Bank discloses such shortfall amount as regulatory reserve for credit loss.

In accordance with paragraphs 1 and 2 of Article 29 of the RSBB, if the estimated provisions for credit loss under K-IFRSs for the accounting purpose are lower than those in accordance with the provisions under the RSBB, the Bank shall disclose the difference as the planned regulatory reserve for credit loss.

2) Regulatory reserve for credit loss

Regulatory reserve for credit loss is calculated and disclosed in accordance with paragraphs 1 and 2 of Article 29 of the RSBB.

Balance of the planned regulatory reserve for credit loss is as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Beginning balance	W	136,795	W	64,099
Estimated regulatory reserve for credit loss		44,508		72,696
Ending balance	W	181,303	W	136,795

Provision for regulatory reserve for credit loss, net income adjusted for regulatory reserve for credit loss and EPS adjusted for regulatory reserve for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions, except EPS):

	2018		2017	
Provision for (reversal of) regulatory reserve for credit loss (*1)	₩	44,508	₩	49,539
Net income adjusted for regulatory reserve (*2)		149,593		103,398
EPS adjusted for regulatory reserve in Korean won	W	1,082	W	715

(*1) The amount is calculated using ₩136,795 million and ₩64,099 million of reserve for credit loss included in unappropriated retained earnings for the years ended September 30, 2018, and December 31, 2017, separately.

(*2) Net income and EPS after reserve for bad debts are not in accordance with K-IFRSs, but are calculated on the assumption that provision or reversal of reserve for bad debts before income tax effect is adjusted to the net income.

31. NET INTEREST INCOME:

Details of net interest income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018
Interest income calculated by effective interest rate:		
Financial assets at FVTOCI	W	35,128
Financial assets at amortized cost		
Securities		23,149
Loans		812,032
Other financial assets		1,298
Subtotal		871,607
Other interest income		
Financial assets at FVTPL (K-IFRS 1109)		3,918
Total		875,525
Interest expense:		
Deposits		290,776
Borrowings		23,125
Debentures		80,564
Others		5,379
Subtotal		399,844
Net interest income	W	475,681

		2017
Interest income:		
Due from banks	W	794
Loans		643,351
Financial assets held for trading		2,711
AFS financial assets		28,518
HTM financial assets		11,776
Subtotal		687,150
Interest expense:		
Deposits		193,939
Borrowings		22,989
Debentures		70,846
Others		4,217
Subtotal		291,991
Net interest income	W	395,159

32. FEES AND COMMISSIONS INCOME:

Details of net fees and commissions income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018		2017	
Fees and commissions income:				
Fees and commissions received for guarantee	W	1,788	W	1,958
Fees and commissions received		37,833		50,284
Fees and commissions received on credit card		623		634
Charge on securities lent		36		21
Subtotal		40,280		52,897
Fees and commissions expense:				
Fees paid in Korean won		7,913		7,707
Commission paid in foreign currency		907		1,148
Credit card commissions		3,309		2,368
Fees and commissions paid to financial instruments measured at fair value		46		107
Subtotal		12,175		11,330
Net fees and commissions income	W	28,105	W	41,567

33. DIVIDEND INCOME:

Details of dividend income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018		2017	
Dividend from financial assets at FVTPL (K-IFRS 1109)	W	408	W	-
Dividend from financial assets at FVTOCI		41		-
Dividend from financial assets held for trading		-		44
Dividend from AFS financial assets		-		333
Total	W	449	W	377

34. NET OTHER OPERATING INCOME:

Details of net other operating income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018		2017	
Other operating income:				
Gain on sales of loans	W	4,581	W	4,334
Gain on fair value hedged items		770		1,472
Gain on cooperative insurance service special account		5,057		5,212
Gain on trust account		5,498		4,914
Gain on effect of exchange rate fluctuations		6,274		1,986
Others		9		9
Subtotal		22,189		17,927
Other operating expense:				
Loss on sales of loans		2,652		3,800
Loss on derivatives for hedging purposes		783		1,209
Contribution to fund		26,661		23,116
Deposit insurance		19,539		17,285
Loss on cooperative insurance service special account		1,238		1,279
Others		878		1,075
Subtotal		51,751		47,764
Net operating income	W	(29,562)	W	(29,837)

35. GENERAL AND ADMINISTRATIVE EXPENSES:

Details of general and administrative expenses for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Salaries	₩	98,417	₩	94,434
Retirement benefit service costs		9,690		9,463
Employee benefits		13,105		9,207
Rent expenses		10,595		9,550
Depreciation expense of tangible assets		7,074		6,779
Depreciation expense of investment properties		67		67
Amortization of intangible assets		4,349		5,128
Taxes and dues		6,489		6,108
Advertising		3,733		1,831
Computer- and Information Technology-related expenses		5,020		4,202
Service fee		5,110		4,555
Supplies expense		659		499
Printing expenses		594		478
Communication expenses		4,309		3,987
Event expenses		403		192
Vehicle maintenance expenses		786		703
Electricity and water expenses		1,037		992
Others		10,312		8,718
Total	₩	181,749	₩	166,893

36. NET OTHER NON-OPERATING INCOME (LOSS):

Details of net other non-operating income (loss) for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Other non-operating income:				
Contribution income	₩	2,648	₩	3,286
Rental income		399		393
Amortized rental income		46		-
Others		1,118		432
Subtotal		4,211		4,111
Other non-operating expense:				
Loss on disposal of fixed assets		98		81
Other		1,471		820
Common administrative contributions		22,593		22,281
Subtotal		24,162		23,182
Net non-operating loss	₩	(19,951)	₩	(19,071)

37. INCOME TAX EXPENSES:

(1) Details of income tax expenses for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

		2018		2017
Current tax expense in respect of the current year	₩	48,863	₩	57,170
Changes in deferred tax due to temporary differences		13,433		(12,096)
Subtotal		62,296		45,074
Income tax expense directly charged or credited to equity		(2,712)		692
Income taxes	₩	59,584	₩	45,766

(2) Income tax expense reconciled to net income before income tax expense for the nine months ended September 30, 2018 and 2017, is as follows (Unit: Korean won in millions):

		2018		2017
Net income before income tax expense (A)	₩	253,685	₩	198,703
Tax calculated at statutory tax rate		61,046		47,740
Adjustments:				
Effect of income that is exempt from taxation		(1,599)		(2,171)
Effect of expense not deductible in determining taxable profit		441		277
Others		(304)		(80)
Income tax expense (B)	W	59,584	W	45,766
Effective tax rate (B/A)		23.49%		23.03%

(3) Unrealizable temporary differences for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018					
	Beginning balance		Increase (decrease)		Ending balance	
Accrued interest	₩	(16,191)	₩	(361)	₩	(16,552)
Provision for severance insurance		(4,945)		47		(4,898)
Other provision		10,281		3,977		14,258
Depreciation disallowance		(1,574)		(159)		(1,733)
Accrued expenses		21,486		(17,831)		3,655
Loan origination fees and costs		(15,552)		(13,160)		(28,712)
Allowance for possible loan loss		48,245		(16,563)		31,682
Derivatives		6,743		(6,431)		312
Allowance for employee retirement benefits		120,544		6,331		126,875
Accrued donation		812		(20)		792
Financial assets at FVTPL		(1,093)		27,101		26,008
Allowance for possible acceptances and guarantees		2,124		(252)		1,872
Securities at amortized cost		5,831		(2,066)		3,765
Provision for financial guarantee		348		2,739		3,087
Financial assets at FVTOCI		54,503		(37,559)		16,944
Others		15,863		(2,084)		13,779
Total		247,425	₩	(56,291)		191,134
Tax rate (%)		24.20%				24.20%
Deferred tax assets	W	59,877			W	46,254

	2017					
	Beginning balance		Increase (decrease)		Ending balance	
Accrued interest	W	(5,039)	W	(6,097)	W	(11,136)
Provision for severance insurance		(4,995)		89		(4,906)
Other provision		6,375		(493)		5,882
Depreciation disallowance		(1,363)		3,657		2,294
Accrued expenses		4,550		(1,606)		2,944
Loan origination fees and costs		(15,331)		964		(14,367)
Allowance for possible loan loss		32,164		5,945		38,109
Derivatives		(4,104)		(341)		(4,445)
Allowance for employee retirement benefits		106,783		14,730		121,513
Accrued donation		660		616		1,276
Trading securities		98		(1,097)		(999)
Allowance for possible acceptances and guarantees		1,584		277		1,861
HTM securities		5,134		291		5,425
Provision for financial guarantee		1,749		(979)		770
Others		28,633		34,028		62,661
Total		156,898	W	49,984		206,882
Tax rate (%)		24.20%				24.20%
Deferred tax assets	₩	37,970			₩	50,065

The Bank has ₩253,371 million of deductible temporary difference. In assessing the realizability of deferred tax assets, the Bank considers various factors, such as its performance, the overall economic environment and outlook, expected future returns, etc. The Bank reviews such factors on a regular basis. As of September 30, 2018, the entire amount of deductible temporary difference is recognized as deferred tax assets, and such amount may vary due to changes in estimate of future taxable income.

(4) Deferred tax assets and liabilities that were directly charged or credited to equity as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018			
	Beginning balance (*)	Increase (decrease)	Ending balance	Deferred tax assets (liabilities)
Gain on valuation of financial assets at FVTOCI				
Gain on valuation	₩ (12,065)	₩ 11,320	₩ (745)	₩ 180
The expected credit loss allowance	917	(102)	815	(197)
Remeasurement of the net defined benefit liability	4,871	-	4,871	(1,179)
Total	₩ (6,277)	₩ 11,218	₩ 4,941	₩ (1,196)

	December 31, 2017			
	Beginning balance (*)	Increase (decrease)	Ending balance	Deferred tax assets (liabilities)
Valuation of AFS securities	₩ (864)	₩ (10,346)	₩ (11,210)	₩ 2,713
Remeasurement of the net defined benefit liability	2,781	2,090	4,871	(1,179)
Total	W 1,917	W (8,256)	W (6,339)	W 1,534

(*) Does not reflect income tax effects

(5) Details of comprehensive income for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018	2017
Net income	₩ 194,101	₩ 152,937
Other comprehensive income:		
Gain (loss) on valuation of debt securities at FVTOCI	(330)	-
Gain (loss) on valuation of equity securities at FVTOCI	8,850	-
Gain (loss) on valuation of AFS securities	-	(2,167)
Remeasurement of net defined benefit liability	-	-
Total comprehensive income	₩ 202,621	₩ 150,770

38. EPS:

Basic EPS for the nine months ended September 30, 2018 and 2017, is calculated by dividing net income with weighted-average number of common shares outstanding (Unit: Korean won in millions, except for EPS and number of shares):

	2018	2017
Net income	W 194,101	W 152,937
Dividends to hybrid securities	(6,704)	(8,969)
Net income attributable to common shareholders	187,397	143,968
Weighted-average number of common shares outstanding (Unit: million shares)	132	132
Basic EPS	1,420	1,091

Diluted EPS is equal to basic EPS because there is no dilution effect for the nine months ended September 30, 2018 and 2017.

39. CONTINGENCIES AND COMMITMENTS:

(1) Details of guarantees as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Confirmed guarantees in Korean won:				
Guarantee for loans	₩	1,690	₩	1,780
Others		4,829		59,656
Subtotal		76,519		61,436
Confirmed guarantees in foreign currencies:				
Acceptances		14,826		14,180
Letters of guarantees		4,301		2,985
Subtotal		19,127		17,165
Unconfirmed guarantees:				
Letter of credit, etc.		226,977		213,191
Total	₩	322,623	₩	291,792

(2) Details of commitments and others as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
Commitments in Korean won:				
Loan commitments	₩	4,088,546	₩	1,419,979
Purchasing marketable securities		67,441		67,441
Subtotal		4,155,987		1,487,420
Commitments in foreign currencies:				
Loan commitments		65,163		108,352
Others		735,491		773,843
Subtotal		800,654		882,195
Total	₩	4,956,641	₩	2,369,615

The limit on commitments on purchase of asset-backed commercial papers is ₩65,500 million, and the nominal amount of credit lines of asset-backed securities is ₩10,563 million. The Bank provided commitments related to real estate project financing of ₩20,000 million and ₩14,800 million as of September 30, 2018, and December 31, 2017, respectively.

(3) As of September 30, 2018, the Bank is involved in 18 lawsuits as a plaintiff and 27 lawsuits as a defendant. The aggregate amount of claims as a plaintiff and a defendant is ₩11,098 million and ₩9,097 million, respectively. The uncertainty of litigation is not reflected in the separate interim financial statements as of September 30, 2018.

(4) The Bank endorsed bills of ₩15,161 million and ₩24,077 million as of September 30, 2018, and December 31, 2017, respectively.

(5) PLEDGED ASSETS:

Assets provided as collateral as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

Assets	Provided to	September 30, 2018 Book value	September 30, 2018 Collateral amount	Provided for
Financial assets at FVTOCI	BOK	₩ 90,268	₩ 90,000	BOK settlement
	BOK	60,180	60,000	Brokerage
	BOK	259,457	260,000	Overdraft
	Korea Securities Depository ("KSD")	9,948	10,000	RPs
	ING Bank	49,356	49,373	Derivative trading
Financial assets at amortized cost	BOK	60,037	60,000	BOK settlement
	BOK	20,033	20,000	Brokerage
	KSD	50	50	Settlement of stock charge
	Samsung Futures, etc.	5,002	5,000	Futures settlement
	Korea Exchange	300	300	Bond Damage Compensation Fund
	Korea Exchange	110	110	Joint Compensation Fund for Central Counterparty ("CCP")
Total		₩ 554,741	₩ 554,833	

Assets	Provided to	December 31, 2017 Book value	December 31, 2017 Collateral amount	Provided for
AFS financial assets	BOK	₩ 100,342	₩ 100,000	BOK settlement
	BOK	90,124	90,000	Brokerage
	BOK	148,763	150,000	Overdraft
	KSD	9,882	10,000	RPs
	ING Bank	10,863	10,786	Derivative trading
HTM financial assets	BOK	50,259	50,000	BOK settlement
	BOK	40,057	40,000	Brokerage
	BOK	30,029	30,000	Overdraft
	KSD	50	50	Settlement of stock charge
	Samsung Futures, etc.	6,505	6,500	Futures settlement
	Korea Exchange	110	110	Bond Damage Compensation Fund
	Korea Exchange	300	300	Joint Compensation Fund for CCP
Total		₩ 487,284	₩ 487,746	

40. TRUST ACCOUNTS:

(1) Trust accounts of the Bank as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018		December 31, 2017	
	Total assets	Operating income	Total assets	Operating income
Scope of consolidation	W 61,431	W 1,768	W 61,508	W 2,421
Out of scope of consolidation (non-guaranteed)	4,962,587	16,783	4,468,350	24,231
Total	₩ 5,024,018	₩ 18,551	₩ 4,529,858	₩ 26,652

(2) Receivables and payables from the transactions between the Bank and trust accounts as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

	September 30, 2018	December 31, 2017
Receivables:		
Accrued interest	W 206	W 206
Accrued revenue	4,173	2,179
Prepaid expenses	292	275
Total	₩ 4,671	₩ 2,660
Payables:		
Trust fees payable	W 650	W 327
Accrued trust income	15,290	13,030
Accrued expenses	9	10
Total	W 15,949	W 13,367

(3) Key transactions between the Bank and trust accounts for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018	2017
Revenue:		
Trust fees and commissions received from trust account	W 5,498	W 4,914
Expense:		
Interest payable on trust accounts	₩ 1,309	₩ 820

(*) Financial information of trust accounts is prepared in accordance with Korea Financial Accounting Standards 5004, '*Trust Account of Trust Vendor,*' based on the Financial Investment Services and Capital Markets Act and Financial Industry Detailed Regulatory.

There are no amounts that the Bank must pay under the capital-guaranteed contract or the operating results of the principal- and return-guaranteed trusts as of September 30, 2018, and December 31, 2017.

41. SEPARATE STATEMENTS OF CASH FLOWS:

Details of material transactions without cash inflows and outflows for the nine months ended September 30, 2018 and 2017, are as follows (Unit: Korean won in millions):

	2018	2017
Debt-to-equity swap and write-off of loans	₩ 28,588	₩ 68,424
Reclassification of capital surplus to retained earnings	-	21,300
Reclassification of retained earnings to dividends payable	126	627
Changes in gain or loss on valuation of financial assets at FVTOCI	11,320	-
Changes in gain on valuation of AFS securities	-	2,167
The transfer from assets under construction to property and equipment and intangible assets	6,760	2,455
Write-off of allowance for other assets	94	25

42. RELATED-PARTY TRANSACTIONS:

(1) Related parties of the Bank during the current year are as follows:

	Related parties
Controlling party	NFFC (*1)
Associates	Principal Guaranteed Trust and Principal and Interest Guaranteed Trust ("Trusts within the scope of consolidation"), 2007 Kiwoom IBK First Co., Ltd., Kamco Creation Value 5th Securitization Specialty Co., Ltd. and Kamco Creation Value 8th Securitization Specialty Co., Ltd.
Other related parties	Suhyup Maintenance Service, National Federation of Fisheries Cooperatives FC Flow Co., Ltd. ("NFFC FC Flow Co., Ltd."), Suhyup Noryangjin Fisheries Co., Ltd. and Suhyup Feed Co., Ltd.

(*1) The whole NFFC, including the Special Banking Service Accounts of NFFC, is identified as controlling party.

(2) Gain or loss from transactions with related parties for the nine months ended September 30, 2018 and 2017, is as follows (Unit: Korean won in millions):

Related party		Title of account	2018	2017
Controlling party	NFFC	Income:	₩ 5,243	₩ 5,390
		Loan interest	60	50
		Fee and commission	125	127
		Others	5,058	5,213
		Expenses: (*1)	27,785	27,922
		Interest expense of deposits	5,192	3,184
		Interest expense of borrowings	-	2,457
		Others	22,593	22,281
Associates	Trusts within the scope of consolidation	Income:	225	221
		Others	225	221
		Expenses:	178	93
		Others	178	93
	2007 Kiwoom IBK First Co., Ltd.	Expenses:	-	76
		Transfers of allowances and provisions-	-	76
	Kamco Creation Value	Income:	45	45

	5th Securitization Specialty Co.			
		Fee and commission	45	45
	Kamco Creation Value 8th Securitization Specialty Co.	Income:	12	45
		Fee and commission	12	45
		Expenses:	3	2
		Interest expense of deposits	3	2
Other related parties	Suhyup Maintenance Service	Income:	3	2
		Fee and commission	2	2
		Reversal of allowance and provision	1	-
		Expenses:	34	30
		Interest expense of deposits	34	29
		Transfers of allowances and provisions	-	1
	NFFC FC Flow Co., Ltd.	Income:	194	167
		Loan interest	178	154
		Fee and commission	16	13
		Expenses:	72	74
		Interest expense of deposits	1	-
		Transfers of allowances and provisions	71	74
	Suhyup Noryangjin Fisheries Co., Ltd.	Income:	7	9
		Loan interest	-	2
		Fee and commission	7	7
		Expenses:	301	228
		Interest expense of deposits	293	228
		Transfers of allowances and provisions	8	-
	Suhyup Feed Co., Ltd.	Income:	125	99
		Loan interest	116	81
		Fee and commission	9	18
		Expenses:	17	6
		Transfers of allowances and provisions	17	6

(*1) The Bank received the cost of workers dispatched to NFFC (salaries ₩438 million, employee benefits cost ₩32 million and retirement benefit service costs ₩35 million) and deducted related expenses.

Assets and liabilities from transactions with related parties as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

Related party		Title of account	September 30, 2018	December 31, 2017
Controlling party	NFFC	Loans	W 2,025	W 862
		Allowance for credit loss	(1)	-
		Other assets	45,419	38,368
		Deposits	391,678	440,873
		Provisions	16	15
		Other liabilities	9,489	8,405
Associates	Trusts within the scope of consolidation	Other assets	421	197
		Other liabilities	12,142	5,520
	2007 Kiwoom IBK First Co., Ltd.	Deposits	33	33
	Kamco Creation Value 5th Securitization Specialty Co.	Other assets	180	135
		Investments in associates	2	2
		Deposits	52	57
	Kamco Creation Value 8th Securitization Specialty Co.	Other assets	203	143
		Investments in associates	2	2
		Deposits	346	348
Other related parties	Suhyup Maintenance Service	Loans	4	4
		Allowance for credit loss	-	-
		Deposits	3,743	3,135
		Provisions	-	1
	NFFC FC Flow Co., Ltd.	Loans	6,041	4,131
		Allowance for credit loss	(140)	(60)
		Other assets	4	3
		Deposits	14	18
		Provisions	21	30
	Suhyup Noryangjin Fisheries Co., Ltd.	Loans	17	26
		Allowance for credit loss	(2)	(1)
		Deposits	19,214	19,458
		Provisions	8	1
	Suhyup Feed Co., Ltd.	Loans	3,837	1,523
		Allowance for credit loss	(44)	(14)
		Other assets	3	2
		Deposits	-	167
		Provisions	6	19

(3) Borrowing transactions with related parties for the nine months ended September 30, 2017, are as follows, and there are no borrowing transactions with related parties for the nine months ended September 30, 2018 (Unit: Korean won in millions):

	For the nine months ended September 30, 2017					
	Related party	Beginning balance	Lending	Collection	Others	Ending balance
Controlling party	NFFC	W 248,100	W -	W (248,100)	W -	W -

(4) Other than payments made in the ordinary course of business and deposit transactions with related parties, there were no borrowing transactions with related parties.

(5) Guarantees and commitments provided to the related parties as of September 30, 2018, and December 31, 2017, are as follows (Unit: Korean won in millions):

Related party		Contents	September 30, 2018	December 31, 2017
Controlling party	NFFC	Credit card commitment	W 3,104	W 2,753
		Unconfirmed guarantees	-	3,242
		Loan commitment in Korean won	180,000	180,000
		Loan commitment in foreign currency	2,069	-
Other related parties	Suhyup Maintenance Service	Credit card commitment	44	44
	NFFC FC Flow Co., Ltd.	Credit card commitment	173	174
		Loan commitment in Korean won	1,489	3,413
	Suhyup Noryangjin Fisheries Co., Ltd.	Credit card commitment	73	56
		Loan commitment in Korean won	2,000	-
	Suhyup Feed Co., Ltd.	Credit card commitment	44	46
		Unconfirmed guarantees	-	1,353
		Loan commitment in Korean won	1,384	2,500
		Loan commitment in foreign currency	1,216	-

(6) Compensation for key management for the nine months ended September 30, 2018 and 2017, is as follows (Unit: Korean won in millions):

	2018	2017
Short-term benefits	₩ 752	₩ 688
Other long-term benefits	-	605
Severance payments	717	41

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