

渣打國際商業銀行承銷「The Korea Development Bank US\$300,000,000 Floating Rate Notes due 2022」之美元計價普通公司債公告

渣打國際商業銀行(以下稱承銷商)承銷「The Korea Development Bank US\$300,000,000 Floating Rate Notes due 2022」之美元計價普通公司債(以下稱本公司債)，本公司債發行總金額為美金 300,000,000 元整，由承銷商洽商銷售本公司債金額為美金 300,000,000 元整，茲將銷售辦法公告於後：

一、證券承銷商名稱、地址、總承銷數量、證券承銷商先行保留洽商銷售數量

承銷商名稱	地址	洽商銷售金額
渣打國際商業銀行股份有限公司	台北市松山區敦化北路 168 號 1 樓	美金 190,000,000 元整
群益金鼎證券股份有限公司	台北市信義區松仁路 101 號 15 樓	美金 20,000,000 元整
凱基證券股份有限公司	臺北市中山區明水路 700 號 3 樓	美金 50,000,000 元整
統一綜合證券股份有限公司	台北市松山區東興路 8 號	美金 20,000,000 元整
上海商業儲蓄銀行股份有限公司	台北市民權東路一段 2 號	美金 20,000,000 元整

二、承銷總額：總計美金 300,000,000 元整。

三、承銷方式：本公司債將由承銷商包銷並以「洽商銷售」方式出售予投資人。

四、承銷期間：本公司債定價日為 2017 年 10 月 17 日，於 2017 年 10 月 27 日辦理承銷公告並於 2017 年 10 月 30 日發行。

五、承銷價格：承銷商於銷售期間內依本公司債票面金額銷售，以美金 20 萬元整為最低銷售單位，發行價格為 100%。

六、本公司債主要發行條件：

(一) 發行日：2017 年 10 月 30 日。

(二) 到期日：2022 年 10 月 30 日。

(三) 發行人評等：Aa2 by Moody's / AA by S&P/ AA- by Fitch。

(四) 受償順位：無擔保主順位債券。

(五) 票面金額：美金 20 萬元整。

(六) 票面利率：浮動利率三個月倫敦同業拆放利率 + 80 基點。

(七) 付息及還本方式：本債券為浮動利率債券。發行人將每季付息，並於債券到期日一次還本。

(八) 營業日：倫敦、紐約、南韓及台北之營業日。

(九) 準據法：英國法。

(十) 債券掛牌處所：中華民國櫃檯買賣中心、新加坡交易所。

七、銷售限制：於台灣銷售僅限財團法人中華民國證券櫃檯買賣中心外幣計價國際債券管理規則第二條之一所定義之專業投資人，另依中華民國證券商業同業公會證券商承銷或再行銷售有價證券處理辦法第三十二條之規定，每一認購人認購數量不得超過該次承銷總數之百分之八十，惟認購人為政府基金者不在此限。

八、通知、繳交價款及交付本公司債方式：承銷商於發行日前通知投資人繳交價款之方式，投資人於發行日以 Euroclear 或 Clearstream(DVP)完成交割或於發行日將本公司債之認購款項匯入承銷商指定帳戶，承銷商將本公司債撥入投資人所指定之集保帳戶。

九、公開說明書之分送、揭露及取閱方式：如經投資人同意承銷商得以電子郵件方式交付公開說明書，投資人並得至公開資訊觀測站 (<http://mops.twse.com.tw>) 或渣打國際商業銀行網址 (<https://www.sc.com/tw>)，群益金鼎證券股份有限公司網址 (<https://www.capital.com.tw>) 凱基證券股份有限公司 (<http://www.kgieworld.com.tw>)，統一綜合證券股份有限公司網址 (<http://www.pscnet.com.tw/>)，上海商業儲蓄銀行股份有限公司 (<http://www.scsb.com.tw>) 查詢。

十、會計師對發行人最近三年度財務資料之查核簽證意見

年度	會計師事務所	查核意見
2016 Annual Report	Nexia Samduk	fairly
2015 Annual Report	KPMG Samjong Accounting Corps	fair
2014 Annual Report	KPMG Samjong Accounting Corps	fair

十一、其他為保護公益及投資人應補充揭露事項：無。

十二、投資人應詳閱本公司債公開說明書。

**The Korea Development Bank**

**U.S.\$300,000,000 Senior Unsecured Notes due October 2022  
under the  
U.S.\$15,000,000,000 Global Medium Term Note Programme**

Issue Price: 100 per cent.

Issue Date: 30 October 2017

This information package includes the Information Memorandum dated 16 August 2017 in relation to U.S.\$15,000,000,000 Global Medium Term Note Programme (the "**Information Memorandum**") and the Pricing Supplement dated 17 October 2017 in respect of the Notes (the "**Pricing Supplement**," together with the Information Memorandum, the "**Information Package**").

The Notes will be issued by The Korea Development Bank (the "**Issuer**").

Application will be made by the Issuer for the Notes to be listed on the Taipei Exchange ("**TPEX**") in the Republic of China (the "**ROC**"). Application will also be made to list the Notes on Singapore Exchange Securities Trading Limited.

The Notes will be traded on TPEX pursuant to the applicable rules of TPEX. Effective date of listing and trading of the Notes is on or about 30 October 2017.

TPEX is not responsible for the content of the Information Package and no representation is made by TPEX to the accuracy or completeness of the Information Package. TPEX expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this Information Package. Admission to the listing and trading of the Notes on TPEX shall not be taken as an indication of the merits of the Issuer or the Notes.

The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly to investors other than "professional investors" as defined under Paragraph 1 of Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC. Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to a professional investor. Under the TPEX Rules, "professional investors" include "professional institutional investors" as defined under Paragraph 2 of Article 4 of the Financial Consumer Protection Act of the ROC.

Lead Manager

**Standard Chartered Bank (Taiwan) Limited**

Co-Managers

**Capital Securities Corporation  
KGI Securities Co. Ltd.  
President Securities Corporation  
The Shanghai Commercial & Savings Bank, Ltd.**

## PRICING SUPPLEMENT

17 October 2017

**The Korea Development Bank**  
**Issue of U.S.\$300,000,000 Senior Unsecured Notes due October 2022**  
**under the U.S.\$15,000,000,000 Global Medium Term Note Programme**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated 16 August 2017 (the “**Information Memorandum**”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Information Memorandum.

1.	Issuer: .....	The Korea Development Bank
2.	(i) Series Number:.....	683
	(ii) Tranche Number: .....	1
3.	Specified Currency or Currencies: .....	U.S. dollars
4.	Aggregate Nominal Amount: .....	
	(i) Series: .....	U.S.\$300,000,000
	(ii) Tranche: .....	U.S.\$300,000,000
5.	(i) Issue Price of Tranche:.....	100 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds ( <i>Required only for listed issues</i> ): .....	U.S.\$299,400,000
6.	(i) Specified Denominations: .....	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof
	(ii) Calculation Amount: .....	U.S.\$1,000
7.	(i) Issue Date: .....	30 October 2017
	(ii) Interest Commencement Date:	Issue Date
8.	Maturity Date: .....	30 October 2022
9.	Interest Basis: .....	3 Month USD LIBOR + 0.80 per cent.
10.	Redemption/Payment Basis: .....	Redemption at par
11.	Change of Interest Basis or Redemption/Payment Basis: .....	None
12.	Put/Call Options: .....	None
13.	Listing: .....	Singapore Exchange Securities Trading Limited Taipei Exchange Application will be made by the Issuer to the Taipei Exchange (the “ <b>TPEX</b> ”) for

the listing and trading of the Notes on the TPEX. TPEX is not responsible for the content of this document and the Information Memorandum and any amendment and supplement thereto and no representation is made by TPEX to the accuracy or completeness of this document and the Information Memorandum and any amendment and supplement thereto. TPEX expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this document and the Information Memorandum and any amendment and supplement thereto. Admission to the listing and trading of the Notes on the TPEX shall not be taken as an indication of the merits of the Issuer or the Notes. The Notes will be traded on the TPEX pursuant to the applicable rules of the TPEX. Effective date of listing of the Notes is on or about 30 October 2017.

14. Method of distribution: ..... Syndicated

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. Fixed Rate Note Provisions: ..... Not Applicable

16. Floating Rate Note Provisions: ..... Applicable

(i) Specified Period(s)/Specified Interest Payment Dates: ..... January 30, April 30 and July 30 and October 30 of each year, beginning January 30, 2018, up to and including the Maturity Date

(ii) Business Day Convention:..... Modified Following Business Day Convention

(iii) Additional Business Centre(s): ... London, New York, Seoul and Taipei

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:..... Screen Rate Determination

(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): ..... Not Applicable

(vi) Screen Rate Determination:

–	Reference Rate: .....	3 month U.S.\$ LIBOR
–	Interest Determination Date(s): .....	Second London business day prior to the start of each Interest Period
–	Relevant Screen Page: .....	Reuters LIBOR01
(vii)	ISDA Determination: .....	Not Applicable
(viii)	Margin(s): .....	+0.80 per cent. per annum
(ix)	Minimum Rate of Interest:.....	Not Applicable
(x)	Maximum Rate of Interest: ...	Not Applicable
(xi)	Day Count Fraction: .....	Actual/360
(xii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:.....	Not Applicable
17.	Zero Coupon Note Provisions: .....	Not Applicable
18.	Index Linked Interest Note Provisions: .	Not Applicable
19.	Dual Currency Note Provisions: .....	Not Applicable

#### **PROVISIONS RELATING TO REDEMPTION**

20.	Issuer Call: .....	Not Applicable
21.	Investor Put: .....	Not Applicable
22.	Final Redemption Amount: .....	Par
23.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 5(f)): .....	Par

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24.	Form of Notes: .....	Registered Notes Regulation S Global Note (U.S.\$300,000,000 nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg
25.	Additional Financial Centre(s) or other special provisions relating to Payment Day: .....	London, New York, Seoul and Taipei

26.	Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): .....	No
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: .....	Not Applicable
28	Details relating to Instalment Notes:	
	(i) Instalment Amount(s): .....	Not Applicable
	(ii) Instalment Date(s): .....	Not Applicable
29.	Redenomination applicable: .....	Redenomination not applicable
30.	Other terms or special conditions: .....	Not Applicable

**DISTRIBUTION**

31.	(i) If syndicated, names of Managers: .....	Standard Chartered Bank (Taiwan) Limited Capital Securities Corporation KGI Securities Co. Ltd. President Securities Corporation The Shanghai Commercial & Savings Bank, Ltd.
	(ii) Date of Subscription Agreement: .....	on or about 18 October 2017
	(iii) Stabilising Manager (if any): .	Not Applicable
32.	If non-syndicated, name of relevant Dealer:.....	Not Applicable
33.	US Selling Restrictions:.....	Reg. S Category 2 / TEFRA not applicable
34.	Additional selling restrictions:.....	ROC Selling Restriction The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly to investors other than "professional investors" as defined under Paragraph 1 of Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds (the

“**TPEX Rules**”) of the Republic of China (“**ROC**”). Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to a Professional Investor.

Under the TPEX Rules, "professional investors" include "professional institutional investors" as defined under Paragraph 2 of Article 4 of the Financial Consumer Protection Act of the ROC.

#### OPERATIONAL INFORMATION

35.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg or DTC and the relevant identification number(s): .....	Not Applicable
36.	Delivery:.....	Delivery against payment
37.	Additional Paying Agent(s) (if any):....	Not Applicable
38.	In the case of Registered Notes, specify the location of the office of the Registrar if other than New York: .....	Not Applicable
ISIN: .....		XS1706085773
Common Code: .....		170608577

#### LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$15,000,000,000 Global Medium Term Note Programme of The Korea Development Bank, acting through its principal office in Korea.

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.

TPEX is not responsible for the content of this document and the Information Memorandum and any amendment and supplement thereto and no representation is made by TPEX to the accuracy or completeness of this document and the Information Memorandum and any amendment and supplement thereto. TPEX expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this document and the Information Memorandum and any amendment and supplement thereto. Admission to the listing and trading of the Notes on the TPEX shall not be taken as an indication of the merits of the Issuer or the Notes. The Notes will be traded on the TPEX pursuant to the applicable rules of the TPEX. Effective date of listing of the Notes is on or about 30 October 2017.

## RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: 

*Duly authorised*

Notes may also be issued in such other form and on such other terms as the Issuer may from time to time agree with the relevant Purchaser(s). If the relevant Pricing Supplement relating to a Tranche of Notes specifies any modifications to the Terms and Conditions of the Notes as described below, it is envisaged that, to the extent that such modifications relate only to Conditions 1, 4, 5 (except Condition 5(b)), 6, 10, 12 (insofar as such Notes are not listed or admitted to trade on any stock exchange), 13 or 14, they will not necessitate the preparation of supplementary listing particulars. If the Terms and Conditions of the Notes are to be modified in any other respect, it is envisaged that supplementary listing particulars or, if appropriate, further listing particulars describing the modifications will be prepared.



## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES

**Important: You must read the following before continuing.** The following applies to the Information Memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING INFORMATION MEMORANDUM MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED IN WHOLE OR IN PART TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY ADDRESS IN THE UNITED STATES. ANY SUCH DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE APPLICABLE PRICING SUPPLEMENT AND TERMS AND CONDITIONS OF THE NOTES. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED IN THE FOLLOWING INFORMATION MEMORANDUM.

**Confirmation of the Representation:** In order to be eligible to view this Information Memorandum or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. This Information Memorandum is being sent at your request and by accepting the electronic mail and accessing this Information Memorandum, you shall be deemed to have represented to us that you are not a U.S. person or acting for the account or benefit of a U.S. person (in each case as defined in Regulation S), the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Information Memorandum and any amendments and supplements thereto by electronic transmission.

You are reminded that this Information Memorandum has been delivered to you on the basis that you are a person into whose possession this Information Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Information Memorandum to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

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

This Information Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealers (as defined in this Information Memorandum) or any person who controls any Dealer or any director, officer, employee or agent of either of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Information Memorandum distributed to you in electronic format and the hard copy version available to you on request from any of the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## KDB Bank

*(a statutory juridical entity established under  
The Korea Development Bank Act of 1953, as amended, in the Republic of Korea)*

**U.S.\$15,000,000,000**

### **Global Medium Term Note Programme for the issue of Notes with a minimum maturity of 1 month**

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*Under this U.S.\$15,000,000,000 Global Medium Term Note Programme (the “Programme”), The Korea Development Bank (the “Issuer” or the “Bank”) acting through its principal office in Korea, its London Branch, its New York Branch or any other overseas branch, as the case may be, may from time to time issue Medium Term Notes (the “Notes”) denominated in such currencies as may be agreed with the Purchaser(s) (as defined below). This Information Memorandum supersedes any previous Information Memorandum and supplements thereto. Any Notes to be issued after the date hereof under the Programme are issued subject to the provisions set out herein. This does not affect any Notes issued prior to the date hereof.*

The Notes will have a minimum maturity of 1 month from the date of issue (except as set out herein) and, subject as set out herein, the maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed U.S.\$15,000,000,000 (or its equivalent in other currencies at the time of agreement to issue, subject as further set out herein). Notes may be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”).

The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 3 (each a “Dealer” and together the “Dealers”, which expression shall include any additional Dealer appointed under the Programme from time to time). Notes may also be issued to persons other than Dealers. Dealers and such other persons are referred to as “Purchasers”.

Approval in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Exchange Securities Trading Limited (“Singapore Stock Exchange”). Such permission will be granted when such Notes have been admitted to the Official List of the Singapore Stock Exchange (“Official List”). The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List and quotation of any Notes on the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. 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 (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a pricing supplement (the “Pricing Supplement”) which, with respect to Notes to be listed on the Singapore Stock Exchange, will be delivered to the Singapore Stock Exchange before the date of listing of the Notes of such Tranche. The Issuer may also issue Notes listed on any alternative or additional stock exchange and may also issue unlisted Notes.

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*Arranger*

**MORGAN STANLEY**

*Dealers*

ANZ  
BNP PARIBAS  
CITIGROUP  
COMMONWEALTH BANK OF AUSTRALIA  
CREDIT SUISSE  
DEUTSCHE BANK  
GOLDMAN SACHS INTERNATIONAL  
ING  
KDB ASIA INTERNATIONAL  
MIZUHO SECURITIES  
MUFG  
NOMURA  
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING  
TD SECURITIES  
WESTPAC BANKING CORPORATION

BARCLAYS  
BOFA MERRILL LYNCH  
COMMERZBANK  
CRÉDIT AGRICOLE CIB  
DAIWA CAPITAL MARKETS SINGAPORE LIMITED  
FIRST ABU DHABI BANK  
HSBC  
J.P. MORGAN  
MIRAE ASSET DAEWOO CO., LTD.  
MORGAN STANLEY  
NATIONAL AUSTRALIA BANK LIMITED  
RBC CAPITAL MARKETS  
STANDARD CHARTERED BANK  
UBS

The Issuer accepts responsibility for the information contained in this Information Memorandum. To the best of the Issuer's knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Information Memorandum is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference (see "Documents Incorporated By Reference" on page 1). This Information Memorandum shall be read and construed on the basis that such documents are so incorporated and form part of this Information Memorandum.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers (including any affiliate of any Dealer or any director, officer, employee or agent of any of them) as to the accuracy or completeness of the financial information contained in this Information Memorandum, or any other financial statements or any further information supplied by the Dealers or on their behalf, in each case, in connection with the Programme or the Notes. The Dealers (including any affiliate of any Dealer or any director, officer, employee or agent of any of them) accept no liability in relation to the financial or other information contained or incorporated by reference in this Information Memorandum or any other statements made or purported to be made by the Dealers or on their behalf or any further information supplied by the Dealers or on their behalf, in each case, in connection with the Issuer, the Programme or the Notes or their distribution. The Dealers (including any affiliate of any Dealer or any director, officer, employee or agent of any of them) accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this Information Memorandum or any such statement or information. The statements made in this paragraph are without prejudice to the responsibility of the Issuer under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other financial statements or further information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by either the Issuer or any of the Dealers.

This Information Memorandum, any other financial statements and any further information supplied in connection with the Programme or the Notes are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by either the Issuer or any of the Dealers that any recipient of this Information Memorandum or any other financial statements or any further information supplied in connection with the Programme or the Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. None of this Information Memorandum, any other financial statements and any further information supplied in connection with the Programme or the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Dealers or any of them to any person to subscribe for or to purchase any of the Notes.

Neither the delivery of this Information Memorandum 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 financial statements or any further information supplied in connection with the Programme or the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers (including any affiliate of any Dealer or any director, officer, employee or agent of any of them) expressly do not undertake to review the financial condition or affairs of the Issuer or any of its subsidiaries during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase any of the Notes.

This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or

solicitation in such jurisdiction. The distribution of this Information Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this document may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Information Memorandum 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 and the Dealers have represented that all offers and sales by them will be made on the same terms.

The distribution of this Information Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Information Memorandum or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Information Memorandum and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom), Hong Kong, the Netherlands, Singapore, the Republic of Korea (“Korea” or the “Republic”), Japan and the People’s Republic of China (see “Subscription and Sale and Transfer and Selling Restrictions” on page 162).

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the “Securities Act”) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. See “Form of the Notes” for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer (see “Subscription and Sale and Transfer and Selling Restrictions” on page 162).

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 Information Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Information Memorandum. 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.

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

## **U.S. INFORMATION**

This Information Memorandum is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors (each as defined under “Form of

the Notes”) for informational use solely in connection with the consideration of the purchase of certain Notes issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act (“Rule 144A”) or any other applicable exemption. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together, “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “Subscription and Sale and Transfer and Selling Restrictions”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Form of the Notes”.

#### **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, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### **AVAILABLE INFORMATION**

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated 15 June 2012 (the “Deed Poll”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remains outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

The Issuer is a corporation organised under the laws of Korea. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the



Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Korea upon the Issuer or such persons, or to enforce judgements against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgement predicated upon United States federal securities laws. The Issuer has been advised by Hwang Mok Park P.C., its counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgements of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

## **CERTAIN DEFINED TERMS AND CONVENTIONS**

In this Information Memorandum, references to “KRW”, “Won” and “₩” are to the currency of Korea, references to CNY, Renminbi and RMB are to the lawful currency of the People’s Republic of China (the “PRC”), references to “USD”, “\$”, “U.S.\$” and “U.S. dollars” are to United States dollars, references to “GBP”, “£” and “sterling” are to pounds sterling, references to “Yen” and “¥” are to Japanese Yen and references to “EUR”, “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. All references to the “Government” are to the national government of Korea. In addition, references to “PRC” or “China” are to the PRC and for geographical reference only (unless otherwise stated) exclude Taiwan, Hong Kong and Macau.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. The Issuer maintains its accounts in Won. For convenience, Won amounts in this Information Memorandum as at December 31, 2016 have been translated into U.S. dollars at the rate of ₩1,208.5 = U.S.\$1.00, the exchange rate based on the basic rate under the market average exchange rate system, provided by Seoul Money Brokerage Services, Ltd. between Won and U.S. dollars. However, such translations should not be construed as representations that the Won amounts have been, could have been or could in the future be converted into U.S. dollars at these or any other rates.

The Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and the Coupons (each as defined under “Terms and Conditions of the Notes”) and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with, English law.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some statements in this Information Memorandum may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Issuer’s plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Information Memorandum, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the section entitled “The Korea Development Bank” and other sections of this Information Memorandum. The Issuer has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable as of the date of this Information Memorandum, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Information Memorandum, or if any of the Issuer’s underlying assumptions prove to be incomplete or inaccurate, the Issuer’s actual results of operations may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

- the Issuer’s ability to implement its strategy successfully;
- the Issuer’s growth and expansion;

- future levels of non-performing loans;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- availability of funding and liquidity;
- the Issuer's exposure to market risks; and
- adverse market and regulatory conditions.

Any forward-looking statements contained in this Information Memorandum speak only as at the date of this Information Memorandum. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Information Memorandum any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

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## 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 Information Memorandum:

- (1) the most recently published financial statements of the Issuer from time to time;
- (2) all supplements to this Information Memorandum circulated by the Issuer from time to time in accordance with the undertaking described below given by it in the Programme Agreement (as defined in “Subscription and Sale and Transfer and Selling Restrictions” on page 162); and
- (3) the most recent annual report (including the shelf registration statement or post-effective amendment, as the case may be) filed with the United States Securities and Exchange Commission and other reports (including prospectus supplements) filed with the United States Securities and Exchange Commission since the most recent annual report (including the shelf registration statement or post-effective amendment, as the case may be),

save that any statement contained herein or in a document all or the relative portion of which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document all or the relative portion of which is or 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 Information Memorandum.

Any unaudited financial statements incorporated by reference herein should not be relied upon to provide the same quality of information associated with information that has been subject to an audit nor taken as an indication of the expected financial condition and results of operations of the Issuer for the relevant full financial year. Potential investors must exercise caution when using such data to evaluate the Issuer’s financial condition and results of operations.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been delivered, upon the written request of any such person, a copy of any or all of the documents which, or portions of which, are incorporated herein by reference. Written requests for such documents should be directed to the Issuer at its registered office set out at the end of this Information Memorandum. In addition, such documents will be available from the principal office in London of Deutsche Bank AG, London Branch (the “Fiscal Agent”) for Notes listed on the Singapore Stock Exchange.

The Issuer will, in connection with the listing of the Notes on the Singapore Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer which is not reflected in this Information Memorandum, prepare a supplement to this Information Memorandum or publish a new Information Memorandum for use in connection with any subsequent issue of the Notes to be listed on the Singapore Stock Exchange.

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

## DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer acting through its principal office in Korea, its London Branch, its New York Branch or any other overseas branch, as the case may be, 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 Purchaser(s) prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “Form of the Notes”.

This Information Memorandum and any supplement will only be valid for listing Notes on the Singapore Stock Exchange 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.\$15,000,000,000 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 relevant Notes, described under “Form of the Notes”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “Form of the Notes”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “Form of the Notes”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## SUMMARY OF TERMS AND CONDITIONS OF THE NOTES AND 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 Information Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined or used in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meaning in this summary:*

<b>Issuer</b> . . . . .	The Korea Development Bank, acting through its principal office in Korea, its London Branch, its New York Branch or any other overseas branch (as specified in the relevant Pricing Supplement).
<b>Arranger</b> . . . . .	Morgan Stanley & Co. International plc
<b>Dealers</b> . . . . .	Australia and New Zealand Banking Group Limited Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Commonwealth Bank of Australia (ABN 48 123 123 124) Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Daiwa Capital Markets Singapore Limited Deutsche Bank AG, Singapore Branch First Abu Dhabi Bank PJSC Goldman Sachs International The Hongkong and Shanghai Banking Corporation Limited ING Bank N.V., Singapore Branch J.P. Morgan Securities plc KDB Asia Limited Mirae Asset Daewoo Co., Ltd MUFG Securities EMEA plc Merrill Lynch International Mizuho Securities Asia Limited Morgan Stanley & Co. International plc National Australia Bank Limited (ABN 12 004 044 937) Nomura International plc RBC Europe Limited Société Générale Standard Chartered Bank The Toronto-Dominion Bank UBS AG Hong Kong Branch Westpac Banking Corporation  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Fiscal Agent</b> . . . . .	Deutsche Bank AG, London Branch or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch.
<b>Transfer Agents</b> . . . . .	Deutsche Bank AG, Hong Kong Branch and Deutsche Bank Luxembourg S.A. or, if so specified in the applicable Pricing Supplement, Deutsche Bank Trust Company Americas.
<b>Exchange Agent</b> . . . . .	Deutsche Bank AG, London Branch.
<b>Registrar</b> . . . . .	Deutsche Bank Trust Company Americas or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch or Deutsche Bank Luxembourg S.A.

<b>CMU Lodging Agent . . . . .</b>	Deutsche Bank AG, Hong Kong Branch.
<b>Paying Agents . . . . .</b>	Credit Suisse AG, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas, the Fiscal Agent and the CMU Lodging Agent.
<b>Amount . . . . .</b>	Up to U.S.\$15,000,000,000 (or its equivalent in other currencies as described under “Description of the Programme”) outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Description . . . . .</b>	Continuously offered Global Medium Term Note Programme.
<b>Method of Distribution . . . . .</b>	Subject to applicable selling restrictions, Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies . . . . .</b>	Subject to any applicable legal or regulatory restrictions, any currency as may be agreed between the Issuer and the relevant Purchaser(s).
<b>Maturities . . . . .</b>	Such maturities (in excess of one month) as may be agreed between the Issuer and the relevant Purchaser(s), 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.
<b>Issue Price . . . . .</b>	Notes may be issued at par or at a discount to, or premium over, par and either on a fully paid or partly paid basis.
<b>Fixed Rate Notes . . . . .</b>	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 Purchaser(s).
<b>Floating Rate Notes . . . . .</b>	<p>Floating Rate Notes will bear interest at a rate determined either:</p> <ul style="list-style-type: none"> <li>(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 (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</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Purchaser(s) (as indicated in the applicable Pricing Supplement).</li> </ul> <p>The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Purchaser(s) for each Series of Floating Rate Notes.</p>

**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 Purchaser(s) may agree (as indicated in the applicable Pricing Supplement).

**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 Purchaser(s), will be payable on 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 Purchaser(s).

**Change of Interest**

**Basis . . . . .** Notes may be converted from one Interest Basis to another in the Dual Currency Notes manner set out in the applicable Pricing Supplement.

**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 upon such rates of exchange, as the Issuer and the relevant Purchaser(s) may agree (as indicated in the applicable Pricing Supplement).

**Zero Coupon Notes . . . . .** Zero Coupon Notes may be offered and sold at a discount to their nominal amount and will not bear interest.

**Redemption . . . . .** The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default), or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the relevant 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 Purchaser(s).

The applicable Pricing Supplement may provide that the Notes may be redeemable in two or more instalments in such amounts and on such dates and on such other terms as are indicated in such Pricing Supplement.

**Denominations of**

**Notes . . . . .** The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Purchaser(s) save that (i) the minimum denomination of each Note will be such amount 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, (ii) the minimum denomination of each Note 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 will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) and (iii) the Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

**Redenomination** . . . . . The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.

**Taxation** . . . . . All payments by the Issuer in respect of the Notes will be made without withholding or deduction for or on account of withholding taxes by any Tax Jurisdiction, subject as provided in Condition 7. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover amounts so deducted.

**Status** . . . . . The Notes will be direct, unconditional, unsecured and unsubordinated general obligations of the Issuer and will rank *pari passu* among themselves, without any preference one over the other by reason of priority of date of issue or currency of payment or otherwise, and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors' rights.

**Negative Pledge** . . . . . There will be a negative pledge pursuant to which the Issuer will undertake not to create or permit to subsist any mortgage, charge, encumbrance, pledge or other security interest upon the whole or any part of its assets to secure any indebtedness, or to secure any guarantee of indebtedness, unless the Notes shall be secured equally and rateably therewith, subject to certain exceptions as set out in Condition 3(b).

**Cross Default** . . . . . There will be a cross default in respect of External Indebtedness of the Issuer in an aggregate principal amount of U.S.\$10,000,000 or more. "External Indebtedness" means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than Won — see Condition 8.

**Listing** . . . . . Approval in-principle has been received from the Singapore Stock Exchange for the listing of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes will be traded on the Singapore Stock Exchange in a minimum board lot size of U.S.\$200,000 (or its equivalent in other currencies).

Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

**Governing Law . . . . .** The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.

**Selling Restrictions . . . . .** There are restrictions on the sale of Notes and the distribution of offering material — see “Subscription and Sale and Transfer and Selling Restrictions” on page 162.

The Notes will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended) (the “D Rules”) unless the Notes are issued other than 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 applicable terms of such Notes as a transaction to which TEFRA is not applicable.



## FORM OF THE NOTES

The Notes of each Series (as defined below) will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, (unless this is a Zero Coupon Note) Interest Commencement Dates and/or Issue Prices.

### **Bearer Notes**

Each Tranche of Bearer Notes will initially be represented by a temporary global note (a “Temporary Bearer Global Note”) which will be delivered prior to the original issue date of the Tranche to either (i) a common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) or (ii) a sub-custodian for the Hong Kong Monetary Authority (“HKMA”) as operator of the Central Moneymarkets Unit Service (the “CMU Service”).

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payment of principal and interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or Deutsche Bank AG, Hong Kong Branch (the “CMU Lodging Agent”) and (in the case of a Temporary Bearer Global Note delivered to a common depository for Euroclear and/or Clearstream, Luxembourg) Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certification it has received) to the Fiscal Agent.

On and after the date (the “Exchange Date”) which is 40 days after the date on which the Temporary Bearer Global Note is issued, interests in the Temporary Bearer Global Note will be exchangeable (provided that if it is a Partly Paid Note all instalments of the subscription monies due before the date of such exchange have been paid) upon request as described therein (a) unless otherwise specified in the applicable Pricing Supplement or the Temporary Bearer Global Note, for interests in a permanent global note (a “Permanent Bearer Global Note” and, together with a Temporary Bearer Global Note, each a “Bearer Global Note”) without Coupons, Receipts or Talons or (b) if specified in the applicable Pricing Supplement or the Temporary Bearer Global Note and subject to such notice period as is specified in the Pricing Supplement or the Temporary Bearer Global Note, for definitive Bearer Notes, in each case against certification of beneficial ownership as required by U.S. Treasury regulations in accordance with the terms of the Temporary Bearer Global Note unless certification has already been given pursuant to the first sentence of the preceding paragraph. The CMU Service may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.

On and after the Exchange Date the holder of a Temporary Bearer Global Note will not be entitled to receive any payment of interest or principal thereon or other amount due on or after the



Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or definitive Bearer Note is improperly withheld or refused.

Payments of principal and interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, Receipts, Coupons and Talons attached upon either (i) not less than 60 days' written notice (a) in the case of Notes held by a Common Depository for Euroclear and/or Clearstream, Luxembourg, from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Fiscal Agent as described therein and/or (b) in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein; or (ii) only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 8) has occurred and is continuing or (ii) the Issuer has been notified that either Euroclear or Clearstream, Luxembourg, and in the case of Notes cleared through the CMU Service, the CMU Service, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form (provided that, where the Bearer Notes are held through Euroclear and/or Clearstream, Luxembourg, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulation in, or of, Tax Jurisdiction (as defined in Condition 7)). The Issuer will promptly give notice to Noteholders in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depository for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) and/or, (b) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Fiscal Agent or, as the case may be, the CMU Lodging Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Fiscal Agent or, as the case may be, the CMU Lodging Agent, requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all Coupons, Receipts and Talons:

**"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."**

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, Receipts or Coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition or payment, redemption of principal in respect of such Bearer Notes, Receipts or Coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg or the CMU Service, as the case may be.

### **Registered Notes**

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “Regulation S Global Note”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg or the CMU Service and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) and who execute and deliver an IAI Investment Letter (as defined in the Terms and Conditions of the Notes) in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “Rule 144A Global Note” and, together with a Regulation S Global Note, each a “Registered Global Note”).

Registered Global Notes will either be deposited with (i) a custodian for, and registered in the name of a nominee of, the Depository Trust Company (“DTC”), (ii) a common depository for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement, or (iii) a sub-custodian for the HKMA as operator of the CMU Service, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“Definitive IAI Registered Notes”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “Subscription and Sale and Transfer and Selling Restrictions”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, but transferees acquiring such Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “Subscription and Sale and Transfer and Selling Restrictions”. The Registered Global Notes and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes at the close of business day before the relevant due date. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register as the registered holder of the Registered Notes in definitive form at the close of business on the third business day before the relevant due date.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, (iii) the Issuer has been notified that in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, both Euroclear and Clearstream, Luxembourg, and in the case of Notes held through the CMU Service, the CMU Service, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form.

The Issuer will promptly give notice to Noteholders in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes registered in the name of a nominee for DTC or a nominee for a Common Depository for Euroclear and/or Clearstream, Luxembourg, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (b) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or, as the case may be, the CMU Lodging Agent.

### **Transfer of Interests**

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear, Clearstream, Luxembourg and the CMU Service, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see “Subscription and Sale and Transfer and Selling Restrictions” on page 162.

### **General**

Pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes”), the Fiscal Agent or, as the case may be, the CMU Lodging Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number, a CUSIP and CINS number which are different from the common code, ISIN, CMU instrument number, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear, Clearstream, Luxembourg and/or the CMU Service, each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear,

Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the Central Moneymarkets Unit Rules (“CMU Rules”) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes may be accelerated by the holder thereof in certain circumstances described in “Terms and Conditions of the Notes — Events of Default”. In such circumstances, where such Notes are still represented by a Global Note and a holder with Euroclear, Clearstream, Luxembourg, the CMU Service or the DTC of such Notes so represented and credited to his securities account gives notice that it wishes to accelerate such Notes, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of the Global Note, the Global Note will become void. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg, DTC and the CMU Service, under the terms of an amended and restated deed of covenant (as amended and/or supplemented and/or restated from time to time, the “Deed of Covenant”) dated 10 October 2014 and executed by the Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC’s standard operating procedures.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

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 a new Information Memorandum or a supplement to the Information Memorandum, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that the Global Note is exchanged for definitive Notes, and unless the Issuer obtains an exemption from the Singapore Stock Exchange, 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 Singapore Stock Exchange, 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.

**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.*

*[Date]*

**THE KOREA DEVELOPMENT BANK**

**(acting through its [principal office in Korea]/[London Branch]/[New York Branch]/[(specify other overseas branch) Branch])**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the U.S.\$15,000,000,000 Global Medium Term Note Programme**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated 18 September 2015 (the “Information Memorandum”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Information Memorandum.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Information Memorandum dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Information Memorandum dated [current date], save in respect of the Conditions which are extracted from the Information Memorandum dated [original date] and are attached hereto.]

*[The following legend should be included where item 15 below is marked as “Applicable”.]*

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS —** The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

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

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

1 Issuer: . . . . . The Korea Development Bank, acting through its [principal office in Korea]/[London Branch]/[New York Branch]/[(specify other overseas branch) Branch]

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: . . . . . [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]]
- 5 (i) [Issue Price of Tranche: . . . . . [●]
- (ii) [Net Proceeds (Required only for listed issues)]: . . . . . [●]
- 6 (i) Specified Denominations: . . . . . [●]

*(N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made. For Registered Global Notes, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies) “EUR 100,000 and integral multiples of EUR 1,000 in excess thereof”)*

*(Note — where Bearer Notes with multiple denominations above U.S. \$200,000 or equivalent are being used the following sample wording should be followed:*

*“U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$399,000. No Notes in definitive form will be issued with a denomination above U.S.\$399,000.”*

*(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the EUR100,000 minimum denomination is not required.)*

- (ii) Calculation Amount: . . . . . *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: there must be a common factor in the case of two or more Specified Denominations)*
- 7 (i) Issue Date: . . . . . [●]
- (ii) Interest Commencement Date: . . . . . [specify/Issue Date/Not Applicable]  
*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*

- 8 Maturity Date: . . . . . [*Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]*]<sup>1</sup>
- 9 Interest Basis: . . . . . [[●] per cent. Fixed Rate]  
 [[LIBOR/EURIBOR/HIBOR] +/- [●] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Dual Currency Interest]  
 [*specify other*]  
 (further particulars specified below)
- 10 Redemption/Payment Basis: . . . . . [Redemption at par]  
 [Index Linked Redemption]  
 [Dual Currency Redemption]  
 [Partly Paid]  
 [Instalment]  
 [*specify other*]
- 11 Change of Interest Basis or Redemption/  
 Payment Basis: . . . . . [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
- 12 Put/Call Options: . . . . . [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below)]
- 13 Listing: . . . . . [Singapore/*specify other*/None]
- 14 Method of distribution: . . . . . [Syndicated/Non-syndicated]
- 15 Prohibition on Sales to EEA Retail  
 Investors: . . . . . [Applicable/Not Applicable]  
 (*If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified*)

**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] in arrear] (*If payable other than annually, consider amending Condition 4*)

<sup>1</sup> Note that for Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

- (ii) Interest Payment Date(s): . . . . . [[●] in each year up to and including the Maturity Date]/[specify other]  
(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): (Applicable to Notes in definitive form) . . . . . [[●] per Calculation Amount/As per Condition 4(a)(II)]
- (iv) Broken Amount(s): (Applicable to Notes in definitive form) . . . . . [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/As per Condition 4(a)(II)
- (v) Day Count Fraction: . . . . . [Actual/Actual (ICMA) or 30/360 or Actual/365 (Fixed) or [specify other]] [Not Applicable]<sup>2</sup>
- (vi) [Determination Date(s): . . . . . [[●] 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  
NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration  
NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))]
- (vii) Business Centre(s): . . . . . [Hong Kong or [●]]<sup>3</sup> [Not Applicable]
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Notes: . . . . . [Condition 4(a)(I) applies/Condition 4(a)(II) applies. The Fiscal Agent will act as the Calculation Agent./None/Give details]
- 17 Floating Rate Note Provisions: . . . . . [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: . . . . . [●] [For the avoidance of doubt, Specified Interest Payment Dates are not subject to adjustment under (ii) below (Business Day Convention)]<sup>4</sup>
- (ii) Business Day Convention: . . . . . [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable<sup>5</sup> [specify other]]
- (iii) Additional Business Centre(s): . . . . . [●]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: . . . . . [Screen Rate Determination/ISDA Determination/specify other]

<sup>2</sup> Applicable if Condition 4(a)(I) is specified as being applicable in paragraph 15(viii).

<sup>3</sup> Applicable if Condition 4(a)(II) is specified as being applicable in paragraph 15(viii).

<sup>4</sup> If Interest Amount is to be determined on an unadjusted basis, specify Interest Payment Dates and insert italicised wording.

<sup>5</sup> Only relevant if the Interest Amount is determined on an adjusted basis.



- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): . . . . .
  
- (vi) Screen Rate Determination:
  - Reference Rate: . . . . .   
*(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)*
  
  - Interest Determination Date(s): . . .   
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
  
  - Relevant Screen Page: . . . . .   
*(In the case of EURIBOR, if not Reuters page EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
  
- (vii) ISDA Determination:
  - Floating Rate Option: . . . . .
  
  - Designated Maturity: . . . . .
  
  - Reset Date: . . . . .
  
- (viii) Margin(s): . . . . . [+/-]  per cent. per annum
  
- (ix) Minimum Rate of Interest: . . . . .  per cent. per annum
  
- (x) Maximum Rate of Interest: . . . . .  per cent. per annum
  
- (xi) Day Count Fraction: . . . . . [Actual/Actual (ISDA)  
 Actual/365 (Fixed)  
 Actual/365 (Sterling)  
 Actual/360  
 30/360  
 30E/360  
 30E/360 (ISDA)  
 Other]  
*(See Condition 4 for alternatives)*
  
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: . . . . .

- 18 Zero Coupon Note Provisions: . . . . . [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Accrual Yield: . . . . .  per cent. per annum
- (ii) Reference Price: . . . . .
- (iii) Any other formula/basis of determining amount payable: . . . . .
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: . . . . .  [Condition 5(f) (iii) applies/specify other]  
*(Consider applicable Day Count Fraction if not U.S. dollar denominated)*
- 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) Calculation Agent: . . . . .
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Fiscal Agent): . . . . .
- (iv) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: . . . . .  *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (v) Specified Period(s)/Specified Interest Payment Dates: . . . . .
- (vi) Business Day Convention: . . . . .  [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ *specify other*]
- (vii) Additional Business Centre(s): . . . . .
- (viii) Minimum Rate of Interest: . . . . .  per cent. per annum
- (ix) Maximum Rate of Interest: . . . . .  per cent. per annum
- (x) Day Count Fraction: . . . . .
- 20 Dual Currency Note Provisions: . . . . . [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: . . . . .  [give or annex details]

- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Fiscal Agent): . . . . .
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: . . . . . *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (iv) Person at whose option Specified Currency(ies) is/are payable: . . . . .

**PROVISIONS RELATING TO REDEMPTION**

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

*practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)*

23 Final Redemption Amount: . . . . . [[●] per Calculation Amount/specify other/see Appendix]

24 Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 5(f)): . . . . . [[●] per Calculation Amount/specify other/see Appendix]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

25 Form of Notes:<sup>6</sup> . . . . . [Bearer Notes:  
  
[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]\*]

[Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date]

\*(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Information Memorandum and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$399,000." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Bearer Notes)]

[Registered Notes:  
  
[Regulation S Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/held through the CMU Service]]

[Rule 144A Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee

<sup>6</sup> [A subscription agreement substantially in the form set out in the Programme Agreement must be entered into if the Notes are to be issued pursuant to Rule 144A or Section 4(a)(2).]

for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/held through the CMU Service]

[Definitive IAI Registered Notes] (In the case of an issue with more than one Global Note or a combination of one or more Global Notes and Definitive IAI Notes, specify the nominal amounts of each Global Note and, if applicable, the aggregate nominal amount of all Definitive IAI Notes if such information is available)]

26 Additional Financial Centre(s) or other special provisions relating to Payment Day: . . . . . [Not Applicable/give details]  
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(iii) and 18(vi) relate)

27 Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): . . . [Yes/No. If yes, give details]

28 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: . . . . . [Not Applicable/give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]

29 Details relating to Instalment Notes:

(i) Instalment Amount(s): . . . . . [Not Applicable/give details]

(ii) Instalment Date(s): . . . . . [Not Applicable/give details]

30 Redenomination applicable: . . . . . Redenomination [not] applicable  
[(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))  
[(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Pricing Supplement)]

31 Other terms or special conditions: . . . . . [Not Applicable/give details]

**DISTRIBUTION**

32 (i) If syndicated, names of Managers: . . . . [Not Applicable/give names]

(ii) Date of [Subscription] Agreement: . . . [●]

(iii) Stabilising Manager (if any): . . . . . [Not Applicable/give names]

- 33 If non-syndicated, name of relevant Dealer: . . . [Not Applicable/*give names*]
- 34 U.S. Selling Restrictions<sup>7</sup>: . . . . . [Reg. S Category 2; D Rules/TEFRA not applicable]
- 35 Additional selling restrictions: . . . . . [Not Applicable/*give details*]

**OPERATIONAL INFORMATION**

- 36 Any clearing system(s) other than Euroclear and Clearstream, Luxembourg or DTC and the relevant identification number(s): . . . . . [CMU Service/Not Applicable/*give name(s) and number(s)*]
- 37 Delivery: . . . . . Delivery [against/free of] payment
- 38 Additional Paying Agent(s) (if any): . . . . . [●]
- 39 [In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:] . . . . . [Not Applicable/Luxembourg/Hong Kong]
- 40 [In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London]: . . . . . [Not Applicable/Hong Kong]
- ISIN: . . . . . [●]
- Common Code: . . . . . [●]

*(insert here any other relevant codes such as a CMU instrument number, CUSIP and CINS codes)*

**[LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$15,000,000,000 Global Medium Term Note Programme of The Korea Development Bank, acting through its [principal office in Korea]/[London Branch]/[New York Branch]/[*(specify other overseas branch)* Branch].

The Singapore Exchange Securities Trading Limited (the “SGX-ST”) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.]

**RESPONSIBILITY**

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

Signed on behalf of the Issuer:

By: \_\_\_\_\_

*Duly authorised*

<sup>7</sup> Ensure that the level of disclosure contained in the Information Memorandum is appropriate in the case of Notes issued pursuant to Rule 144A or Section 4(a)(2).

Notes may also be issued in such other form and on such other terms as the Issuer may from time to time agree with the relevant Purchaser(s). If the relevant Pricing Supplement relating to a Tranche of Notes specifies any modifications to the Terms and Conditions of the Notes as described below, it is envisaged that, to the extent that such modifications relate only to Conditions 1, 4, 5 (except Condition 5(b)), 6, 10, 12 (insofar as such Notes are not listed or admitted to trade on any stock exchange), 13 or 14, they will not necessitate the preparation of supplementary listing particulars. If the Terms and Conditions of the Notes are to be modified in any other respect, it is envisaged that supplementary listing particulars or, if appropriate, further listing particulars describing the modifications will be prepared.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes to be issued by the Issuer which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Purchaser(s) at the time of issue but if not so permitted and agreed, such definitive Note will have endorsed upon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” above for the form of Pricing Supplements which will specify which terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by The Korea Development Bank (the “Issuer”) pursuant to the Agency Agreement (as defined below). The applicable Pricing Supplement (as defined below) will indicate whether the Issuer is acting in relation to the Notes through its principal office in Korea, its London Branch, its New York Branch or any other overseas branch.

References herein to the Notes shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “Global Note”), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note;
- (c) any definitive Notes in bearer form (“Bearer Notes”) issued in exchange for a Global Note in bearer form; and
- (d) any definitive Notes in registered form (“Registered Notes”) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts and the Coupons have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 15th June, 2012 and made between the Issuer, Deutsche Bank AG, London Branch (or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch) as issuing agent, fiscal agent and agent bank (the “Fiscal Agent” which expression shall include any successor as fiscal agent), Deutsche Bank AG, Hong Kong Branch as CMU lodging agent (the “CMU Lodging Agent”, which expression shall include any successor CMU lodging agent) and the other paying agents named therein (together with the Fiscal Agent and the CMU Lodging Agent, the “Paying Agents” which expression shall include any additional or successor paying agents), Deutsche Bank AG, London Branch as exchange agent (the “Exchange Agent”, which expression shall include any successor exchange agent) and Deutsche Bank Trust Company Americas (or, if so specified in the applicable Pricing Supplement, Deutsche Bank Luxembourg S.A.) as registrar (the “Registrar”, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the “Transfer Agents”, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions, all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

All of the Notes from time to time issued by the Issuer which are for the time being outstanding are hereinafter referred to as the “Notes” and the term “Note” is to be construed accordingly. As used herein, “Series” means each original issue of Notes together with any further issues expressed to form a single issue with the original issue and the terms of which are (save for the Issue Date, the Interest Commencement Date and/or the Issue Price) otherwise identical (including whether or not



the Notes are listed) and which are consolidated and form a single series and shall be deemed to include the temporary and permanent Global Notes and the definitive Notes of such Series and the expressions “Notes of the relevant Series” and “holders of Notes of the relevant Series” and related expressions shall be construed accordingly. As used herein, “Tranche” means all Notes of the same Series with the same Issue Date and Interest Commencement Date.

The Pricing Supplement in relation to this Note is attached hereto or endorsed hereon 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 herein to the “applicable Pricing Supplement” are to the Pricing Supplement attached hereto or endorsed hereon.

The holders for the time being of the Notes (“Noteholders”), which expression shall, in relation to any Notes represented by a Global Note, be construed as provided in Condition 1, the holders of the Coupons (as defined below) appertaining to interest-bearing definitive Notes (the “Couponholders”), the holders of the Talons (as defined below) and the holders of the Receipts (as defined below) (the “Receiptholders”) are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, which are binding on them.

Words and expressions defined in the Agency Agreement or defined or set out 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 will prevail. Copies of the Agency Agreement and the Pricing Supplement for the Notes of this Series are available from the specified office of each of the Paying Agents save that, in the case of any Pricing Supplement where the Note or Notes to which such Pricing Supplement relates are not listed on a stock exchange, such Pricing Supplement shall be available for inspection only, upon proof satisfactory to the relevant Paying Agent as to identity, by the holder of any Note to which such Pricing Supplement relates. The statements in these Terms and Conditions are summaries of, and are subject to, the detailed provisions of the Agency Agreement.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of an amended and restated deed of covenant (as amended and/or supplemented and/or restated from time to time, the “Deed of Covenant”) dated 15th June, 2012 and a deed poll (as amended and/or supplemented and/or restated from time to time, the “Deed Poll”) dated 15th June, 2012, each made by the Issuer. The original of the Deed of Covenant is held by a common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below). Copies of the Deed of Covenant and Deed Poll may be obtained upon request during normal business hours from the specified offices of each of the Fiscal Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such Agents and the Registrar being together referred to as the “Agents”).

## **1 Form, Denomination and Title**

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement in the Specified Currency and Specified Denomination(s) and definitive Notes of this Series will be serially numbered. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, a Dual Currency Interest Note, or an Index Linked Interest Note or a combination of any of the foregoing, depending upon the Interest Basis specified in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, a Dual Currency Redemption Note, a Partly Paid Note, an Instalment Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with interest coupons for the payment of interest (“Coupons”) attached, and if applicable, talons for further Coupons (“Talons”) attached, unless it is a Zero Coupon Note in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable. If it is a definitive Bearer Note redeemable in instalments it is issued with receipts (“Receipts”) attached for the payment of instalments of principal prior to such Bearer Note’s stated maturity. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

Subject as set out below, title to the Bearer Notes, the Coupons and Receipts will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Coupon or Receipt and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out below.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream Banking S.A. (“Clearstream, Luxembourg”) and/or a subcustodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the “CMU Service”), each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated, as between the Issuer and the holder of the Global Note, as a holder of such nominal amount of such Notes for all purposes other than for payment of principal (including premium (if any)) and interest on such Notes, the right to which shall be vested, as against the Issuer and any of the Paying Agents, solely in the bearer of the Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to its terms (and the expressions “Noteholder”, “holder of Notes” and related expressions shall be construed accordingly). Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) (“CMU Accountholders”) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

For so long as the Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures of DTC, Euroclear, Clearstream, Luxembourg and the CMU Service, as the case may be. Any reference herein to DTC, Euroclear, Clearstream, Luxembourg and/or the CMU Service

shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer and the Fiscal Agent.

## **2 Transfers of Registered Notes**

### ***(a) Transfers of interests in Registered Global Notes***

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, the CMU Service, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, the CMU Service, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee or sub-custodian for DTC, the CMU Service, Euroclear or Clearstream, Luxembourg, as the case may be, shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee or sub-custodian of DTC, the CMU Service, Euroclear or Clearstream, Luxembourg, as the case may be, or to a successor of DTC, the CMU Service, Euroclear or Clearstream, Luxembourg, as the case may be, or such successor's nominee or subcustodian.

### ***(b) Transfers of Registered Notes in definitive form***

Subject as provided in Conditions 2(e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

### ***(c) Registration of transfer upon partial redemption***

In the event of a partial redemption of Notes under Condition 5, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

***(d) Costs of registration***

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

***(e) Transfers of interests in Regulation S Global Notes***

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “Transfer Certificate”), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
  - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
  - (B) to a person who is an Institutional Accredited Investor, together with, in the case of (ii), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “IAI Investment Letter”); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. In the case of (i)(A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (i)(B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (I) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (II) such certification requirements will no longer apply to such transfers.

***(f) Transfers of interests in Legended Notes***

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note:
  - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
  - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, the CMU Service, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

**(g) Exchanges and transfers of Registered Notes generally**

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

**(h) Definitions**

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Institutional Accredited Investor” means “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;

“Legended Note” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a Legend);

“QIB” means a qualified institutional buyer within the meaning of Rule 144A;

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Note” means a Registered Global Note representing Notes sold in the United States or to QIBs; and

“Securities Act” means the United States Securities Act of 1933, as amended.

### 3 Status and Negative Pledge

#### (a) Status

The Notes and the relative Coupons and Receipts are the direct, unconditional, unsubordinated and (subject to the provisions of Condition 3(b)) unsecured general obligations of the Issuer and will rank *pari passu* among themselves, without any preference one over the other by reason of priority of date of issue or currency of payment or otherwise, and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer subject, in the event of insolvency, to laws of general applicability relating to or affecting creditors' rights.

#### (b) Negative Pledge

So long as any of the Notes of this Series remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Encumbrance (as defined below) upon the whole or any part of its assets, present or future, to secure any indebtedness, or to secure any guarantee of indebtedness, unless the Notes, Receipts and Coupons of this Series shall be secured equally and rateably therewith, except that the Issuer may create or permit to arise or subsist:

- (i) any Encumbrance over promissory notes or other commercial paper discounted or otherwise provided as security to or issued by the Issuer where such Encumbrance is created in favour of The Bank of Korea in the normal operation of its discount facilities or its facilities for the funding of loans by the Issuer to customers of the Issuer; or
- (ii) any Encumbrance over any immovable property owned by the Issuer as security for the repayment by the Issuer to a tenant of that property of any security deposit paid by such tenant to the Issuer upon taking a tenancy or lease of that property; or
- (iii) any Encumbrance or any other agreement or arrangement having a similar effect arising in connection with a sale and repurchase transaction entered under TBMA/ISMA Global Master Repurchase Agreement or any other substantially similar repurchase agreement or arrangement of such kind entered into, or created, or arising in the ordinary course of business of the Issuer, provided that the amount of such transaction (when aggregated with the amount of any other such transactions) does not exceed 15 per cent. of the borrowing liabilities of the Issuer as set out in the latest audited non-consolidated balance sheet of the Issuer; or
- (iv) any Encumbrance over any loan or other indebtedness (the "Loan Asset") denominated in one currency (the "Denominated Currency") owed by a party (together with its subsidiaries, and related entities, the "Secured Counterparty") to the Issuer, which is granted in favour of the Secured Counterparty in connection with (a) a loan or other indebtedness denominated in a currency other than the Denominated Currency of the Issuer or any of its subsidiaries or related entities owed to the Secured Counterparty (the "Reciprocal Loan") and (b) the Issuer or any of its subsidiaries or related entities having been granted the benefit of an Encumbrance over the Reciprocal Loan by the Secured Counterparty, and which transaction or arrangement described herein is commonly regarded as a parallel loan or back-to-back loan, provided that such transaction or arrangement is entered into in the ordinary course of business of the Issuer and the aggregate outstanding principal amount of the Loan Assets of the Issuer which are subject to such Encumbrance does not exceed 5 per cent. of the borrowing liabilities of the Issuer as set out in the latest audited non-consolidated balance sheet of the Issuer; or
- (v) any statutory liens arising in the ordinary course of the Issuer's business and not in connection with the borrowing or raising of money; or
- (vi) any Encumbrance arising or preference given under Korean law, applicable generally to corporations established under Korean law, by virtue of a failure by the Issuer to meet an obligation, provided that such Encumbrance does not subsist for more than 30 days; or



- (vii) any Encumbrance over any asset purchased by the Issuer (or documents of title thereto) or arising in connection with improvements to any asset of the Issuer as security for the unpaid balance of the purchase price thereof or costs of improvement thereto.

In these Terms and Conditions:

“Encumbrance” means any mortgage, charge, encumbrance, pledge or other security interest.

#### **4 Interest**

##### ***(a) Interest on Fixed Rate Notes***

- (I) In the case of Fixed Rate Notes where Condition 4(a)(I) is specified as being applicable in the applicable Pricing Supplement, the following provisions will apply instead of Condition 4(a)(II):

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

In these Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

In these Terms and Conditions:

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Pricing Supplement:
  - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest

Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360;
- (iii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Fixed Interest Period divided by 365; and
- (iv) if “Actual/360 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Fixed Interest Period divided by 360.

In these Terms and Conditions:

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

- (II) In the case of Fixed Rate Notes where Condition 4(a)(II) is specified as being applicable in the applicable Pricing Supplement, the following provisions will apply instead of Condition 4(a)(I):

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the



Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in this Condition 4(a)(II), “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

The Calculation Agent will, as soon as practicable after 11.00 a.m. (Hong Kong time) on the second business day before the beginning of each Fixed Interest Period (each an “Interest Determination Date”), calculate the amount of interest payable per Calculation Amount for the relevant Fixed Interest Period. The determination of the amount of interest payable per Calculation Amount by the Calculation Agent shall (in the absence of manifest error and after confirmation by the Issuer) be final and binding upon all parties.

The Calculation Agent will cause the amount of interest payable per Calculation Amount for each Fixed Interest Period and the relevant Interest Payment Date to be notified to each of the Paying Agents and to be notified to Noteholders as soon as possible after their determination but in no event later than the fourth business day thereafter. The amount of interest payable per Calculation Amount and 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 per Calculation Amount shall nevertheless continue to be calculated as previously by the Calculation Agent in accordance with this Condition 4(a)(II) but no publication of the amount of interest payable per Calculation Amount so calculated need be made.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the actual number of days in the Fixed Interest Period concerned divided by 365, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition 4(a)(II):

“business day” means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks are generally open for business and settlement of Hong Kong dollar and Renminbi payments in Hong Kong and the Business Centre specified in the applicable Pricing Supplement, respectively; and

“sub-unit” means, with respect to Hong Kong dollars and Renminbi, the lowest amount of such currency that is available as legal tender in Hong Kong and the PRC, respectively.

**(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 (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in (1) London or (2) if the location of the office of the Fiscal Agent as specified in the applicable Pricing Supplement is not London, Hong Kong and any Additional Business Centre specified in the applicable Pricing Supplement; and

- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi shall be Sydney, Auckland or Hong Kong, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner 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 Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA definitions as published by the International Swaps and Derivatives Association, Inc. (the “ISDA definitions”) and under which;

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Eurozone inter-bank offered rate (“EURIBOR”) or on the Hong Kong interbank offered rate (“HIBOR”) the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Euro-zone” and “Reset Date” have the meanings given to those terms in the ISDA definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate 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 Period will, subject as provided below, be either;

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) 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 11.00 a.m. (London

time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Fiscal 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 Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Fiscal Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Fiscal Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Fiscal Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

In these Terms and Conditions,

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) If “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360” “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

360

where:

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

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case  $D_2$  will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest 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

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and  $D_2$  will be 30.

- (v) *Notification of Rate of Interest and Interest Amounts*

The Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with

Condition 12 as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 12. For the purposes of this paragraph, the expression “Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London or, if the Specified Currency is Renminbi, Hong Kong.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4, whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Fiscal Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Interest on 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.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 12.

## **5 Redemption and Purchase**

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as provided below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the Specified Currency on the Maturity Date.



***(b) Redemption for tax reasons***

All the Notes of this Series, but not some only, may be redeemed at the option of the Issuer, at any time (in the case of Notes other than Floating Rate Notes, Indexed Interest Notes or Dual Currency Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes), on giving not less than 30 nor more than 60 days' notice in accordance with Condition 12, to the holders of the Notes of this Series (which notice shall be irrevocable), at their Early Redemption Amount referred to in Condition 5(f), together (if appropriate) with interest (if any) accrued to the date fixed for redemption, if:

- (i) on the occasion of the next payment due under the Notes the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of Notes of this Series; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes of this Series then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Fiscal Agent a certificate signed by 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.

***(c) Redemption at the option of the Issuer (Issuer Call)***

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having (unless otherwise specified in the applicable Pricing Supplement) given not more than 60 nor less than 30 days' notice, in accordance with Condition 12, to the holders of the Notes of this Series (which notice shall be irrevocable), redeem all or some only of the Notes of this Series then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with accrued interest. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, both as indicated in the applicable Pricing Supplement. In the case of a partial redemption of definitive Notes, the Notes to be redeemed will be selected individually by lot (in such place as the Fiscal Agent may approve and in such manner as the Fiscal Agent shall deem to be appropriate and fair) not more than 60 days prior to the date fixed for redemption and a list of the Notes called for redemption will be published in accordance with Condition 12 not less than 30 days prior to such date. In the case of a partial redemption of Notes which are represented by a Global Note, the relevant interests in the Notes will be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC and/or the CMU Service (as appropriate).

***(d) Redemption at the option of the Noteholders (Investor Put)***

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of this Note giving (unless otherwise specified in the Pricing Supplement) to the Issuer in accordance with Condition 12 not more than 60 nor less than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem subject to, and in accordance with, the terms specified in the applicable Pricing Supplement in whole (but not in



part) this Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If the Notes are in definitive form and held outside Euroclear, Clearstream, Luxembourg, DTC and the CMU Service, to exercise the right to require redemption of his Notes the holder of the Notes must deliver such Notes, in each case on any Business Day (as defined in Condition 6) falling within the notice period at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes), accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition, and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg, DTC or the CMU Service, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC, the CMU Service or any depository for them to the Fiscal Agent by electronic means or notice being given to the CMU Lodging Agent) in a form acceptable to Euroclear, Clearstream, Luxembourg, DTC, the CMU Service and the CMU Lodging Agent from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service given by a holder of any Note pursuant to this Condition 4(d) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 4(d) and instead to declare such Note forthwith due and payable pursuant to Condition 8.

***(e) Purchases***

The Issuer may at any time purchase or otherwise acquire Notes of this Series in the open market or otherwise. Notes purchased or otherwise acquired by the Issuer may be held or resold or, at the discretion of the Issuer, surrendered to the Fiscal Agent for cancellation (together with (in the case of definitive Bearer Notes of this Series) any unmatured Coupons or Receipts attached thereto or purchased therewith). If purchases are made by tender, tenders must be made available to all holders of Notes of this Series alike.

***(f) Early Redemption Amounts***

For the purposes of Condition 5(b) and Condition 8, Notes will be redeemed at an amount (the “Early Redemption Amount”) determined as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or

- (ii) in the case of Notes (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount set out in, or determined in the manner set out in, the applicable Pricing Supplement or, if no such amount or manner is set out in the Pricing Supplement, at their nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) equal to the sum of:
  - (A) the Reference Price; and
  - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (I) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (II) in the case of Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (in either case) on such other calculation basis as may be specified in the applicable Pricing Supplement.

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 5(a), (b), (c) or (d) or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in this Condition 5(f)(iii) as though the references herein to the date fixed for redemption or the date upon which the Zero Coupon Note becomes due and repayable were replaced by references to the date (the “Reference Date”) which is the earlier of:

- (1) the day on which all sums due in respect of the Zero Coupon Note up to that day are received by or on behalf of the holder of such Note; and
- (2) the day on which the Fiscal Agent has notified the holder thereof (either in accordance with Condition 12 or individually) of receipt of all sums due in respect thereof up to that date.

The calculation of the Amortised Face Amount in accordance with this Condition 5(f)(iii) will continue to be made, after as well as before judgement, until the Reference Date unless the Reference Date falls on or after the Maturity Date, in which case the amount due and repayable shall be the nominal amount of such Note together with any interest which may accrue in accordance with Condition 4(c).

**(g) Cancellation**

All Notes redeemed, and all Notes purchased or otherwise acquired as aforesaid and surrendered to the Fiscal Agent for cancellation, shall be cancelled (together, in the case of definitive Notes, with all unmaturing Coupons and Receipts presented therewith), and thereafter may not be re-issued or re-sold.

**(h) Instalments**

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (f) above.

**(i) *Partly Paid Notes***

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

**6 Payments**

**(a) *Method of payment***

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 7, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto (“FATCA”).

**(b) *Presentation of definitive Bearer Notes, Receipts and Coupons***

Payments of principal in respect of definitive Bearer Notes not held in the CMU Service will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Notes not held in the CMU Service, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Interest Note or Long Maturity Note in definitive bearer form not held in the CMU Service becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “*Long Maturity Note*” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of definitive Bearer Notes held in the CMU Service, payment will be made at the direction of the bearer to the CMU Accountholders and such payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

***(c) Payments in respect of Bearer Global Notes***

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note (i) in the case of a Bearer Global Note lodged with the CMU Service, at the direction of the bearer to the CMU Accountholders, or (ii) in the case of a Bearer Global Note not lodged with the CMU Service, against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note (in the case of a Bearer Global Note not lodged with the CMU Service) by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable or (in the case of a Bearer Global Note lodged with the CMU Service) on withdrawal of such Bearer Global Note by the CMU Lodging Agent, and in each such case, such record shall be prima facie evidence that the payment in question has been made.

***(d) Payments in respect of Registered Notes***

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such

payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business and in respect of Notes clearing through the DTC, a day on which DTC is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business and in respect of Notes clearing through the DTC, a day on which DTC is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note. Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Issuer to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement. In the case of Registered Note



(whether or not in global form) held in the CMU Service, payment will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligations of the Issuer in respect of that payment.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

***(e) General provisions applicable to payments***

The holder of a Global Note (if the Global Note is not lodged with the CMU Service) or the CMU Accountholder at the direction of the holder of a Global Note (if the Global Note is lodged with the CMU Service), shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or the CMU Service as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, DTC or the CMU Service, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

***(f) Payment Day***

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) in the case of Notes in definitive form only, the relevant place of presentation;
  - (B) any Additional Financial Centre specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign

currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

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

**(g) Interpretation of principal and interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 5(f)(iii)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

**(h) Exchange of Talons**

On and after the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any of the Paying Agents in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to, and including, the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

**7 Taxation**

All payments of principal and/or interest in respect of the Notes, Receipts and Coupons of this Series will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction (as defined below) or any authority therein having power to tax, unless deduction or withholding of such tax is compelled by law. In that event the Issuer will pay

such additional amounts as will result (after such deduction or withholding) in the receipt by the holders of the Notes, Receipts or Coupons of this Series of the amounts which would otherwise have been receivable (in the absence of such deduction or withholding), except that no such additional amount shall be payable in respect of any Note, Receipt or Coupon of this Series presented for payment:

- (a) by or on behalf of a holder who is subject to such tax in respect of such Note, Receipt or Coupon by reason of his being connected with a Tax Jurisdiction otherwise than merely by holding such Note, Receipt or Coupon or receiving principal or interest in respect thereof; or
- (b) held by, or by a third party on behalf of, a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its (or a fiduciary, settlor, member or shareholder, beneficiary of, or possessor of a power over, such holder, if such holder is an estate, trust, partnership or corporation) having some present or former connection with the applicable Tax Jurisdiction (including being or having been a citizen or resident of such Tax Jurisdiction or being or having been engaged in trade or business or present therein having or having had a permanent establishment therein) other than the mere holding of such Note or Coupon; or
- (c) by or on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional payment on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(e)); or
- (e) by or on behalf of a holder which is or was a personal holding company, foreign personal holding company or passive foreign investment company with respect to the United States or a corporation that accumulates earnings to avoid United States federal income tax; or
- (f) if such tax is an estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment, or governmental charge; or
- (g) by or on behalf of a holder which is or has been a “10 per cent. shareholder” of the obligor of the Note as defined in Section 871(h)(3) of the Code or any successor provisions; or
- (h) where such withholding or deduction is imposed pursuant to Sections 1471 through 1474 of the Code, U.S. Treasury regulations or administrative guidance promulgated thereunder or any law implementing an intergovernmental approach thereto; nor shall additional amounts be paid to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that a beneficiary or settlor of such fiduciary or partnership or beneficial owner would not have been entitled to such additional amounts had such beneficiary, settlor or beneficial owner been the holder of the Note.

As used herein:

- (i) The “Relevant Date” in relation to any Note, Receipt or Coupon means (A) the due date for payment thereof; or (B) (if the full amount of the monies payable on such date has not been received by the Fiscal Agent or the Registrar, as the case may be, on or prior to such due date) the date on which, the full amount of such monies having been so received, notice to that effect is duly given to the Noteholders of this Series in accordance with Condition 12 or individually; and



- (ii) “Tax Jurisdiction” means (A) Korea or any political subdivision or any authority thereof or therein having power to tax and (B) if the Issuer is acting through an overseas branch (as specified in the applicable Pricing Supplement) the jurisdiction relating to such overseas branch or any political subdivision or any authority thereof or therein having power to tax.

## **8 Events of Default**

If any one or more of the following events (“Events of Default”) shall have occurred and be continuing:

- (a) default is made in any payment of principal or interest in respect of any of the Notes, Receipts or Coupons of this Series and such default continues for 14 days or more, in the case of principal, or 21 days or more, in the case of interest; or
- (b) default is made in the performance of any other covenant, condition or provision contained in the Notes of this Series and such default continues for 30 days or more after written notice thereof shall have been given to the Fiscal Agent or the Registrar, as the case may be, by the holder of any Note of this Series; or
- (c) any External Indebtedness (as defined below) of the Issuer in an aggregate principal amount of U.S.\$10,000,000 or more either (i) becomes due and payable prior to the due date for payment thereof by reason of default by the Issuer or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of External Indebtedness of any other person is not honoured when due and called; or
- (d) Korea declares a moratorium on the payment of any External Indebtedness (including obligations arising under guarantees) of Korea or Korea becomes liable to repay prematurely any sums in respect of such External Indebtedness (including obligations arising under guarantees) as a result of a default under, or breach of the terms applicable to, such External Indebtedness or such obligations, or the international monetary reserves of Korea become subject to any Encumbrance (as defined in Condition 3(b)) or any segregation or other preferential arrangement (whether or not constituting an Encumbrance) for the benefit of any creditor or class of creditors; or
- (e) Korea ceases to Control (as defined below) (directly or indirectly) the Issuer or for any reason fails to provide the financial support to the Issuer stipulated as of the Issue Date of the Notes of this Series by Article 32 of The Korea Development Bank Act of 1953, as amended, (the “KDB Act”); or
- (f) the Issuer is adjudicated or found bankrupt or insolvent or any order is made by a competent court or administrative agency or any resolution is passed by the Issuer to apply for judicial composition proceedings with its creditors or for the appointment of a receiver or trustee or other similar official in insolvency proceedings in relation to the Issuer or a substantial part of its assets or the Issuer is wound up or dissolved or the Issuer ceases to carry on the whole or substantially the whole of its business;

the holder for the time being of any Note of this Series may give notice to the Fiscal Agent in accordance with Condition 12 that such Note is immediately due and repayable, whereupon such Note shall become immediately due and repayable at its Early Redemption Amount together with accrued interest (if any) to the date of repayment, unless prior to such time all Events of Default in respect of the Notes of this Series shall have been cured.

The Issuer shall notify the holders of the Notes of this Series of the occurrence of an event under Condition 8(e) as soon as practicable thereafter in accordance with Condition 12 setting out details of the cessation or failure described in Condition 8(e).

For the purposes of this Condition:

“Control” means the acquisition or control of a majority of the voting share capital of the Issuer or the right to appoint and/or remove all or the majority of the members of the Issuer’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; and

“External Indebtedness” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of Korea.

## **9 Prescription**

Claims for payment of principal in respect of the Notes (whether in bearer or registered form) shall be prescribed upon the expiry of five years, and claims for payment of interest (if any) in respect of the Notes (whether in bearer or registered form) shall be prescribed upon the expiry of two years, in each case from the Relevant Date (as defined in Condition 7) thereof, subject to the provisions of Condition 6. There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6 above.

## **10 Replacement of Notes, Receipts and Coupons**

If any Note (including any Global Note), Receipt or Coupon is mutilated, defaced, stolen, destroyed or lost, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts or Coupons must be surrendered before replacements will be issued.

## **11 Meetings of Noteholders and Modification**

The Agency Agreement contains provisions for convening meetings of the holders of the Notes of this Series to consider matters affecting their interests, including modifications by Extraordinary Resolution of the Terms and Conditions of such Notes. The quorum for any meeting convened to consider a resolution proposed as an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in nominal amount of such Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the nominal amount of such Notes for the time being outstanding so held or represented, except that at any meeting, the business of which includes, *inter alia*, (i) modification of the Maturity Date of such Notes or reduction or cancellation of the nominal amount payable upon maturity or otherwise, (ii) reduction of the amount payable or modification of the payment date in respect of any interest in respect of such Notes or variation of the method of calculating the rate of interest in respect of such Notes, (iii) reduction of any Minimum Interest Rate and/or Maximum Interest Rate, (iv) modification of the currency in which payments under such Notes and/or the Coupons appertaining thereto are to be made, (v) modification of the majority required to pass an Extraordinary Resolution or (vi) modification of the provisions of the Agency Agreement concerning this exception, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than a clear majority, of the nominal amount of such Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting will be binding on all such Noteholders (whether or not they are present at such meeting) and on all Receiptholders and Couponholders relating to such Notes.

The Fiscal Agent may agree, without the consent of the holders of the Notes, Receipts or Coupons of this Series, to any modification to any of the provisions of the Agency Agreement or such Notes which is of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on all such Noteholders, Receiptholders and Couponholders

and, if the Fiscal Agent so requires, shall be notified to such Noteholders as soon as practicable thereafter in accordance with Condition 12.

## 12 Notices

- (a) All notices regarding Bearer Notes of this Series will be valid if published in one leading London daily newspaper (which is expected to be the *Financial Times*). Any notice published as aforesaid shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of the Bearer Notes of this Series in accordance with this Condition.
- (b) All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address foreign) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.
- (c) Until such time as any definitive Notes are issued, there may, so long as all the Global Notes for this Series are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted, in relation only to this Series, for such publication as aforesaid, the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes of this Series and (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes of this Series on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the persons shown in the relevant CMU Instrument Position Report.
- (d) Notices or demands to be given or made by any holder of any Notes of this Series shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent or the Registrar (in the case of Registered Notes).

Whilst any Notes of this Series are represented by a Global Note, such notice or demand may be given or made by a holder of any of the Notes so represented to the Fiscal Agent or the Registrar via Euroclear and/or Clearstream, Luxembourg and/or DTC and/or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Fiscal Agent and Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service, as the case may be, may approve for this purpose.

## 13 Agents

The names of the initial Agents and their initial specified offices in respect of this Series of Notes are set out below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents and/or to approve any change in the specified office of any Agent, provided that it will, so long as any of the Notes of this Series is

outstanding, maintain (i) a Fiscal Agent and a Registrar, (ii) if and so long as any Notes of this Series are listed on any stock exchange or other relevant authority, a Paying Agent (in the case of Bearer Notes) (which may be the Fiscal Agent) and a Transfer Agent (in the case of Registered Notes) having a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or other relevant authority), (iii) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City, and (iv) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the “Singapore Exchange”), if the Notes are issued in definitive form, a Paying Agent in Singapore unless the Issuer obtains an exemption from the Singapore Exchange. Any such variation, termination, appointment or change shall only take effect (other than in the case of insolvency or of a Paying Agent failing to become or ceasing to be exempt from withholding pursuant to FATCA, when such termination or appointment, respectively, shall be of immediate effect) after not less than 30 days’ prior notice thereof shall have been given to the Noteholders of this Series in accordance with Condition 12 and provided further that neither the resignation nor removal of the Agent shall take effect, except in the case of insolvency as aforesaid, until a new Agent has been appointed. In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(d).

In acting under the Agency Agreement, the Agents will act solely as agents of the Issuer and do not assume any obligations or relationships of agency or trust to or with the Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions for the indemnification of the Agents and for relief from responsibility in certain circumstances, and entitles any of them to enter into business transactions with the Issuer without being liable to account to the Noteholders, Receiptholders or the Couponholders for any resulting profit.

#### **14 Further Issues**

The Issuer may from time to time without the consent of the relevant Noteholders, Couponholders or Receiptholders create and issue further Notes, having terms and conditions the same as the Notes of any Series, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes of any Series.

#### **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 judgement or order of a court of any jurisdiction, in the 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 judgement, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgement or order.

#### **16 Contracts (Rights of Third Parties) Act 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 17 Governing Law and Jurisdiction

The Notes, the Receipts, the Coupons, the Agency Agreement, the Deed of Covenant and any noncontractual obligations arising out of or in connection with the Notes, the Receipts, the Coupons, the Agency Agreement, the Deed Poll, and the Deed of Covenant are governed by, and shall be construed in accordance with, the laws of England.

The Issuer irrevocably agrees for the benefit of the Noteholders, Receiptholders and Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts or the Coupons (including a dispute relating to any noncontractual obligations arising out of or in connection with the Notes, the Receipts, the Coupons, the Agency Agreement, the Deed Poll, and/or the Deed of Covenant) and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "Proceedings") (including any Proceeding relating to any noncontractual obligations arising out of or in connection with the Notes, the Receipts, the Coupons, the Agency Agreement, the Deed Poll, and/or the Deed of Covenant) may be brought in the courts of England.

The Issuer irrevocably waives, to the fullest extent permitted by law, any objection which it may have now or hereafter to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and irrevocably agrees that a judgement in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer 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.

The Issuer hereby appoints The Korea Development Bank, London branch (which is located at 99 Bishopsgate, London EC2M 3XD, United Kingdom, Attention: General Manager) as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of it ceasing so to act it will appoint another person as its agent for that purpose.

In respect of any Proceedings, the Issuer hereby irrevocably consents to the giving of any relief and the issue of any process in connection with such Proceedings, including, without limitation, the making, enforcement or execution (against any assets whatsoever, irrespective of their uses or intended uses), of any order or judgement made or given in any such Proceedings, and, to the extent that the Issuer may in any jurisdiction claim for itself or its assets, or have attributed to it or its assets, any right of immunity on the grounds of sovereignty or otherwise from any legal action, suit or proceeding, the Issuer hereby irrevocably agrees not to claim and waives such immunity to the fullest extent permitted by law.

## **USE OF PROCEEDS**

The net proceeds from the sale of Notes will be used by the Issuer for its general operations, including the repayment of foreign currency obligations and the making of foreign currency loans.

## EXCHANGE RATES

The table below sets forth the market average exchange rates between Won and U.S. dollars, as announced by the Seoul Money Brokerage Services Ltd., for the last day of, and the average for, the periods indicated. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

<u>Period</u>	<u>At End of Period</u>	<u>Average Rate<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>
2012 . . . . .	1,071.1	1,126.9	1,181.8	1,071.1
2013 . . . . .	1,055.3	1,095.0	1,159.1	1,051.5
2014 . . . . .	1,099.2	1,053.2	1,118.3	1,008.9
2015 . . . . .	1,172.0	1,131.5	1,203.1	1,068.1
2016 . . . . .	1,208.5	1,160.5	1,240.9	1,093.2
October . . . . .	1,145.2	1,125.3	1,145.2	1,102.0
November . . . . .	1,168.5	1,161.6	1,183.6	1,137.5
December . . . . .	1,208.5	1,182.3	1,208.5	1,159.1
2017 (through August 4) . . . . .	1,127.6	1,140.4	1,208.5	1,112.5
January . . . . .	1,157.8	1,185.1	1,208.5	1,157.8
February . . . . .	1,132.1	1,144.9	1,165.5	1,131.0
March . . . . .	1,116.1	1,134.8	1,158.2	1,112.5
April . . . . .	1,130.1	1,132.7	1,145.8	1,113.8
May . . . . .	1,123.9	1,125.3	1,134.5	1,117.1
June . . . . .	1,139.6	1,130.0	1,142.2	1,118.4
July . . . . .	1,119.1	1,134.4	1,155.8	1,112.5
August (through August 4) . . . . .	1,127.6	1,122.7	1,127.6	1,118.0

Note:

(1) The average rate for each year is calculated as the average of the market average exchange rates on each business day during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the market average exchange rates on each business day during the relevant month (or portion thereof).

Source: Seoul Money Brokerage Services, Ltd.



## THE KOREA DEVELOPMENT BANK

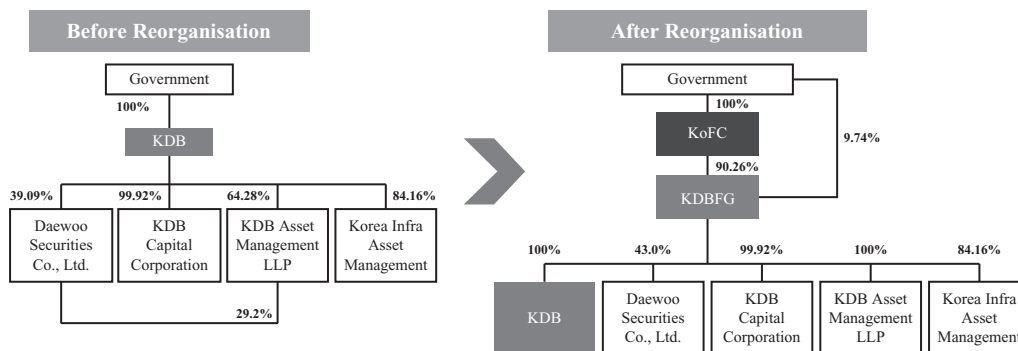
### Overview

We were established in 1954 as a government-owned financial institution pursuant to The Korea Development Bank Act, as amended (the “KDB Act”). Since our establishment, we have been the leading bank in the Republic with respect to the provision of long-term financing for projects designed to assist the nation’s economic growth and development. The Government directly owns all of our paid-in capital. Our registered office is located at 14, Eunhaeng-ro, Youngdeungpo-gu, Seoul, The Republic of Korea.

In June 2008, the Financial Services Commission announced the Government’s preliminary plan for our privatisation and, in May 2009, the KDB Act was amended to facilitate our privatisation. The preliminary plan reflected the Government’s intention to nurture a more competitive corporate and investment banking sector and trigger reorganisation and further advancement of the Korean financial industry.

To implement our privatisation, the Government established KDB Financial Group, or KDBFG, a financial holding company, and Korea Finance Corporation, or KoFC, a public policy financing vehicle, in October 2009, by spinning off a portion of our assets, liabilities and equity. In the spin-off, our interests in Daewoo Securities Co., Ltd., KDB Asset Management Co., Ltd. and KDB Capital Corp. were transferred to KDBFG, and our equity holdings in certain government-controlled companies, including Korea Electric Power Corporation, or KEPCO, and certain companies under restructuring programmes, including Hyundai Engineering & Construction Co., Ltd., were transferred to KoFC. The Government transferred its ownership interest in us to KDBFG in exchange for all of KDBFG’s share capital on November 24, 2009.

The following diagram shows our ownership structure before and after the spin-off and the share transfer.

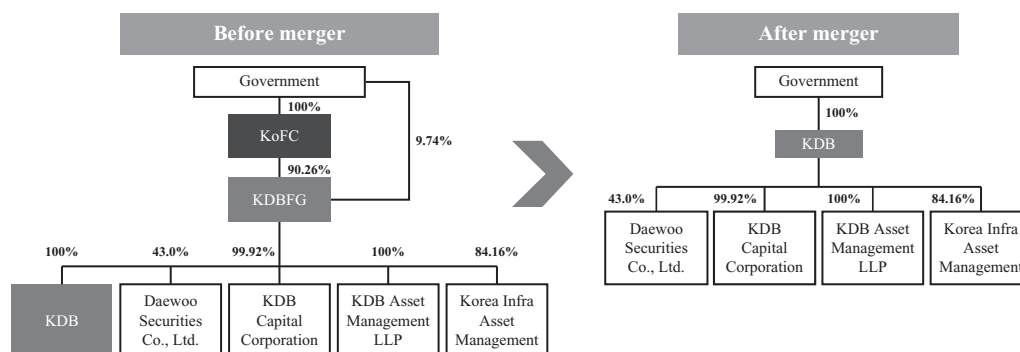


In April 2013, in light of continued uncertainties surrounding the global economy and the prolonged effects of the global financial crisis that commenced in the second half of 2008 on the Korean economy, as well as certain overlap of financial policy roles among different Government-owned banks and financial corporations, the Government launched a task force (the “Task Force”) to consider the reorganisation of the financial policy roles of Government-owned banks and financial corporations, including the Government’s plan for our privatisation. The Task Force, composed of representatives from various government branches responsible for overseeing such Government-owned entities as well as members of the academia, held a series of closed meetings, considered various reorganisation options with respect to policy financing functions and reported their findings to the Financial Services Commission. In August 2013, pursuant to the findings of the Task Force, the Financial Services Commission announced the Government’s plan to reorganise Government-owned policy banks and financial corporations in order to streamline their overlapping functions and reinforce their policy financing roles for start-ups and small- and medium-sized enterprises, new growth industries and overseas projects. The plan called for, among other things, (i) the merger of KoFC and KDBFG into us and the transfer of KoFC’s overseas assets of approximately ₩2 trillion to The Export-Import Bank of Korea, or KEXIM, (ii) the sale of our subsidiaries that do not have policy financing roles and (iii) the gradual reduction of our retail banking services.



In May 2014, the National Assembly amended the KDB Act to largely reflect the plan announced by the Financial Services Commission and halt our privatisation and streamline the financial policy roles among Government-owned banks and financial corporations in order to better respond systematically to rapidly changing domestic and international economic conditions. Under the amended KDB Act, which was amended in May 2014, the public policy financing role was consolidated and strengthened, and KDBFG and KoFC (together with its subsidiaries) were merged into us on December 31, 2014 in order to utilise our rich experience and expertise in public policy financing, and we took over KoFC's role of providing public policy financial support to Korean companies, including managing and operating the Financial Market Stabilisation Fund established pursuant to the Act on the Structural Improvement of the Financial Industry enacted in 2009, while KoFC's overseas assets of approximately ₩2 trillion were transferred to KEXIM. On December 31, 2014, the Government transferred all of its ownership interest in KoFC and KDBFG to us and in return received 3,036,079,768 new shares of us with an aggregate par value of ₩15,180.4 billion. As a newly merged entity, we have an authorised share capital of up to ₩30,000 billion and our paid-in capital was ₩15,180.4 billion. As of the date of this prospectus, the Government owns 100% of our share capital.

The following diagram shows our ownership structure before and after the merger was effected under the amended KDB Act. Our ownership structure returned to our original ownership structure that existed prior to the spin-off and reorganisation in October 2009.



While the Government has halted its plan for our privatisation, it has expressed its intention to privatise our subsidiaries that do not have policy financing roles, subject to market conditions.

Our primary purpose, as stated in the KDB Act, the KDB Decree and our Articles of Incorporation, is to “furnish funds in order to expedite the development of the national economy.” We make loans available to major industries for equipment, capital investment and the development of high technology, as well as for working capital.

As of December 31, 2016, we had ₩141,321.2 billion of loans outstanding (including loans, call loans, domestic issuance, bills of exchange bought, local letters of credit negotiation and loan-type suspense accounts pursuant to the applicable guidelines without adjusting for allowance for possible loan losses, present value discounts and deferred loan fees), total assets of ₩219,075.9 billion and total equity of ₩22,565.0 billion, as compared to ₩140,968.3 billion of loans outstanding, ₩224,460.7 billion of total assets and ₩25,255.6 billion of total equity as of December 31, 2015. In 2016, we recorded interest income of ₩5,014.0 billion, interest expense of ₩3,589.6 billion and net loss of ₩3,641.1 billion, as compared to ₩5,490.4 billion of interest income, ₩3,912.2 billion of interest expense and ₩1,895.1 billion of net loss in 2015. See “— Selected Financial Statement Data.”

Currently, the Government directly holds all of our paid-in capital. In addition to contributions to our capital, the Government provides direct financial support for our financing activities, in the form of loans or guarantees. The Government has the power to elect or dismiss our Chairman and Chief Executive Officer, members of our Board of Directors and Auditor. The Government may dismiss each such person if he/she (i) violates the KDB Act, an order issued thereunder, or the Articles of Incorporation or (ii) is unable to perform his/ her duties due to physical or mental

disability. The Chairman may be dismissed by the President of the Republic at the recommendation of the chairman of the Financial Services Commission. The Chief Executive Officer and members of the Board of Directors may be dismissed by the chairman of the Financial Services Commission at the recommendation of the Chairman and the Auditor may be dismissed by the Financial Services Commission. There is no prescribed timeline for dismissal. Pursuant to the KDB Act, the Financial Services Commission has supervisory power and authority over matters relating to our general business including, but not limited to, capital adequacy and managerial soundness.

The Government supports our operations pursuant to Article 32 of the KDB Act. Article 32 provides that “the annual net losses of the Korea Development Bank shall be offset each year by the reserve, and if the reserve be insufficient, the deficit shall be replenished by the Government.” As a result of the KDB Act, the Government is generally responsible for our operations and is legally obligated to replenish any deficit that arises if our reserve, consisting of our surplus and capital surplus items, is insufficient to cover our annual net losses. In light of the above, if we had insufficient funds to make any payment under any of our obligations, including the debt securities and guarantees covered by this prospectus, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable us to make such payment when due. The provisions of Article 32 do not, however, constitute a direct guarantee by the Government of our obligations under the debt securities or the guarantees, and the provisions of the KDB Act, including Article 32, may be amended at any time by action of the National Assembly.

In January 1998, the Government amended the KDB Act to:

- subordinate our borrowings from the Government to other indebtedness incurred in our operations;
- allow the Government to offset any deficit that arises if our reserve fails to cover our annual net losses by transferring Government-owned property, including securities held by the Government, to us; and
- allow direct injections of capital by the Government without prior National Assembly approval.

The Government amended the KDB Act in May 1999 and the KDB Decree in March 2000, to allow the Financial Services Commission to supervise and regulate us in terms of capital adequacy and managerial soundness.

In March 2002, the Government amended the KDB Act to enable us, among other things, to:

- obtain low-cost funds from The Bank of Korea and from the issuance of debt securities (in addition to already permitted Industrial Finance Bonds), which funds may be used for increased levels of lending to small and medium size enterprises;
- broaden the scope of borrowers to which we may extend working capital loans to include companies in the manufacturing industry, enterprises which are “closely related” to enhancing the corporate competitiveness of the manufacturing industry and leading-edge high-tech companies; and
- extend credits to mergers and acquisitions projects intended to facilitate corporate restructuring efforts.

In July 2005 and May 2009, the Government amended the KDB Act to provide that:

- (1) our annual net profit, after adequate allowances are made for depreciation in assets, shall be distributed as follows:
  - (i) forty percent or more of the net profit shall be credited to reserve, until the reserve amounts equal the total amount of paid-in capital; and

- (ii) any net profit remaining following the apportionment required under subparagraph (i) above shall be distributed in accordance with the resolution of our Board of Directors and the approval of our shareholders;
- (2) accumulated amounts in reserve may be capitalised after offsetting any net losses; and
- (3) any distributions made in accordance with paragraph (1)(ii) above may be in the form of cash dividends or dividends in kind, provided that any distributions of dividends in kind must be made in accordance with applicable provisions of the KDB Decree.

In February 2008, the Government further amended the KDB Act, primarily to transfer most of the Government's supervisory authority over us from the Ministry of Strategy and Finance (formerly the Ministry of Finance and Economy) to the Financial Services Commission.

In May 2009, the Government amended the KDB Act to facilitate our privatisation. The amendment provided for, among others:

- the preparation for the transformation of us from a special statutory entity into a corporation, including the application of the Banking Act as applicable;
- the expansion of our operation scope that enables us to engage in commercial banking activities, including retail banking (which was subsequently adjusted due to a change in the Government's decision to halt its plan for our privatisation and to consolidate and strengthen our public financing role, utilising our rich experience and expertise in public policy financing);
- the provision of government guarantees for our mid-to-long term foreign currency debt outstanding at the time of initial sale of the Government's stake in KDBFG (subject to the National Assembly's authorisation of the Government guarantee amount) and possible guarantees for our foreign currency debt incurred for the refinancing of such mid-to-long term foreign currency debt with the government guarantee during the period when the Government owns more than 50% of our shares; and
- the establishment of KDBFG and KoFC and application of the Financial Holding Company Act to KDBFG.

In May 2014, the Government and the National Assembly amended the KDB Act to streamline the financial policy roles among Government-owned banks and financial corporations in order to better respond systematically to rapidly changing domestic and international economic conditions by merging KDBFG and KoFC into us. The amended KDB Act provides, among others, that:

- the Government will halt its plan for our privatisation;
- public policy financing will be consolidated and strengthened through the newly merged entity;
- we will comprehensively succeed to the properties, rights and obligations of KDBFG and KoFC upon the consummation of the merger;
- the bonds issued by KDBFG and the policy bank bonds issued by the KoFC shall be deemed as the industrial financial bonds issued by us;
- the business engaged in by KoFC in accordance with the Korea Finance Corporation Act or other laws and decrees will be continuously performed by us; and
- the repayment of the principal of and interest on foreign currency debt (with an original maturity of one year or more at the time of issuance) incurred by KoFC and us before this amended KDB Act comes into force shall be guaranteed by the Government at the time of initial sale by the Government of its equity interest in us, subject to the approval by the National Assembly.

The Minister of Strategy and Finance of the Republic has, on behalf of the Republic, signed the registration statement of which this prospectus forms a part.

## Capitalisation

As of December 31, 2016, our authorised capital was ₩30,000 billion and capitalisation was as follows:

	<b>December 31, 2016<sup>(1)</sup></b>
	<b>(billions of won)</b>
<b>Long-term debt:</b>	
Won currency borrowings . . . . .	3,830.2
Industrial finance bonds . . . . .	109,912.7
Foreign currency borrowings . . . . .	6,843.2
Total long-term debt . . . . .	<u>120,586.1<sup>(2)(3)</sup></u>
<b>Capital:</b>	
Paid-in capital . . . . .	17,543.1
Capital surplus . . . . .	2,499.9
Retained earnings <sup>(4)</sup> . . . . .	1,308.5
Accumulated other comprehensive income . . . . .	1,213.5
Total capital . . . . .	<u>22,565.0</u>
Total capitalisation . . . . .	<u><u>143,151.1</u></u>

### Notes:

- (1) Except as disclosed in this prospectus, there has been no material adverse change in our capitalisations since December 31, 2016.
- (2) We have translated borrowings in foreign currencies into Won at the rate of ₩1,208.5 to US\$1.00, which was the market average exchange rate, as announced by the Seoul Money Brokerage Services Ltd., on December 31, 2016.
- (3) As of December 31, 2016, we had contingent liabilities totaling ₩10,100.5 billion under outstanding guarantees issued on behalf of our clients.
- (4) Includes regulatory reserve for loan losses of ₩1,370.8 billion as of December 31, 2016. If our provision for loan losses is deemed insufficient for regulatory purposes, we compensate for the difference by recording a regulatory reserve for loan losses, which is shown as a separate item included in retained earnings.

## Business

### *Purpose and Authority*

Since our establishment, we have been the leading bank in the Republic in providing long-term financing for projects designed to assist the nation’s economic growth and development.

Under the KDB Act, the KDB Decree and our Articles of Incorporation, our primary purpose is to “contribute to the sound development of the financial industry and the national economy by supplying and managing funds necessary for the development and promotion of industries, expansion of social infrastructure, development of regions, stabilisation of the financial markets and facilitation of sustainable growth.” Since we serve the public policy objectives of the Government, we do not seek to maximise profits. We do, however, strive to maintain a level of profitability to strengthen our equity base and support growth in the volume of our business.

Under the KDB Act, we may:

- carry out activities necessary to accomplish the expansion of the national economy, subject to the approval of the Financial Services Commission;
- provide loans or discount notes;
- subscribe to, underwrite or invest in securities;
- guarantee or assume indebtedness;

- raise funds by accepting demand deposits and time and savings deposits from the general public, issuing securities, borrowing from the Government, The Bank of Korea or other financial institutions, and borrowing from overseas;
- execute foreign exchange transactions, including currency and interest swap transactions;
- provide planning, management, research and other support services at the request of the Government, public bodies, financial institutions or enterprises; and
- carry out other businesses incidental to the foregoing (subject to the approval of the Financial Services Commission).

### ***Government Support and Supervision***

The Government owns directly all of our paid-in capital. On February 20, 2000, the Government contributed ₩100 billion in cash to our capital. On December 29, 2000, we reduced our paid-in capital by ₩959.8 billion to offset our expected net loss for the year. To compensate for the resulting deficit under the KDB Act, on June 20, 2001, the Government contributed ₩3 trillion in the form of shares of common stock of KEPCO to our capital. On December 29, 2001, the Government contributed ₩50 billion in cash to our capital. On August 13, 2003, the Government contributed ₩80 billion in cash to our capital to support our existing fund for facilitating the Republic's regional economies. On April 30, 2004, the Government contributed ₩1 trillion in the form of shares of common stock of KEPCO and Korea Water Resources Corporation to our capital to support our lending to small-and medium-sized companies and to compensate for our contribution to LG Card Ltd. in the form of loans, cash injections and debt-for-equity swaps. On December 19, 2008, the Government contributed ₩500 billion in the form of shares of common stock of Korea Expressway Corporation to our capital and, in January 2009, the Government contributed ₩900 billion in cash to our capital, in each case to bolster our capital base in order to stabilise the Korean financial market by supporting small and medium-sized enterprises and providing increased liquidity to corporations. In October 2009, our paid-in capital decreased by ₩400.0 billion in connection with the establishment by the Government of KDBFG and KoFC by spinning off a portion of our assets, liabilities and equity (including paid-in capital). In March 2010, the Government, through KDBFG, made a further capital contribution of ₩10 billion in cash to our capital. In December 2013, the Government contributed ₩10 billion in cash to our capital. In December 2014, our paid-in capital increased by ₩5,918.5 billion in connection with the merger of KDBFG and KoFC into us as described under the heading "Overview" in this prospectus." In April, July and September 2015, the Government contributed ₩2 trillion in the form of shares of common stock of Korea Land & Housing Corporation and KEPCO, ₩40 billion in cash and ₩15 billion in cash, respectively, to our capital to support our fund for infrastructure projects, new growth engine, high-tech and new renewable energy industries and business enterprises in general. The Government further contributed to our capital ₩50 billion in cash in July 2016, ₩247.7 billion in cash in September 2016 and ₩10 billion in cash in November 2016. Taking into account these capital contributions, reduction and merger, as of December 31, 2016, our total paid-in capital was ₩17,543.1 billion. See "— Financial Statements and the Auditors — Notes to Separate Financial Statements of December 31, 2016 and 2015 — Note 23."

In addition to capital contributions, the Government directly supports our financing activities by:

- lending us funds to on-lend;
- allowing us to administer Government loans made from a range of special Government funds;
- allowing us to administer some of The Bank of Korea's surplus foreign exchange holdings; and
- allowing us to receive credit from The Bank of Korea.

The Government also supports our operations pursuant to Articles 31 and 32 of the KDB Act. Article 31 provides that “40% or more of the annual net profit of the Korea Development Bank shall be transferred to reserve, until the reserve amounts equal the total amount of authorised capital” and that accumulated amounts in reserve may be capitalised. Article 32 provides that “the net losses of the Korea Development Bank shall be offset each fiscal year by the reserve, and if the reserve be insufficient, the deficit shall be replenished by the Government.”

As a result of the KDB Act, the Government is generally responsible for our operations and is legally obligated to replenish any deficit that arises if our reserve, consisting of our surplus and capital surplus items, is insufficient to cover our annual net losses. In light of the above, if we had insufficient funds to make any payment under any of our obligations, including the debt securities and the guarantees covered by this prospectus, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable us to make such payment when due. The provisions of Article 32 do not, however, constitute a direct guarantee by the Government of our obligations under the debt securities or the guarantees, and the provisions of the KDB Act, including Article 32, may be amended at any time by action of the National Assembly.

The Government closely supervises our operations in the following ways:

- the Government has the power to elect or dismiss our Chairman and Chief Executive Officer, members of our Board of Directors and Auditor;
- within three months after the end of each fiscal year, we must submit our financial statements for the fiscal year to the Financial Services Commission;
- the Financial Services Commission has broad authority to require reports from us on any matter and to examine our books, records and other documents. On the basis of the reports and examinations, the Financial Services Commission may issue any orders deemed necessary to enforce the KDB Act;
- the Financial Services Commission must approve our operating manual, which sets out the guidelines for all principal operating matters;
- the Financial Services Commission may supervise our operations to ensure managerial soundness based upon the KDB Decree and the Bank Supervisory Regulations of the Financial Services Commission and may issue orders deemed necessary for such supervision; and
- we may amend our Articles of Incorporation only with the approval of the Financial Services Commission.

In addition, the conditions of the IMF aid package stated that domestic banks in the Republic, including us, should undergo external audits from internationally recognised accounting firms. Accordingly, we have had our annual financial statements for years commencing 1998 audited by an external auditor. See “— Financial Statements and the Auditors” and “Experts.”

Pursuant to our most recently approved programme of operations, we expect to support the reform and restructuring of the Republic’s economic and industrial structure, including financing of promising small and medium sized enterprises, providing export finance and encouraging investments in infrastructure necessary to promote consumer demand and industrial reorganisation.

### **Selected Financial Statement Data**

Unless specified otherwise, the information provided below is stated on a separate basis in accordance with Korean IFRS.



### **Consolidated Statements of Financial Position Data**

The following table presents selected statements of financial position data regarding our assets, liabilities and shareholders' equity on a consolidated basis as of December 31, 2015 and 2016, which have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016.

	As of December 31,	
	2015 <sup>(1)</sup>	2016
	(billions of won)	
<b>Statements of Financial Position Data</b>		
Total Loans <sup>(2)</sup>	147,018.1	147,855.5
Total Borrowings <sup>(3)</sup>	198,247.4	194,384.6
Total Assets	309,316.3	272,837.8
Total Liabilities	275,202.5	241,818.4
Equity	<u>34,113.8</u>	<u>31,019.5</u>

Notes:

- (1) Daewoo Shipbuilding & Marine Engineering Co., Ltd., our associate, restated its consolidated financial statements as of and for the year ended December 31, 2015, primarily due to errors in estimating construction costs, which affected our statements of financial position data as of December 31, 2015 (including a decrease in our assets by ₩175.5 billion, a decrease in our liabilities by ₩346.9 billion and an increase in our equity by ₩171.4 billion), and consequently, we restated our consolidated financial statements as of and for the year ended December 31, 2015.
- (2) Gross amount, which includes loans for facility development, loans for working capital, inter-bank loans, private loans, off-shore loan receivables, loans borrowed from overseas financial institutions, bills bought in foreign currencies, advance payments on acceptances and guarantees and other loans without adjusting for allowance for loan losses, present value discounts and deferred loan fees.
- (3) Total Borrowings include deposits, financial liabilities designated at fair value through profit or loss, borrowings and debt issued.

### **Consolidated Income Statement Data**

Our selected income statement data included in the following table have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016.

	Year ended December 31,	
	2015 <sup>(1)</sup>	2016
	(billions of won)	
<b>Income Statement Data</b>		
Total Interest Income	6,304.6	5,777.7
Total Interest Expense	4,053.6	3,734.0
Net Interest Income	2,251.0	2,043.7
Operating Income (Loss)	(1,091.7)	(3,154.3)
Non-operating Income (Loss)	4,158.8	1,916.3
Income (Loss) before Income Tax	3,067.2	(1,238.0)
Income Tax Benefit (Expense)	(1,035.8)	(1,118.4)
Income from discounted operations	56.7	294.8
Net Income (Loss)	<u>2,088.1</u>	<u>(2,061.6)</u>

Note:

- (1) Daewoo Shipbuilding & Marine Engineering Co., Ltd., our associate, has restated its consolidated financial statements as of and for the year ended December 31, 2015, primarily due to errors in estimating construction costs, which affected our income statement data in 2015 (including an increase in net income by ₩334.7 billion), and consequently, we have restated our consolidated financial statements as of and for the year ended December 31, 2015. In April 2017, the Financial Supervisory Service announced that it will strengthen the supervision of accounting, particularly in the shipbuilding and construction industries, to achieve enhanced transparency and ensure fair operation of the external audit system and prevent accounting firms that fail to meet certain requirements from auditing listed companies



### *Separate Financial Statement Data*

The following tables present selected separate financial information as of and for the years ended December 31, 2015 and 2016, which has been derived from our audited separate financial statements as of and for the years ended December 31, 2015 and 2016 included in this prospectus. You should read the following financial statement data together with the financial statements and notes included in this prospectus.

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(billions of won)	
<b>Statements of Financial Position Data</b>		
Total Loans <sup>(1)</sup> . . . . .	140,968.3	141,321.2
Total Borrowings <sup>(2)</sup> . . . . .	182,852.1	180,357.7
Total Assets . . . . .	224,460.7	219,075.9
Total Liabilities . . . . .	<u>199,205.1</u>	<u>196,510.9</u>
Equity . . . . .	<u>25,255.6</u>	<u>22,565.0</u>

Notes:

- (1) Gross amount, which includes loans for facility development, loans for working capital, inter-bank loans, private loans, off-shore loan receivables, loans borrowed from overseas financial institutions, bills bought in foreign currencies, advance payments on acceptances and guarantees and other loans without adjusting for allowance for loan losses, present value discounts and deferred loan fees.
- (2) Total Borrowings include deposits, financial liabilities designated at fair value through profit or loss, borrowings and debt issued.

As of December 31, 2016, our total assets decreased by 2.4% to ₩219,075.9 billion from ₩224,460.7 billion as of December 31, 2015, primarily due to a decrease in available-for-sale financial assets to ₩36,680.1 billion from ₩41,291.6 billion and a decrease in investments in subsidiaries and associates to ₩22,776.4 billion from ₩25,167.8 billion, which more than offset an increase in loans to ₩141,321.2 billion from ₩140,968.3 billion.

As of December 31, 2016, our total liabilities decreased by 1.4% to ₩196,510.9 billion from ₩199,205.1 billion as of December 31, 2015, primarily due to a decrease in deposits to ₩37,677.8 billion from ₩39,934.9 billion and a decrease in borrowings to ₩23,600.0 billion from ₩24,400.6 billion, which more than offset an increase in bonds to ₩117,186.9 billion from ₩116,894.0 billion.

As of December 31, 2016, our total shareholders' equity decreased by 10.7% to ₩22,565.0 billion from ₩25,255.6 billion as of December 31, 2015, primarily due to a decrease in retained earnings to ₩1,308.5 billion from ₩4,949.6 billion, which more than offset an increase in accumulated other comprehensive income to ₩1,213.5 billion from ₩569.2 billion and an increase in paid-in capital to ₩17,543.1 billion from ₩17,235.4 billion.

Our selected income statement data included in the following table have been derived from our audited separate financial statements as of and for the years ended December 31, 2015 and 2016 included in this prospectus.

	Year ended December 31,	
	2015	2016
	(billions of won)	
<b>Income Statement Data</b>		
Total Interest Income . . . . .	5,490.4	5,014.0
Total Interest Expenses . . . . .	3,912.2	3,589.6
Net Interest Income . . . . .	1,578.2	1,424.4
Operating Income (Loss) . . . . .	(1,219.3)	(1,270.5)
Income (Loss) before Income Tax . . . . .	(2,360.8)	(3,894.1)
Income Tax Benefit (Expense) . . . . .	465.7	253.0
Net Income . . . . .	<u>(1,895.1)</u>	<u>(3,641.1)</u>

### 2016

We had net loss of ₩3,641.1 billion in 2016 compared to net loss of ₩1,895.1 billion in 2015, on a separate basis.

Principal factors for the increase in net loss in 2016 compared to 2015 included:

- an increase in impairment losses on investments in subsidiaries and associates to ₩3,140.9 billion in 2016 from ₩1,134.9 billion in 2015, primarily due to the impairment loss on investments in Daewoo Shipbuilding & Marine Engineering Co., Ltd., or DSME, which suffered from financial difficulties and liquidity problems in 2016, primarily due to significant losses incurred in connection with the construction of offshore facilities and drill ships resulting from a prolonged slowdown in the global shipbuilding industry; and
- an increase in provision for loan losses to ₩3,249.7 billion in 2016 from ₩2,810.1 billion in 2015, primarily due to increased provisions for loan losses relating to exposure to DSME, STX Offshore & Shipbuilding Co., Ltd. and Hanjin Shipping following downgrades of the classification of our exposure to (i) DSME to precautionary from normal, (ii) STX Offshore & Shipbuilding to expected loss from substandard and (iii) Hanjin Shipping to expected loss from normal, following our evaluation of such companies' financial conditions (including significant increases in their liabilities) and operating results (including significant operating losses).

The above factors were partially offset by an increase in dividend income to ₩1,197.4 billion in 2016 from ₩615.3 billion in 2015, primarily due to increased dividends from investments in associates (including Korea Electric Power Corporation, or KEPCO).

We recorded a net cash outflow from operating activities of ₩6,070.0 billion for 2016. The primary reasons for the net cash outflow during the period were outflows of ₩4,369.3 billion due to an increase in loans, ₩3,641.1 billion from our net loss and ₩2,275.4 billion due to a decrease in deposits. These outflows were partially offset by an inflow of ₩3,249.7 billion from provision for loan losses.

### 2015

We had net loss of ₩1,895.1 billion in 2015 compared to net income of ₩183.5 billion in 2014, on a separate basis.

Principal factors for the net loss of ₩1,895.1 billion in 2015 compared to the net income of ₩183.5 billion in 2014 included:

- an increase in provision for loan losses to ₩2,810.1 billion in 2015 from ₩1,656.8 billion in 2014, primarily due to an increase in non-performing loans;

- an increase in impairment losses on investments in subsidiaries and associates to ₩1,134.9 billion in 2015 from ₩211.1 billion in 2014; the ₩1,134.9 billion of impairment losses on investments in subsidiaries and associates in 2015 reflected principally the impairment loss on investments in DSME, which suffered from financial difficulties in 2015 primarily due to significant losses incurred in connection with the construction of offshore plants resulting from a prolonged slowdown in the global shipbuilding industry, and the ₩211.1 billion of impairment losses on investment in subsidiaries and associates in 2014 reflected principally the impairment loss on investments in Troica PE primarily due to a decrease in oil prices;
- a decrease in net interest income to ₩1,578.2 billion in 2015 from ₩1,988.5 billion in 2014, primarily due to an increase in interest expense on bonds; and
- an increase in provision for other allowances to ₩404.9 billion in 2015 from ₩46.4 billion in 2014, primarily due to an increase in provision for payment guarantees resulting from an increase in guarantees and a decrease in guarantee quality.

The above factors were partially offset by an increase in dividend income to ₩615.3 billion in 2015 from ₩158.2 billion in 2014, primarily due to an increase in dividend income from KEPCO.

We recorded a net cash outflow from operating activities of ₩1,156.3 billion for 2015. The primary reasons for the net cash outflow during the period were outflows of ₩6,031.0 billion due to an increase in loans, ₩2,701.2 billion due to a decrease in derivative financial liabilities and ₩1,895.1 billion from our net loss. These outflows were partially offset by inflows of ₩2,810.1 billion from provision for loan losses, ₩2,622.3 billion due to an increase in other liabilities and ₩2,396.7 billion due to an increase in deposits.

#### ***Provisions for Possible Loan Losses and Loans in Arrears***

We establish provisions for possible losses from problem loans, including guarantees and other extensions of credit, based on the length of the delinquent periods and the nature of the loans, including guarantees and other extensions of credit. As of December 31, 2016, we established provisions of ₩3,313.4 billion for possible loan losses, 20.3% lower than the provisions as of December 31, 2015 of ₩4,159.3 billion, primarily due to the write-off of certain non-performing loans and debt-to-equity swaps. The provisions for possible loan losses under Korean IFRS are recorded for those loans for which objective evidence of impairment exists as a result of one or more events that occurred after initial recognition and, if our provision for possible loan losses is deemed insufficient for regulatory purposes, we compensate for the difference by recording a regulatory reserve for possible loan losses, which will be deducted from retained earnings. See “— Financial Statements and the Auditors — Notes to Separate Financial Statements of December 31, 2016 and 2015 — Notes 3(26), 23(4) and 23(5).”

Certain of our customers have restructured loans with their creditor banks. As of December 31, 2016, we have provided loans of ₩4,723.5 billion for companies under workout, court receivership, court mediation and other restructuring procedures. In addition, as of such date, we held equity securities of such companies in the amount of ₩148.7 billion following debt-for-equity swaps. As of December 31, 2016, we had established provisions of ₩1,870.4 billion for such loans. We cannot assure you that actual results of the credit loss from the loans to these customers will not exceed the provisions reserved.

The following table provides information on our loan loss provisions.

	As of December 31,			
	2015 <sup>(1)</sup>		2016 <sup>(1)</sup>	
	Loan Amount	Loan Loss Provisions	Loan Amount	Loan Loss Provisions
	(billions of won)			
<b>Loan Classification</b>				
Normal <sup>(2)</sup>	131,366.5	328.8	132,092.4	305.9
Precautionary	3,559.5	434.8	5,147.5	1,097.3
Substandard	4,768.1	2,536.2	2,056.8	505.1
Doubtful	827.1	566.8	664.6	416.3
Expected Loss	447.1	292.7	1,359.9	988.8
Total	<u>140,968.3</u>	<u>4,159.3</u>	<u>141,321.2</u>	<u>3,313.4</u>

Notes:

- (1) These figures include loans for facility development, loans for working capital, inter-bank loans, private loans, off-shore loan receivables, loans borrowed from overseas financial institutions, bills bought in foreign currencies, advance payments on acceptances and guarantees and other loans.
- (2) Includes loans guaranteed by the Government. Under Korean IFRS, we establish loan loss provisions for all loans including loans guaranteed by the Government.

As of December 31, 2016, our non-performing loans totaled ₩4,081.2 billion, representing 2.9% of our outstanding loans as of such date. Non-performing loans are defined as loans that are classified as substandard or below. On December 31, 2016, our legal reserve was ₩3,578.8 billion, representing 2.5% of our outstanding loans as of such date.

***Loans to Financially Troubled Companies***

We have credit exposure (including loans, guarantees and equity investments) to a number of financially troubled Korean companies including DSME, STX Offshore & Shipbuilding, Dongbu Steel Co., Ltd. Hanjin Heavy Industries and Construction Co., Ltd., Hyundai Merchant Marine Co., Ltd., Daehan Shipbuilding Co., Ltd., Hanjin Shipping Co., Ltd., and STX Heavy Industries Co., Ltd. As of December 31, 2016, our credit extended to these companies totaled ₩14,182.2 billion, accounting for 6.5% of our total assets as of such date.

As of December 31, 2016, our exposure (including loans classified as substandard or below and equity investment classified as estimated loss or below) to DSME increased to ₩7,634.4 billion from ₩6,485.3 billion as of December 31, 2015, primarily due to the extension of new guarantees. As of December 31, 2016, our exposure to STX Offshore & Shipbuilding was ₩1,422.8 billion, a decrease from ₩4,876.5 billion as of December 31, 2015, primarily due to debt-to-equity swaps. As of December 31, 2016, our exposure to Dongbu Steel decreased to ₩1,325.2 billion from ₩1,407.7 billion as of December 31, 2015, primarily due to the redemption of certain existing loans. As of December 31, 2016, our exposure to Hanjin Heavy Industries and Construction increased to ₩1,242.2 billion from ₩1,216.5 billion as of December 31, 2015, primarily due to the extension of new loans. As of December 31, 2016, our exposure to Hyundai Merchant Marine increased to ₩1,080.4 billion from ₩1,039.1 billion as of December 31, 2015, primarily due to debt-to-equity swaps. As of December 31, 2016, our exposure to Daehan Shipbuilding decreased to ₩769.2 billion from ₩1,453.4 billion as of December 31, 2015, primarily due to a decrease in guarantees. As of December 31, 2016, our exposure to Hanjin Shipping decreased to ₩439.5 billion from ₩1,117.0 billion as of December 31, 2015, primarily due to the write-off of certain existing loans. As of December 31, 2016, our exposure to STX Heavy Industries decreased to ₩268.7 billion from ₩538.3 billion as of December 31, 2015, primarily due to the write-off of certain existing loans.

As of December 31, 2016, we established provisions of ₩1,049.2 billion for our exposure to DSME, ₩991.0 billion for STX Offshore & Shipbuilding, ₩165.9 billion for Dongbu Steel, ₩102.9 billion for Hanjin Heavy Industries and Construction, ₩210.9 billion for Hyundai Merchant Marine, ₩61.9 billion for Daehan Shipbuilding, ₩200.2 billion for Hanjin Shipping and ₩128.7 billion for STX Heavy Industries.

Companies in the STX Group, a large Korean conglomerate primarily engaged in shipbuilding and trading, have faced financial difficulties for the past several years due to prolonged slowdowns in the Korean construction, shipbuilding and shipping industries. STX Pan Ocean had been in court receivership since June 2013 and was sold to Harim Group in June 2015. STX Construction has been in court receivership since April 2013. STX Offshore & Shipbuilding filed for court receivership in May 2016 and executed debt-to-equity swaps with their creditors, including us, in December 2016 under a rehabilitation plan through which we increased our equity interest to 43.9% and became its largest shareholder. In August 2016, STX Heavy Industries filed for court receivership, and in January 2017, the Seoul Central District Court approved its rehabilitation plan, which includes debt-to-equity swaps. The remaining troubled companies (including STX Corporation and STX Engine) are in voluntary out-of-court debt restructuring programmes with their creditors. Companies in the Dongbu Group, a large Korean conglomerate providing industrial, chemical, shipping, insurance and financial products and services, have also been facing financial difficulties for the past several years due to the prolonged slowdown in the Korean construction industry and in the Korean economy in general. Certain troubled companies in the Dongbu Group are in voluntary out-of-court debt restructuring programmes with their creditors, and Dongbu Steel entered into a voluntary workout agreement with its creditors in October 2015. We are the main creditor bank of STX Group and Dongbu Group.

In May 2016, Hanjin Shipping, Korea's largest container operator, submitted itself to joint management with us, as its largest creditor, and other creditors in an effort to revive itself from financial difficulties. In August 2016, we and the other creditors rejected Hanjin Shipping's last funding plan, and Hanjin Shipping entered into court receivership in September 2016 and was declared bankrupt in February 2017. In July 2016, Hyundai Merchant Marine executed a debt-to-equity swap with us and other creditors, as part of its continued restructuring led by us as its largest creditor, and affiliates of the Hyundai group reduced their shareholdings in Hyundai Merchant Marine, which resulted in us becoming the largest shareholder of Hyundai Merchant Marine with a 14% equity interest.

During 2015, DSME, one of the largest shipbuilding and offshore construction companies in Korea, suffered from financial difficulties primarily due to significant losses incurred in connection with the construction of offshore plants resulting from a prolonged slowdown in the global shipbuilding industry. In October 2015, we announced that we, along with The Export-Import Bank of Korea, would extend additional financing of up to ₩4.2 trillion to DSME by the end of 2016 in the form of debt-to-equity swaps, extension of additional loans and provision of other forms of liquidity support. In this connection, in December 2015, we acquired ₩382.9 billion of new equity shares of DSME, which increased our equity interest in DSME from 31.5% to 49.7%, and we became its largest shareholder. In December 2016, we increased our equity interest in DSME to 79.0% through an additional debt for equity swap. In March 2017, we and The Export-Import Bank of Korea announced a second joint plan pursuant to which, among others, (i) we, along with The Export-Import Bank of Korea, will provide an additional ₩2.9 trillion in financial support to DSME, (ii) we will provide additional debt-to-equity swaps of ₩0.3 trillion and (iii) The Export-Import Bank of Korea will exchange a term loan in the amount of ₩1.28 trillion provided by it to DSME for perpetual bonds to be issued by DSME, which would be contingent on other creditors agreeing to debt-to-equity swaps for up to 80% of their debt with DSME and rescheduling the maturities of the remainder. In April 2017, the other creditors approved the second joint plan.

In January 2016, the prosecutors' office of Korea began investigating allegations of mismanagement and accounting irregularities at DSME, including our dealings with and oversight of DSME. Concurrent with the prosecutors' investigation, in June 2016, the Board of Audit and Inspection, the audit agency of the Government, submitted to financial regulators its reports showing DSME had overstated its operating profit in 2013 and 2014 and criticised us, as the lead creditor bank and largest shareholder of DSME, for alleged mismanagement and loose oversight of DSME, which allegedly led to the failure to uncover the alleged accounting irregularities contributing to further losses at DSME. In December 2016, the prosecutors indicted our former chief executive officer, who had served from 2011 to 2013, for alleged malpractice, bribery and abuse of power. Although we believe our dealings regarding DSME were carried out in compliance with relevant guidelines and procedures, we cannot predict whether the outcome of the investigation by the prosecutors into DSME may be adverse to us.

In addition, further investigations may be launched by other governmental authorities with respect to our dealings with DSME, including those by our other former officers. An adverse determination by the prosecutors or other governmental authorities may result in regulatory sanctions and/or financial penalties as well as reputational harm to us.

In the event that the financial condition of these companies or other large corporations to which we extended credits deteriorate in the future, we may be required to record additional provisions for credit losses, as well as charge-offs and valuation or impairment losses or losses on disposal, which may have a material adverse effect on our financial condition and results of operations.

In 2016, we sold non-performing loans worth ₩747.5 billion to Cyrus Capital Partners, Eugene Asset Management and UAMCO Ltd.

## **Operations**

### *Loan Operations*

We mainly provide equipment capital loans, project loans and working capital loans to private Korean enterprises that undertake major industrial projects either directly or indirectly through on-lending. The loans generally cover over 50%, and in some cases as much as 100%, of the total project cost. Equipment capital loans include loans to major industries for development of high technology and for acquisition, improvement or repair of machinery and equipment. We disburse loan proceeds in instalments to ensure that the borrower uses the loan for its intended purpose.

Before approving a loan, we consider:

- the economic benefits of the project to the Republic;
- the extent to which the project serves priorities established by the Government's industrial policy;
- the project's operational feasibility;
- the loan's and the project's profitability; and
- the quality of the borrower's management.

We charge, on average, interest of 1.8% over our prime rate, although we provide a discount between 0.2% and 0.7% to small- and medium-sized companies. We adjust the prime rate monthly. The spread depends on the purpose of the loan, maturity date and the borrower's credit ratings. Certain loans bear interest at below market rates. Equipment capital loans generally have original maturities of three to five years, although we occasionally make equipment capital loans with longer maturities. Working capital loans usually mature within two years.

The Business Planning Department functions as our centralised policy-making and planning division with respect to our lending activities. The Business Planning Department formulates and revises our internal regulations on loan programmes as well as setting basic lending guidelines.

We have multiple levels of loan approval authority, depending on the loan amount and other factors such as the availability of collateral or guarantee, debt repayment ability and business prospects. The Credit Review Committee, Division Credit Review Committee, Division Credit Review Sub-Committee, General Manager each has authority to approve loans up to a specified amount. The amount differs depending on the type of loan and certain other factors, for example, whether a loan is collateralised or guaranteed.



Our overall risk management policy is set by the Risk Management Committee. For detailed information regarding our risk management policy and procedures, see “— Financial Statements and Auditors — Notes to Separate Financial Statements of December 31, 2016 and 2015 — Note 48.”

The following table sets out, by currency and category of loan, our total outstanding loans:

### Loans<sup>(1)</sup>

	December 31,	
	2015	2016
	(billions of won)	
<b>Equipment Capital Loans:</b>		
Domestic Currency . . . . .	51,620.3	50,416.2
Foreign Currency <sup>(2)</sup> . . . . .	8,689.5	8,307.3
	<u>60,309.8</u>	<u>58,723.5</u>
<b>Working Capital Loans:</b>		
Domestic Currency <sup>(3)</sup> . . . . .	48,760.1	47,931.6
Foreign Currency <sup>(2)</sup> . . . . .	6,290.8	6,718.1
	<u>55,050.9</u>	<u>54,649.7</u>
Other Loans <sup>(4)</sup> . . . . .	25,607.6	27,948.0
<b>Total Loans</b> . . . . .	<u><u>140,968.3</u></u>	<u><u>141,321.2</u></u>

Notes:

- (1) Includes loans extended to affiliates.
- (2) Includes loans disbursed and repayable in Won, the amounts of which are based upon an equivalent amount of foreign currency. This type of loan totaled ₩10,431.7 billion as of December 31, 2015 and ₩10,009.1 billion as of December 31, 2016. See “— Operations — Loan Operations — Loans by Categories — Local Currency Loans Denominated in Foreign Currencies.”
- (3) Includes loans on households.
- (4) Includes inter-bank loans, private loans, off-shore loan receivables, loans borrowed from overseas financial institutions, bills bought in foreign currencies, advance payments on acceptances and guarantees and other loans.

As of December 31, 2016, we had ₩141,321.2 billion in outstanding loans, which represents a 0.3% increase from ₩140,968.3 billion of outstanding loans as of December 31, 2015.

### *Maturities of Outstanding Loans*

The following table categorises our outstanding equipment capital and working capital loans by their remaining maturities:

### Outstanding Equipment Capital and Working Capital Loans by Remaining Maturities<sup>(1)</sup>

	December 31,		As % of
	2015	2016	December 31, 2016
	(billions of won, except percentages)		<u>Total</u>
Loans with Remaining Maturities of One Year or Less . . . . .	43,484.7	44,915.8	39.6
Loans with Remaining Maturities of More Than One Year . . . . .	71,875.9	68,457.4	60.4
<b>Total</b> . . . . .	<u><u>115,360.6</u></u>	<u><u>113,373.2</u></u>	<u><u>100.0</u></u>

Note:

- (1) Includes loans extended to affiliates.



## Loans by Industrial Sector

The following table sets out the total amount of our outstanding equipment capital and working capital loans, categorised by industry sector:

### Outstanding Equipment Capital and Working Capital Loans by Industry Sector<sup>(1)</sup>

	December 31,		As % of
	2015	2016	December 31, 2016
	(billions of won, except percentages)		Total
Manufacturing . . . . .	55,999.5	55,234.7	48.7
Banking and Insurance . . . . .	25,132.3	24,042.3	21.2
Transportation and Communication . . . . .	6,805.6	7,130.1	6.3
Public Administration . . . . .	862.2	855.5	0.8
Electric, Gas and Water Supply Industry . . . . .	3,227.8	3,498.2	3.1
Others <sup>(2)</sup> . . . . .	23,333.2	22,612.4	19.9
<b>Total . . . . .</b>	<b>115,360.6</b>	<b>113,373.2</b>	<b>100.0</b>
Percentage increase from previous period . . . . .	2.9%	(1.7%)	

Notes:

(1) Includes loans extended to affiliates.

(2) Includes wholesale and retail trade, real estate and leasing, and construction.

The manufacturing sector accounted for 48.7% of our outstanding equipment capital and working capital loans as of December 31, 2016. As of December 31, 2016, loans to the transportation equipment manufacturing businesses and the metal product manufacturing businesses accounted for 18.6% and 13.5%, respectively, of our outstanding equipment capital and working capital loans to the manufacturing sector.

Industrial Bank of Korea was our single largest borrower as of December 31, 2016, accounting for 4.7% of our outstanding equipment capital and working capital loans. As of December 31, 2016, our five largest borrowers and 20 largest borrowers accounted for 11.2% and 24.0%, respectively, of our outstanding equipment capital and working capital loans.

The following table breaks down the equipment capital and working capital loans to our 20 largest borrowers outstanding as of December 31, 2016 by industry sector:

### 20 Largest Borrowers by Industry Sector

	As % of December 31, 2016 Total Outstanding Equipment Capital and Working Capital Loans
Manufacturing . . . . .	34.7
Banking and Insurance . . . . .	52.4
Transportation and Communication . . . . .	4.6
Public Administration . . . . .	2.0
Others <sup>(1)</sup> . . . . .	6.3
<b>Total . . . . .</b>	<b>100.0</b>

Note:

(1) Includes wholesale and retail trade, real estate and leasing, and construction.

The following table categorises the new loans made by us by industry sector:

### New Loans by Industry Sector

	Year ended December 31,		As % of
	2015	2016	Year Ended December 31, 2016
	(billions of won, except percentages)		Total
Manufacturing . . . . .	27,550.8	26,623.6	60.4
Banking and Insurance . . . . .	4,301.4	3,162.6	7.2
Transportation . . . . .	2,787.2	3,130.7	7.1
Electric, Gas and Water Supply Industry . . . . .	1,326.0	912.0	2.1
Others <sup>(1)</sup> . . . . .	12,098.6	10,216.4	23.2
Total . . . . .	<u>48,064.0</u>	<u>44,045.3</u>	<u>100.0%</u>
Percentage increase from previous period . . . . .	6.7%	(8.4%)	

Note:

(1) Includes wholesale and retail trade, real estate and leasing, and construction.

### Loans by Categories

In addition to dividing our loans into equipment capital and working capital loans, we classify loans into several groupings, the most important being:

- industrial fund loans;
- on-lending loans;
- foreign currency loans;
- local currency loans denominated in foreign currencies;
- offshore loans in foreign countries; and
- government fund loans.

The following table sets out equipment capital and working capital loans by categories as of December 31, 2016:

	Equipment Capital Loans <sup>(1)</sup>		Working Capital Loans <sup>(1)</sup>	
	December 31, 2016	%	December 31, 2016	%
	(billions of won, except percentages)			
Industrial fund loans . . . . .	43,4183.1	73.9	35,061.6	64.2
On-lending loans . . . . .	4,359.5	7.4	9,514.2	17.4
Foreign currency loans . . . . .	5,433.79.3	9.3	1,201.5	2.2
Local currency loans denominated in foreign currencies . . . . .	73.30.1	0.1	70.0	0.1
Offshore loans in foreign currencies . . . . .	1,180.22.0	2.0	3,715.7	6.8
Government fund loans . . . . .	320.20.5	0.4	—	—
Overdraft . . . . .	—	—	165.2	0.3
Others <sup>(1)</sup> . . . . .	3,938.5	6.8	4,921.5	9.0
Total . . . . .	<u>58,723.5</u>	<u>100.0</u>	<u>54,649.7</u>	<u>100.0</u>

Note:

(1) Includes loans on households and loans extended to affiliates.

### ***Industrial Fund Loans***

Industrial fund loans are equipment capital and working capital loans denominated in Won to borrowers in major industries to finance equipment and facilities.

We currently make equipment capital industrial fund loans at floating or fixed rates for terms of up to 10 years and for up to 100% of the equipment cost being financed. We make working capital industrial fund loans at floating or fixed rates and in amounts constituting up to 40% of the borrower's estimated annual sales.

### ***On-lending Loans***

On-lending is a form of indirect financing that involves intermediary financial institutions which on-lend the funds provided by us to industrial borrowers and are responsible for repayment to us. Most of the funds provided by us through on-lending are ultimately lent to small- and medium-sized enterprises for their equipment purchases and working capital. We explicitly set detailed guidelines (including scope of borrowers, maturity and interest rates) for intermediary financial institutions to be followed when on-lending to the ultimate borrowers. We monitor our exposure to, and the credit standing of, each financial institution to which we lend. Borrowers do not apply directly to us and may only apply for our on-lending loans through their regular bank or another bank of their choice. The intermediary bank appraises the financial and business situation of the applicant and generally assumes liability for repayment to us. Although the processing of individual loans requires two formally separate loan approvals for each borrower, first by the intermediary bank and then by us, the ultimate borrower need only apply to the intermediary bank for approval.

### ***Foreign Currency Loans***

We extend loans denominated in U.S. dollars, Japanese yen or other foreign currencies principally to finance the purchase of industrial equipment from abroad or the implementation of overseas industrial development projects by Korean companies. We make these loans at floating interest rates with original maturities, in the case of equipment capital foreign currency loans, of up to 10 years and, in the case of working capital foreign currency loans, of up to three years.

### ***Local Currency Loans Denominated in Foreign Currencies***

We make local currency loans denominated in foreign currencies for the same purposes, and to the same borrowers, as foreign currency loans. Although we denominate the loans in foreign currency, the borrower receives and repays the loans in Won based on foreign exchange rates at the time of receipt and repayment. We currently make loans of this type at floating interest rates, with original maturities, in the case of equipment capital loans, of up to 10 years and, in the case of working capital loans, of up to three years.

### ***Offshore Loans in Foreign Currencies***

We extend offshore loans in foreign currencies to finance:

- the purchase of industrial equipment and the implementation of overseas industrial projects by overseas subsidiaries and branches of Korean companies; and
- the overseas industrial development projects of foreign government entities, international organisations and foreign companies.

We make these loans at floating interest rates with original maturities, in the form of equipment capital foreign currency loans, of up to 10 years and, working capital foreign currency loans, of up to three years.

### ***Government Fund Loans***

We make government fund loans primarily to finance:

- water supply and drainage facilities;
- the Seoul subway system;
- freight terminal facilities;
- hospitals; and
- other facilities.

Government fund loans that are equipment capital loans require approval by the appropriate Government ministry. We currently make government fund loans in Won at floating interest rates with original maturities of 10 to 20 years.

### ***Other Loans***

We also make special purpose fund loans for particular industries or projects using funds lent to us by the Government and foreign financial institutions. The Government funds that finance these loans include, among others:

- the Tourism Promotion Fund (hotel and resort projects);
- the Rational Use of Energy Fund (energy conservation projects and collective energy supply projects); and
- the Small- and Medium-sized Enterprises Promotion Fund (small- and medium-sized enterprises).

For further information relating to such loans, see “— Sources of Funds.”

### ***Guarantee Operations***

We extend guarantees to our clients to facilitate their other borrowings and to finance major industrial projects. We guarantee Won-denominated corporate debentures, local currency loans, and other Won liabilities and foreign currency loans from domestic and overseas Korean financial institutions and from foreign institutions. The KDB Act and our Articles of Incorporation limit the aggregate amount of our industrial finance bond obligations and guarantee obligations. See “— Sources of Funds.”

We generally obtain collateral valued in excess of the original guarantee. We appraise the value of our collateral at least once a year. Depending on the borrower, the collateral may be industrial plants, real estate and/ or marketable securities.

The following table shows our outstanding guarantees:

	<b>Guarantees Outstanding</b>	
	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(billions of won)</b>	
Acceptances . . . . .	774.5	656.5
Guarantees on local borrowing . . . . .	1,057.0	812.8
Guarantees on foreign borrowing . . . . .	8,099.8	8,584.6
Letter of guarantee for importers . . . . .	32.7	46.6
Total . . . . .	<u>9,964.0</u>	<u>10,100.5</u>

## Investments

We invest in a range of Korean private and Government-owned enterprises but we will not take a controlling interest in a company unless the acquisition is necessary for the corporate restructuring of the company. Although generally a long-term investor, we sell investments from time to time. In recent years, sales resulted principally from the Government's privatisation programme, and we expect to continue such sales in the future. The Government plans to sell its direct or indirect interest in certain private sector companies acquired during previous restructuring programmes, including Daewoo Engineering & Construction Co., Ltd., depending on market conditions. In accordance with such plan, we expect to sell our equity holdings in certain private sector companies if favourable opportunities for sale arise. Our equity investments decreased to ₩32,602.2 billion as of December 31, 2016 from ₩35,696.8 billion as of December 31, 2015.

The KDB Act and our Articles of Incorporation provide that the cost basis of our total equity investments may not exceed twice the sum of our paid-in capital and our reserve from profit. In addition, pursuant to the KDB Decree, we may not acquire equity securities of a single company in excess of 15% of its entire voting shares. The 15% limit, however, does not apply to certain investments, including those in Government-controlled companies financed by capital contributions from the Government. As of December 31, 2016, the cost basis of our equity investments subject to restriction under the KDB Act and our Articles of Incorporation totaled ₩11,583.1 billion, equal to 25.7% of our equity investment ceiling. For a discussion of Korean accounting principles relating to our equity investments, see "— Financial Statements and the Auditors."

The following table sets out our equity investments by industry sector on a book value basis as of December 31, 2016:

### Equity Investments

	<b>Book Value as of December 31, 2016</b>
	<b>(billions of won)</b>
Electric, Gas and Water Supply Industry . . . . .	18,047.8
Construction . . . . .	1,005.1
Banking and Insurance . . . . .	8,183.5
Real Estate Business . . . . .	2,599.1
Manufacturing . . . . .	749.3
Transportation . . . . .	1,404.1
Others . . . . .	613.2
Total . . . . .	<u>32,062.2</u>

As of December 31, 2016, we held total equity investments, on a book value basis, of ₩577.8 billion in one of our five largest borrowers and ₩1,239.4 billion in four of our 20 largest borrowers. We have not established a policy addressing loans to enterprises in which we hold equity interests or equity interests in enterprises to which we have extended loans.

When possible, we use the prevailing market price of a security to determine the value of our interest. However, if no readily ascertainable market value exists for our holdings, we record these investments at the cost of acquisition. With respect to our equity interests in enterprises in which we hold more than 15% of interest, we value these investments annually, with certain exceptions, on a net asset value basis when the investee company releases its financial statements. As of December 31, 2016, the aggregate value of our equity investments accounted for approximately 101.3% of their aggregate cost basis.

As part of our investment activities, we underwrite straight and convertible bond issuances in Won for domestic corporations. We also invest in municipal bonds, extending funds to municipalities at subsidised interest rates, mostly to finance water supply and drainage infrastructure projects.

### ***Other Activities***

We engage in a range of industrial development activities in addition to providing loans and guarantees, including:

- conducting economic and industrial research;
- performing engineering surveys;
- providing business analyses and managerial assistance; and
- offering trust services.

As of December 31, 2016, we held in trust cash and other assets totaling ₩36,058.0 billion, and we generated in 2016 trust fee income equaling ₩133.8 billion. As of December 31, 2015, we held in trust cash and other assets totaling ₩32,630.9 billion, and we generated in 2015 trust fee income equaling ₩184.0 billion. Pursuant to Korean law, we segregate trust assets from our other assets; trust assets are not available to satisfy claims of our depositors or other creditors. Accordingly, we account for our trust accounts separately from our banking accounts. However, if our trust operations fail to preserve the principal of our clients' trust assets, we are responsible for covering the deficit either from previously established provisions in our trust accounts or by a transfer from our banking accounts. In 2015 and 2016, we did not transfer any funds from our banking accounts to cover deficits in our trust accounts. Surplus funds generated by the trust assets may be deposited into the clients' accounts and earn interest. We reflect trust fees earned by us on our trust account management services as other operating revenues in the income statement of the banking accounts.

### **Sources of Funds**

In addition to our capital and reserves, we obtain funds primarily from:

- borrowings from the Government;
- issuances of bonds in the domestic and international capital markets;
- borrowings from international financial institutions or foreign banks; and
- deposits.

All of our borrowings are unsecured.

### ***Borrowings from the Government***

We borrow from the Government's general purpose funds and its special purpose funds. General purpose loans generally are in Won and have fixed interest rates and maturities ranging from five to 20 years. We incur special purpose loans, principally from the Tourism Promotion Fund, the Rational Use of Energy Fund and the Small- and Medium-sized Enterprises Promotion Fund, in connection with specific projects we finance. The Government links the interest rate and maturity of each special purpose borrowing to the terms of the financing we provide for the specific project.

The following table sets out our Government borrowings as of December 31, 2016:

	<b>As of December 31, 2016</b>
	<b>(billions of won)</b>
<b>Type of Funds Borrowed</b>	
General Purpose . . . . .	322.0
Special Purpose . . . . .	<u>4,423.6</u>
Total . . . . .	<u><u>4,745.6</u></u>

## *Domestic and International Capital Markets*

We issue industrial finance bonds both in Korea and abroad, some of which the Government directly guarantees. We generally issue domestic bonds at fixed interest rates with original maturities of one to ten years.

The following table sets out the outstanding balance of our industrial finance bonds as of December 31, 2016:

	<b>As of December 31, 2016</b>
	<b>(billions of won)</b>
<b>Outstanding Balance</b>	
Denominated in Won . . . . .	93,184.7
Denominated in Other Currencies . . . . .	25,211.5
Total . . . . .	<u>118,396.2</u>

The KDB Act provides that the aggregate outstanding principal amount of our industrial finance bonds, other than those directly guaranteed or purchased by the Government, plus the aggregate outstanding amount of debt (including bonds and loans) guaranteed or purchased by us, other than those excepted by the KDB Act, may not exceed 30 times the sum of our paid-in capital and our reserve from profit. As of December 31, 2016, the aggregate amount of our industrial finance bonds and guarantee obligations (including guarantee obligations relating to loans that had not been borrowed as of December 31, 2016) was ₩134,054.4 billion, equal to 19.9% of our authorized amount under the KDB Act, which was ₩674,780.9 billion.

In 2016, we issued ₩39.2 trillion in Won-denominated industrial finance bonds and ₩5.0 trillion in industrial finance bonds denominated in other currencies. In 2017, we are targeting to issue approximately ₩54.7 trillion in Won-denominated industrial finance bonds and approximately ₩7.0 trillion in industrial finance bonds denominated in other currencies, subject to change depending on our funding needs and market conditions.

### *Foreign Currency Borrowings*

We borrow money from institutions, principally syndicates of commercial banks, outside the Republic in foreign currencies. We frequently enter into related interest rate and currency swap transactions. The loans generally have original maturities of one to five years. As of December 31, 2016, the outstanding amount of our foreign currency borrowings was US\$11.0 billion.

Our long term and short term foreign currency borrowings increased to ₩13,269.8 billion as of December 31, 2016 from ₩11,904.9 billion as of December 31, 2015.

### *Deposits*

We take demand deposits and time and savings deposits from the general public. Time and savings deposits generally have maturities shorter than three years and bear interest at fixed rates. As of December 31, 2016, demand deposits held by us totaled ₩1,397.2 billion and time and savings deposits held by us totaled ₩31,309.9 billion.



## Debt

### *Debt Repayment Schedule*

The following table sets out our principal repayment schedule as of December 31, 2016:

#### **Debt Principal Repayment Schedule<sup>(1)</sup>**

	<b>Maturing on or before December 31,</b>				
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Thereafter</b>
	<b>(billions of won)</b>				
<b>Currency<sup>(2)(3)</sup></b>					
Won . . . . .	50,433.7	20,418.2	8,016.7	1,254.3	18,618.8
Foreign . . . . .	<u>17,409.3</u>	<u>7,914.3</u>	<u>3,756.4</u>	<u>2,520.8</u>	<u>9,166.0</u>
Total Won Equivalent . . . . .	<u>67,843.0</u>	<u>28,332.5</u>	<u>11,773.1</u>	<u>3,775.1</u>	<u>27,784.8</u>

Notes:

- (1) Excludes bonds sold under repurchase agreements and call money.
- (2) Borrowings in foreign currencies have been translated into Won at the market average exchange rates on December 31, 2016, as announced by the Seoul Money Brokerage Services Ltd.
- (3) We categorise debt with respect to which we have entered into currency swap agreements by our repayment currency under such agreements.

The following table summarises, as of December 31 of the years indicated, our outstanding direct internal debt:

	<b>Direct Internal Debt of KDB</b>
	<b>(billions of won)</b>
2012 . . . . .	37,515.4
2013 . . . . .	46,237.4
2014 . . . . .	99,441.9
2015 . . . . .	100,119.6
2016 . . . . .	92,692.8

The following table summarises, as of December 31 of the years indicated, our outstanding direct external debt:

	<b>Direct External Debt of KDB</b>
	<b>(billions of won)</b>
2012 . . . . .	29,780.4
2013 . . . . .	31,080.3
2014 . . . . .	37,260.0
2015 . . . . .	37,341.4
2016 . . . . .	38,264.9

The following table sets out, by currency and the equivalent amount in U.S. Dollars, our outstanding external bonds as of December 31, 2016:

	<b>External Bonds</b>	
	<b>Amount in Original Currency</b>	<b>Equivalent Amount in U.S. Dollars<sup>(1)</sup></b>
	(millions)	
US\$ . . . . .	14,424.7	14,424.7
Japanese yen (¥) . . . . .	75,000	643.4
Euro (EUR) . . . . .	1,165.3	1,222.3
Singapore dollar (SGD) . . . . .	400.0	276.2
Hong Kong dollar (HKD) . . . . .	5,158.0	664.9
Chinese offshore renminbi (CNH) . . . . .	6,588.0	944.7
Swiss franc (CHF) . . . . .	580.3	567.0
Brazilian real (BRL) . . . . .	591.3	181.6
Australian dollar (AUD) . . . . .	1,345.4	970.8
Great Britain Sterling (GBP) . . . . .	250.0	306.2
Malaysian Ringgit (MYR) . . . . .	200.0	44.6
New Zealand Dollar (NZD) . . . . .	400.0	278.4
Mexican Peso (MXN) . . . . .	144.0	6.9
Norwegian Krone (NOK) . . . . .	700.0	80.9
South African Rand (ZAR) . . . . .	952.0	69.9
Total . . . . .		<u>US\$20,682.5</u>

Note:

(1) Amounts expressed in currencies other than US\$ are converted to US\$ at the exchange rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2016.

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

### ***Debt Record***

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

### **Overseas Operations**

We operate overseas subsidiaries in Hong Kong, Dublin, Budapest, Sao Paulo and Tashkent. The subsidiaries engage in a variety of banking and merchant banking services, including:

- managing and underwriting new securities issues;
- syndicating medium and long-term loans;
- trading securities;
- trading in the money market; and
- providing investment management and advisory services.

We currently maintain nine branches in Tokyo, Shanghai, Singapore, New York City, London, Beijing, Guangzhou, Qingdao and Shenyang and eight overseas representative offices in Frankfurt, Ho Chi Minh City, Abu Dhabi, Yangon, Moscow, Manila, Sydney and Bangkok.

### **Property**

Our head office is located at 14 Eunhaeng-ro Yeongdeungpo-gu, Seoul, Korea, a 35,996 square metre building completed in July 2001 and owned by us. In addition to the head office, we maintain 77 branches in major cities throughout the Republic, including 23 in Seoul. We generally lease our domestic and overseas offices under long-term leases.

## Directors and Management; Employees

Our Board of Directors has ultimate responsibility for management of our affairs. Under the KDB Act and our Articles of Incorporation, our Board of Directors is to consist of one Chief Executive Officer (who also serves as the Chairman of the Board of Directors), one Chief Operating Officer and not more than eight directors. Under the KDB Act, the President of the Republic appoints our Chief Executive Officer and Chairman of the Board of Directors upon the recommendation of the Chairman of the Financial Services Commission. The Financial Services Commission appoints all of our directors upon the recommendation of our Chief Executive Officer. Under our Articles of Incorporation, our executive directors serve for three-year terms and they may be re-appointed, and our independent non-executive directors serve for two-year terms and they may be re-appointed; provided, however, that our independent non-executive directors shall not serve more than one year for each reappointment and shall not serve more than five years consecutively. Currently, the members of our Board of Directors are:

<u>Position</u>	<u>Name</u>	<u>Expiration of Term</u>
Chief Executive Officer and Chairman of the Board of Directors . . . . .	Dong Geol Lee	February, 4 2019
Chief Operating Officer and Vice Chairman of the Board of Directors . . . . .	Dai Hyun Lee	September 27, 2019
Auditor . . . . .	Hyung Chul Shin	April 10, 2017 <sup>(1)</sup>
Independent Non-executive Directors . . . . .	Jong Sub Sung	March 1, 2018
	Hi-Taek Shin	April 26, 2018
	Hay-Young Chung	April 26, 2018
	Chae Yeol Yang	May 25, 2019

Note:

(1) Although his term has expired, his term is extended until our new Auditor is appointed by the Financial Services Commission.

As of December 31, 2016, we employed 3,412 persons with 1,910 persons located in our Seoul head office.

## Tables and Supplementary Information

### (A) External Debt of KDB

#### (1) External Bonds of KDB

<u>Currency</u>	<u>Original Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Principal Amount Outstanding as of December 31, 2016</u>
USD . . . . .	700,000,000*	3.875	November 4, 2011	May 4, 2017*	700,000,000*
USD . . . . .	300,000,000*	3.875	November 4, 2011	May 4, 2017*	300,000,000*
USD . . . . .	150,000,000	3.50	February 22, 2012	August 22, 2017	150,000,000
USD . . . . .	100,000,000	3.50	February 22, 2012	August 22, 2017	100,000,000
USD . . . . .	500,000,000	3.50	February 22, 2012	August 22, 2017	500,000,000
USD . . . . .	500,000,000	3.50	July 5, 2012	August 22, 2017	500,000,000
USD . . . . .	300,000,000	3.00	September 14, 2012	September 14, 2022	300,000,000
USD . . . . .	350,000,000	3.00	September 14, 2012	September 14, 2022	350,000,000
USD . . . . .	100,000,000	3.00	September 14, 2012	September 14, 2022	100,000,000
USD . . . . .	500,000,000	1.50	January 22, 2013	January 22, 2018	500,000,000
USD . . . . .	30,000,000	3M USD Libor + 1.00	June 10, 2013	June 10, 2018	30,000,000
USD . . . . .	300,000,000	3.00	September 17, 2013	March 17, 2019	300,000,000
USD . . . . .	450,000,000	3.00	September 17, 2013	March 17, 2019	450,000,000
USD . . . . .	40,000,000	3.81	October 30, 2013	October 30, 2023	40,000,000
USD . . . . .	30,000,000	4.00	November 1, 2013	November 1, 2023	30,000,000
USD . . . . .	50,000,000	3.74	November 5, 2013	November 5, 2023	50,000,000
USD . . . . .	50,000,000	3.70	November 6, 2013	November 6, 2023	50,000,000
USD . . . . .	30,000,000	3.79	November 13, 2013	November 13, 2023	30,000,000
USD . . . . .	50,000,000	3.8	November 13, 2013	November 13, 2023	50,000,000
USD . . . . .	50,000,000	3.75	November 15, 2013	November 15, 2023	50,000,000
USD . . . . .	20,000,000	3.66	November 26, 2013	November 26, 2023	20,000,000

Currency	Original Principal Amount	Interest Rate (%)	Issue Date	Maturity Date	Principal Amount Outstanding as of December 31, 2016
USD	60,000,000	3.68	November 26, 2013	November 26, 2023	60,000,000
USD	50,000,000	3.8	December 12, 2013	December 12, 2023	50,000,000
USD	20,000,000	3.8	December 18, 2013	December 18, 2023	20,000,000
USD	20,000,000	3.81	December 18, 2013	December 18, 2023	20,000,000
USD	150,000,000*	3M USD Libor + 0.625	January 22, 2014	January 22, 2017*	150,000,000*
USD	600,000,000*	3M USD Libor + 0.625	January 22, 2014	January 22, 2017*	600,000,000*
USD	750,000,000	3.75	January 22, 2014	January 22, 2024	750,000,000
USD	20,000,000*	1.39	March 17, 2014	March 17, 2017*	20,000,000*
USD	30,000,000	3.605	April 29, 2014	April 29, 2024	30,000,000
USD	50,000,000	3.62	April 29, 2014	April 29, 2024	50,000,000
USD	20,000,000	3.615	April 30, 2014	April 30, 2024	20,000,000
USD	350,000,000	2.5	September 11, 2014	March 11, 2020	350,000,000
USD	400,000,000	2.5	September 11, 2014	March 11, 2020	400,000,000
USD	50,000,000	3.25	November 14, 2014	November 14, 2024	50,000,000
USD	750,000,000	0.04625	November 16, 2011	November 16, 2021	750,000,000
USD	200,000,000	0.0225	August 7, 2012	August 7, 2017	200,000,000
USD	300,000,000	0.0225	August 7, 2012	August 7, 2017	300,000,000
USD	300,000,000	0.0225	September 24, 2012	August 7, 2017	300,000,000
USD	200,000,000	0.02875	August 22, 2013	August 22, 2018	200,000,000
USD	300,000,000	0.02875	August 22, 2013	August 22, 2018	300,000,000
USD	200,000,000	0.0385	February 20, 2014	February 20, 2024	200,000,000
USD	20,000,000	3.72	April 9, 2014	April 9, 2024	20,000,000
USD	30,000,000	3.72	April 10, 2014	April 10, 2024	30,000,000
USD	30,000,000	3.7	April 11, 2014	April 11, 2024	30,000,000
USD	50,000,000	3.7	April 11, 2014	April 11, 2024	50,000,000
USD	50,000,000*	1.46	April 22, 2014	April 22, 2017*	50,000,000*
USD	50,000,000	2.73	February 6, 2015	February 6, 2027	50,000,000
USD	500,000,000	2.25	May 18, 2015	May 18, 2020	500,000,000
USD	30,000,000	3.01	June 24, 2015	June 24, 2025	30,000,000
USD	50,000,000	3.376	July 9, 2015	July 9, 2025	50,000,000
USD	50,000,000	3.33	July 22, 2015	July 22, 2025	50,000,000
USD	10,000,000	3M USD Libor + 0.37	July 23, 2015	July 23, 2017	10,000,000
USD	50,000,000	3.2	August 6, 2015	August 6, 2025	50,000,000
USD	350,000,000	3.375	September 16, 2015	September 16, 2025	350,000,000
USD	400,000,000	3.375	September 16, 2015	September 16, 2025	400,000,000
USD	20,000,000	3M USD Libor + 0.55	October 15, 2015	October 15, 2018	20,000,000
USD	50,000,000	3M USD Libor + 0.65	November 4, 2015	November 5, 2018	50,000,000
USD	10,000,000	3M USD Libor + 0.70	November 6, 2015	November 6, 2020	10,000,000
USD	100,000,000	3M USD Libor + 0.67	November 27, 2015	November 27, 2018	100,000,000
USD	1,000,000,000	3.000	January 13, 2016	January 13, 2026	1,000,000,000
USD	150,000,000	3M USD Libor + 0.85	April 12, 2016	April 12, 2019	150,000,000
USD	500,000,000	2.000	September 12, 2016	September 12, 2026	500,000,000
USD	20,000,000	3M USD Libor + 0.25	November 03, 2016	November 03, 2017	20,000,000
USD	50,000,000	2.530	November 10, 2016	November 10, 2028	50,000,000
USD	500,000,000	2.500	January 13, 2016	January 13, 2021	500,000,000
USD	50,000,000	2.690	March 30, 2016	March 30, 2026	50,000,000
USD	150,000,000	3M USD Libor + 0.95	April 12, 2016	April 12, 2021	150,000,000
USD	11,700,000	1.530	July 05, 2016	July 05, 2022	11,700,000
USD	53,000,000	2.180	August 10, 2016	August 10, 2026	53,000,000
USD	500,000,000	1.375	September 12, 2016	September 12, 2019	500,000,000
USD	20,000,000	2.625	December 14, 2016	December 14, 2021	20,000,000
USD	150,000,000	3M USD Libor + 0.38	December 28, 2016	December 28, 2017	150,000,000
Subtotal in Original Currency					USD 14,424,700,000
Subtotal in Equivalent Amount in Won <sup>(1)</sup>					₩ 17,432,249,950,000
SGD	200,000,000	2.05	July 23, 2015	July 23, 2018	200,000,000
SGD	200,000,000	2.65	December 3, 2015	December 3, 2018	200,000,000
Subtotal in Original Currency					SGD400,000,000
Subtotal in Equivalent Amount in Won <sup>(2)</sup>					₩ 333,840,000,000
JPY	15,000,000,000	3.22	May 30, 2008	May 30, 2018	15,000,000,000
JPY	3,700,000,000	1.31	June 20, 2012	June 20, 2017	3,700,000,000
JPY	6,500,000,000	0.89	June 7, 2013	June 7, 2018	6,500,000,000
JPY	15,000,000,000	0.69	January 29, 2014	January 29, 2019	15,000,000,000
JPY	24,800,000,000	0.35	October 24, 2014	October 24, 2017	24,800,000,000
JPY	3,000,000,000	0.00685	November 7, 2012	November 7, 2017	3,000,000,000
JPY	7,000,000,000*	0.0045	May 2, 2014	May 2, 2017*	7,000,000,000*
Subtotal in Original Currency					JPY 75,000,000,000
Subtotal in Equivalent Amount in Won <sup>(3)</sup>					₩ 77,607,500,000

Currency	Original Principal Amount	Interest Rate (%)	Issue Date	Maturity Date	Principal Amount Outstanding as of December 31, 2016
HKD	150,000,000	5.00	November 20, 2007	November 20, 2017	150,000,000
HKD	80,000,000	4.71	December 18, 2007	December 18, 2017	80,000,000
HKD	303,000,000	4.30	October 21, 2011	October 21, 2021	303,000,000
HKD	89,000,000	3.60	September 16, 2011	September 16, 2021	89,000,000
HKD	500,000,000*	2.80	April 3, 2012	April 3, 2017*	500,000,000*
HKD	300,000,000	1.82	April 26, 2013	April 26, 2018	300,000,000
HKD	160,000,000	2.28	October 31, 2013	October 31, 2018	160,000,000
HKD	1,042,000,000	3.2	April 3, 2014	October 3, 2021	1,042,000,000
HKD	388,000,000	0.0442	April 12, 2011	April 12, 2021	388,000,000
HKD	130,000,000	0.0228	November 4, 2013	November 4, 2018	130,000,000
HKD	160,000,000	1.73	November 6, 2015	May 6, 2019	160,000,000
HKD	300,000,000	1.85	November 19, 2015	November 19, 2018	300,000,000
HKD	316,000,000	1.88	November 23, 2015	November 23, 2018	316,000,000
HKD	154,000,000	1.79	December 3, 2015	December 3, 2018	154,000,000
HKD	433,000,000	1.965	February 25, 2016	February 25, 2018	433,000,000
HKD	140,000,000	3M HKD Hibor + 0.71	April 07, 2016	April 07, 2018	140,000,000
HKD	350,000,000	2.060	October 25, 2016	October 25, 2023	350,000,000
HKD	113,000,000	1.980	April 07, 2016	March 30, 2021	113,000,000
HKD	50,000,000	1.855	December 29, 2016	December 29, 2017	50,000,000
Subtotal in Original Currency					HKD 5,158,000,000
Subtotal in Equivalent Amount of Won <sup>(4)</sup>					₩ 803,771,140,000
CNH	150,000,000	4.45	November 8, 2013	November 8, 2023	150,000,000
CNH	210,000,000	4.1	December 18, 2013	December 18, 2023	210,000,000
CNH	200,000,000	4.38	February 13, 2015	February 13, 2018	200,000,000
CNH	1,000,000,000	3.55	June 19, 2015	June 19, 2018	1,000,000,000
CNH	300,000,000	3.78	July 9, 2015	July 9, 2019	300,000,000
CNH	140,000,000	3.84	July 17, 2015	July 17, 2018	140,000,000
CNH	100,000,000	3.91	July 20, 2015	July 20, 2018	100,000,000
CNH	138,000,000	4.05	July 24, 2015	July 24, 2018	138,000,000
CNH	100,000,000	4.15	July 27, 2015	July 27, 2018	100,000,000
CNH	120,000,000	4.05	August 17, 2015	August 17, 2018	120,000,000
CNH	1,000,000,000	4.10	August 24, 2015	August 24, 2018	1,000,000,000
CNH	200,000,000	4.10	August 24, 2015	August 24, 2018	200,000,000
CNH	200,000,000	3.90	November 19, 2015	November 19, 2018	200,000,000
CNH	500,000,000	4.04	December 8, 2015	December 8, 2018	500,000,000
CNH	700,000,000	4.20	December 15, 2015	December 15, 2018	700,000,000
CNH	600,000,000	4.20	December 15, 2015	December 15, 2018	600,000,000
CNH	130,000,000	4.500	March 30, 2016	March 30, 2019	130,000,000
CNH	315,000,000	3.300	October 28, 2016	October 26, 2018	315,000,000
CNH	60,000,000	3.600	November 02, 2016	November 02, 2019	60,000,000
CNH	175,000,000	4.070	November 25, 2016	November 27, 2017	175,000,000
CNH	100,000,000	4.180	November 29, 2016	November 29, 2019	100,000,000
CNH	150,000,000	4.750	December 12, 2016	December 12, 2019	150,000,000
Subtotal in Original Currency					CNH 6,588,000,000
Subtotal in Equivalent Amount of Won <sup>(5)</sup>					₩ 1,141,436,880,000
EUR	20,000,000	1.17	December 24, 2012	December 15, 2017	20,000,000
EUR	200,000,000	1.50	May 30, 2013	May 30, 2018	200,000,000
EUR	300,000,000	1.50	May 30, 2013	May 30, 2018	300,000,000
EUR	200,000,000	1.50	July 23, 2013	May 30, 2018	200,000,000
EUR	50,000,000	3M Euribor + 0.235	September 24, 2014	September 24, 2017	50,000,000
EUR	100,000,000	3M Euribor + 0.45	October 28, 2014	October 28, 2019	100,000,000
EUR	16,000,000	3M Euribor + 0.45	October 30, 2014	October 30, 2019	16,000,000
EUR	25,000,000	12M Euribor + 0.02	February 12, 2015	August 12, 2019	25,000,000
EUR	50,000,000	3M Euribor + 0.45	February 24, 2016	February 24, 2018	50,000,000
EUR	18,000,000	3M Euribor + 0.35	April 15, 2016	April 15, 2018	18,000,000
EUR	40,290,000	0.16	December 01, 2016	December 01, 2021	40,290,000
EUR	82,000,000	3M Euribor + 0.35	April 15, 2016	April 15, 2018	82,000,000
EUR	64,000,000	0.24	November 25, 2016	November 25, 2021	64,000,000
Subtotal in Original Currency					EUR 1,165,290,000
Subtotal in Equivalent Amount of Won <sup>(6)</sup>					₩ 1,477,121,604,000
CHF	180,000,000	1.000	December 21, 2012	December 21, 2018	180,000,000
CHF	100,000,000	0.01375	October 2, 2013	July 2, 2018	100,000,000
CHF	150,000,000	0.01375	October 2, 2013	July 2, 2018	150,000,000
CHF	150,000,000	0.02	October 29, 2012	October 29, 2018	150,000,000
Subtotal in Original Currency					CHF 580,000,000
Subtotal in Equivalent Amount of Won <sup>(7)</sup>					₩ 685,171,400,000

Currency	Original Principal Amount	Interest Rate (%)	Issue Date	Maturity Date	Principal Amount Outstanding as of December 31, 2016
BRL	45,500,000	7.02	June 19, 2012	June 21, 2017	45,500,000
BRL	545,800,000	7.73	July 05, 2016	July 05, 2019	545,800,000
Subtotal in Original Currency					BRL 591,300,000
Subtotal in Equivalent Amount of Won <sup>(8)</sup>					₩ 219,555,603,000
AUD	100,000,000	4.50	April 30, 2013	April 30, 2018	100,000,000
AUD	25,000,000	3M BBSW + 1.45	July 30, 2013	July 30, 2018	25,000,000
AUD	30,000,000	5.15	July 31, 2013	July 31, 2018	30,000,000
AUD	47,500,000	4.23	September 27, 2013	September 26, 2017	47,500,000
AUD	50,000,000	3M BBSW + 1.10	May 22, 2014	November 22, 2019	50,000,000
AUD	150,000,000	3M BBSW + 1.10	May 22, 2014	November 22, 2019	150,000,000
AUD	200,000,000	4.50	May 22, 2014	November 22, 2019	200,000,000
AUD	300,000,000*	3M BBSW + 1.27	June 5, 2013	June 5, 2017*	300,000,000*
AUD	20,000,000	3.37	February 11, 2015	February 11, 2022	20,000,000
AUD	300,000,000	3M BBSW + 1.03	November 27, 2015	November 27, 2018	300,000,000
AUD	22,900,000	2.55	July 05, 2016	July 05, 2022	22,900,000
AUD	100,000,000	3.966	November 30, 2016	November 30, 2026	100,000,000
Subtotal in Original Currency					AUD 1,345,400,000
Subtotal in Equivalent Amount of Won <sup>(9)</sup>					₩ 1,173,256,070,000
MYR	200,000,000*	4.10	February 24, 2012	February 24, 2017*	200,000,000*
Subtotal in Original Currency					MYR 200,000,000
Subtotal in Equivalent Amount of Won <sup>(10)</sup>					₩ 53,896,000,000
MXN	144,000,000	4.78	September 27, 2013	September 26, 2017	144,000,000
Subtotal in Original Currency					MXN 144,000,000
Subtotal in Equivalent Amount of Won <sup>(11)</sup>					₩ 8,396,640,000
NOK	300,000,000	4.00	October 23, 2013	April 23, 2020	300,000,000
NOK	400,000,000	2.905	July 21, 2015	July 21, 2025	400,000,000
Subtotal in Original Currency					NOK 700,000,000
Subtotal in Equivalent Amount of Won <sup>(12)</sup>					₩ 97,825,000,000
ZAR	822,000,000	7.76	September 27, 2013	September 26, 2017	822,000,000
ZAR	130,000,000	8.20	June 30, 2015	July 2, 2018	130,000,000
Subtotal in Original Currency					ZAR 952,000,000
Subtotal in Equivalent Amount of Won <sup>(13)</sup>					₩ 84,490,000,000
NZD	100,000,000	5.25	April 3, 2014	April 3, 2018	100,000,000
NZD	100,000,000	5.125	November 13, 2014	November 13, 2020	100,000,000
NZD	200,000,000	3M BKBM+1.05	April 18, 2016	April 18, 2019	200,000,000
Subtotal in Original Currency					NZD 400,000,000
Subtotal in Equivalent Amount of Won <sup>(14)</sup>					₩ 336,400,000,000
GBP	100,000,000	2.00	November 20, 2014	December 20, 2018	100,000,000
GBP	150,000,000	2.00	November 20, 2014	December 20, 2018	150,000,000
Subtotal in Original Currency					GBP 250,000,000
Subtotal in Equivalent Amount of Won <sup>(15)</sup>					₩ 370,042,500,000
<b>Total External Bonds of KDB in Equivalent Amount of Won</b>					<b>₩ 24,995,060,287,000</b>

Notes:

\* Repaid on the respective maturity dates.

- (1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to Won 1,208.50, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (2) Singapore dollar amounts are converted to Won amounts at the rate of SGD 1.00 to Won 834.60, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (3) Japanese yen amounts are converted to Won amounts at the rate of JPY 100.00 to Won 1,036.81, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (4) Hong Kong dollar amounts are converted to Won amounts at the rate of HKD 1.00 to Won 155.83, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (5) Chinese offshore renminbi amounts are converted to Won amounts at the rate of CNH 1.00 to Won 173.75, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.

- (6) Euro amounts are converted to Won amounts at the rate of EUR 1.00 to Won 1,267.60, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (7) Swiss franc amounts are converted to Won amounts at the rate of CHF 1.00 to Won 1,181.33, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (8) Brazilian real amounts are converted to Won amounts at the rate of BRL 1.00 to Won 371.31, the prevailing market rate on December 31, 2016.
- (9) Australian dollar amounts are converted to Won amounts at the rate of AUD 1.00 to Won 872.05, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (10) Malaysian ringgit amounts are converted to Won amounts at the rate of MYR 1.00 to Won 269.48, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (11) Mexican Peso amounts are converted to Won amounts at the rate of MXN 1.00 to Won 58.31, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (12) Norwegian Krone amounts are converted to Won amounts at the rate of NOK 1.00 to Won 139.75, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (13) South African Rand amounts are converted to Won amounts at the rate of ZAR 1.00 to Won 88.75, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (14) New Zealand dollar amounts are converted to Won amounts at the rate of NZD 1.00 to Won 841.00, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.
- (15) Great Britain Sterling amounts are converted to Won amounts at the rate of GBP 1.00 to Won 1,480.17, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.

(2) *External Borrowings of KDB*

<b>Lender</b>	<b>Classifications</b>	<b>Range of Interest Rates</b>	<b>Range of Years of Issue</b>	<b>Range of Years of Maturity</b>	<b>Principal Amount Outstanding as of December 31, 2016<sup>(1)</sup></b> <b>(millions of Won)</b>
		(%)			
JBIC . . . . .	Borrowings from JBIC	1.73-2.16	2010-2013	2017-2025	94,165
Mizuho and others . . . . .	Borrowings from foreign banks	3M Libor + 0.33-3M Libor + 0.78	2013-2016	2017-2021	1,377,690
Ministry of Strategy and Finance . . . . .	Exchange equalisation fund borrowings in foreign currencies	3M Libor + 0.22-3M Libor + 0.74	2014-2016	2017-2024	2,902,757
Central Bank of the Republic of Uzbekistan and others . . . . .	Off-shore short-term borrowings	0.19-1.34	2016	2017	1,419,512
HSBC and others . . . . .	Off-shore long-term borrowings	3M Libor+0.35-+0.62	2013-2016	2017-2019	483,400
JBIC . . . . .	Off-shore borrowings from JBIC	1.79-4.32	2010-2013	2017-2022	27,619
Others . . . . .	Short-term borrowings in foreign currency	0.00-7.05	2016	2017	5,081,972
	Long-term borrowings in foreign currency	0.20-2.97	2014-2016	2017-2021	1,782,716
<b>Total External Borrowings of KDB . . . . .</b>					<b><u>₩13,269,831</u></b>

Note:

- (1) Converted to Won amounts at the relevant market average exchange rates in effect on December 31, 2016 as announced by Seoul Money Brokerage Services, Ltd.



## (B) Internal Debt of KDB

<u>Title</u>	<u>Range of Interest Rates</u>	<u>Range of Years of Issue</u>	<u>Range of Years of Original Maturity</u>	<u>Principal Amounts Outstanding as of December 31, 2016</u>
	(%)			(millions of Won)
<b>1. Bonds</b>				
Short-term Industrial Finance Bonds . . . . .	3.72	2011-2016	2012-2017	5
Long-term Industrial Finance Bonds . . . . .	1.27-12.00	2005-2016	2012-2046	84,597,669
Total Bonds . . . . .	1.27-12.00	2005-2016	2012-2046	84,597,674
<b>2. Borrowings</b>				
Borrowings from the Ministry of Strategy and Finance . . . . .	0.29-0.80	1997-2012	2017-2032	322,021
Borrowings from Industrial Bank of Korea . . . . .	0.60-1.00	2014-2016	2019-2021	3,807
Borrowings from Small Business Corp. . . . .	1.27-3.41	2007-2016	2017-2031	132,852
Borrowings from the Ministry of Culture and Tourism . . . . .	0.05-2.50	2008-2016	2017-2028	2,246,926
Borrowings from Korea Energy Management Corporation . . . . .	0.25-3.65	2002-2016	2017-2031	781,837
Others <sup>(1)</sup> . . . . .	0.00-3.65	2001-2016	2016-2044	<u>1,258,186</u>
Total Borrowings <sup>(2)</sup> . . . . .				<u>4,745,629</u>
<b>3. Other Debt<sup>(3)</sup></b> . . . . .				<u>3,349,470</u>
Total Internal Floating Debt <sup>(4)</sup> . . . . .				<u>7,530,005</u>
Total Internal Funded Debt <sup>(5)</sup> . . . . .				<u>85,162,768</u>
Total Internal Debt . . . . .				<u>92,692,773</u>

Notes:

- (1) Includes borrowings from The Bank of Korea and the local small and medium enterprises support fund.
- (2) Consist of short term borrowings in the amount of ₩915,418 million and long term borrowings in the amount of ₩3,830,211 million.
- (3) Other debt includes bonds sold under repurchase agreements and call money.
- (4) Floating debt is debt that has a maturity at issuance of less than one year.
- (5) Funded debt is debt that has a maturity at issuance of one year or more.

### Financial Statements and the Auditors

The Government elects our Auditor who is responsible for examining our financial operations and auditing our financial statements and records. The present Auditor is Hyung-Chul Shin, who was appointed by the Financial Services Commission for a three-year term on April 11, 2014. Although his term has expired, our new Auditor has not been appointed by the Financial Services Commission and his term is extended until our new Auditor is appointed.

We prepare our financial statements annually for submission to the Financial Services Commission, accompanied by an opinion of the Auditor. Although we are not legally required to have financial statements audited by external independent auditors, an independent public accounting firm has audited our separate and consolidated financial statements commencing with such financial statements as of and for the year ended December 31, 1998. As of the date of this prospectus, our external independent auditor is Nexia Samduk, located at 12F, S&S Building, 48 Ujeongguk-ro, Jongno-gu, Seoul 03150, Korea, which has audited our separate financial statements as of and for the year ended December 31, 2016 included in this prospectus. KPMG Samjong Accounting Corp., located at 152, Teheran-ro, Gangnam-gu, Seoul 06236 (Yeoksam-dong, Gangnam Finance Center 27th Floor), Korea has audited our separate financial statements as of and for the year ended December 31, 2015 included in this prospectus.

Our separate financial statements appearing in this prospectus were prepared in conformity with Korean IFRS, as summarised in “— Financial Statements and the Auditors — Notes to Separate Financial Statements of December 31, 2016 and 2015 — Note 2.” These principles and procedures differ in certain material respects from generally accepted accounting principles in the United States.

We generally record our debt securities investments, except for our trading portfolio of marketable debt securities, at the cost of acquisition (including incidental expenses related to purchase), computed on the specific identification method. We record our trading portfolio of marketable debt securities at market value. Starting in April 1999, we record all our debt securities investments at market value except for debt securities invested with the intention of holding until maturity, which we record at the cost of acquisition or amortised cost.

We record the value of our premises and equipment on our statements of financial position on the basis of a revaluation conducted as of July 1, 1998. The Minister of Strategy and Finance approved the revaluation in accordance with applicable Korean law. We value additions to premises and equipment since such date at cost.

## DESCRIPTION OF THE BANK'S LONDON BRANCH

The Bank had opened its overseas branch in London, United Kingdom on 31 July 1997 to provide a full range of commercial banking services to corporate customers, institutional investors, and financial institutions. The core businesses of the branch are corporate banking, securities, derivatives, and treasury. The branch also services the Bank's branches in Korea and the Bank's clients in Korea for their foreign exchange operations, including but not limited to inward remittances and letters of credit. The Bank's London Branch has a total of 35 employees as of December 31, 2016 and the address of the branch is 99 Bishopsgate, London EC2M 3XD, United Kingdom.

### **Regulation of the London Branch**

#### *Regulation under the laws of England*

The Bank is registered with the Financial Conduct Authority ("FCA") and is regulated by the FCA. The FCA is an independent organisation responsible for regulating financial services in the United Kingdom.

#### *Regulation under Korean Law*

With the prior approval of the Minister of Finance and Economy, the Bank had established its London Branch in 1997. In 2008, the Ministry of Finance and Economy and the Ministry of Planning and Budget merged into the Ministry of Strategy and Finance and the Ministry of Finance and Economy's authority to implement financial policies and to regulate the financial market was transferred to the Financial Services Commission. In addition to being subject to the laws and regulations of the host country, the Bank's London Branch is also subject to the regulations and directives of the head of the Financial Supervisory Service. The Financial Supervisory Service, which is under the oversight of the Financial Services Commission, has the authority to approve and supervise the overseas branches of Korean banks since the legislation of the Regulation on Overseas Expansion of Financial Institutions in 2008. The overseas branches of Korean banks, in accordance with such guidelines, are required to conduct business activities in accordance with the report of establishment under Article 12(1) of the Regulation on Overseas Expansion of Financial Institutions.

## DESCRIPTION OF THE BANK'S NEW YORK BRANCH

The Bank had opened its overseas branch in New York, United States on 1 April 1997 to engage in international banking transactions and provide financial services to customers in the United States. The core businesses of the branch are corporate banking, securities, and trade finance. The branch also services the Bank's branches in Korea and the Bank's clients in Korea for their foreign exchange operations, including but not limited to inward remittances and letters of credit. The Bank's New York Branch has a total of 31 employees as of December 31, 2016 and the address of the branch is 320 Park Avenue, New York, New York 10022.

### **Regulation of the New York Branch**

#### *Regulation under the laws of the United States*

The Bank is licenced by the Superintendent of Banks of the State of New York under the New York Banking Law. The Bank is examined by the New York State Department of Financial Services and the Board of Governors of the Federal Reserve System and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. The obligations of the Bank are not insured by the Federal Deposit Insurance Corporation.

#### *Regulation under Korean Law*

With the prior approval of the Minister of Finance and Economy, the Bank had established its New York Branch in 1997. In 2008, the Ministry of Finance and Economy and the Ministry of Planning and Budget merged into the Ministry of Strategy and Finance and the Ministry of Finance and Economy's authority to implement financial policies and to regulate the financial market was transferred to the Financial Services Commission. In addition to being subject to the laws and regulations of the host country, the Bank's New York Branch is also subject to the regulations and directives of the head of the Financial Supervisory Services. The Financial Supervisory Service, which is under the oversight of the Financial Services Commission, has the authority to approve and supervise the overseas branches of Korean banks since the legislation of the Regulation on Overseas Expansion of Financial Institutions in 2008. The overseas branches of Korean banks, in accordance with such guidelines, are required to conduct business activities in accordance with the report of establishment under Article 12(1) of the Regulation on Overseas Expansion of Financial Institutions.

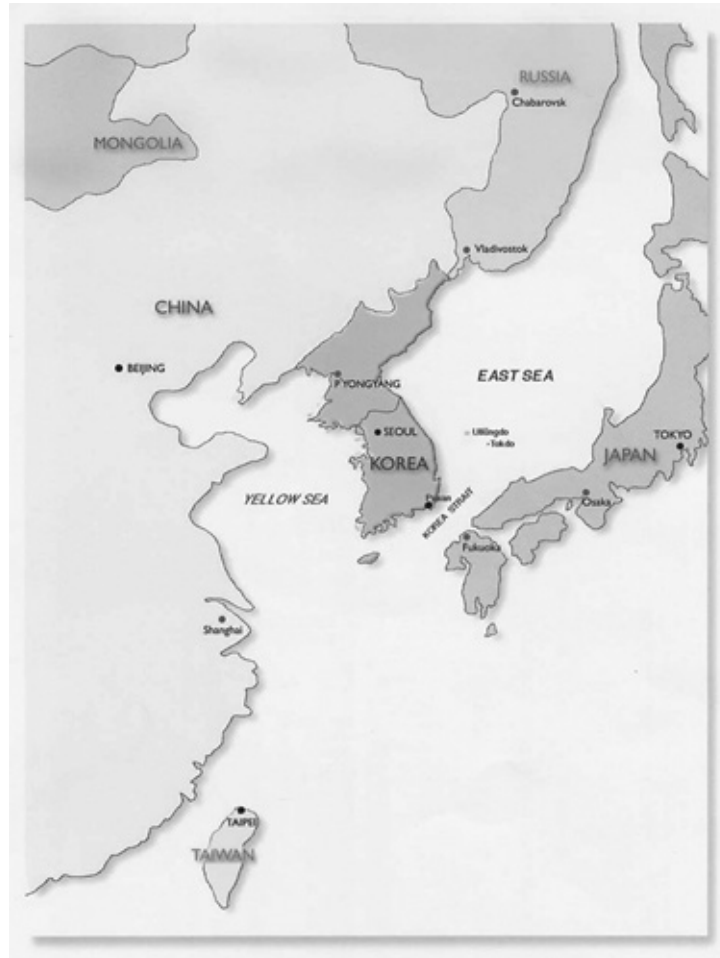
## THE REPUBLIC OF KOREA

### Land and History

#### *Territory and Population*

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

#### *Map of the Republic of Korea*



#### *Political History*

Dr. Rhee Seungman, who was elected President in each of 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served as President until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

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

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

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

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

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

In December 2007, the country elected Lee Myung-Bak as President. He commenced his term on February 25, 2008. The Lee administration pursued a lively market economy through deregulation, free trade and the attraction of foreign investment.

In December 2012, the country elected Park Geun-hye as President. She commenced her term on February 25, 2013. In November 2016, the prosecutor's office indicted a confidant of President Park who had allegedly used her ties with the President to extort donations from Korean conglomerates for two non-profit foundations over which she is purported to have substantial influence, and a number of current and former presidential aides on charges of, among others, abuse of power, coercion and leaking classified documents. On November 30, 2016, a special independent prosecutor was appointed to conduct an investigation of the extent of the President's involvement. Mass weekend rallies have been held in Seoul and other cities for several months to protest against President Park.

On December 9, 2016, the National Assembly voted in favour of impeaching President Park for a number of alleged constitutional and criminal violations, including violation of the Constitution and abuse of power by allowing her confidant to exert influence on state affairs and allowing senior presidential aides to aid in her extortion from companies. President Park was suspended from power immediately, with the prime minister simultaneously taking over the role of acting President. On March 10, 2017, the Constitutional Court unanimously upheld the parliamentary vote to impeach President Park, triggering her immediate dismissal. A special election to elect a new President was held on May 9, 2017 and the country elected Moon Jae-in as President. He commenced his term on May 10, 2017. The Moon administration's key policy priorities include:

- investigating corruption involving high-ranking government officials, anti-corruption and reform of chaebol (Korean conglomerates);
- denuclearization of and establishing peace on the Korean Peninsula and enhancing Korea's core military strength in response to North Korea's nuclear capabilities;

- reducing fine dust emissions, closing old nuclear power plants and reexamining the construction of new nuclear power plants;
- creating new jobs, resolving youth unemployment and enacting laws prohibiting discrimination against non-regular workers;
- creating jobs for senior citizens, increasing basic pension and providing government subsidies for Alzheimer's disease treatment;
- protecting small business owners and restricting establishment of large-scale stores and multi-complex shopping malls.

In connection with the investigation of former President Park, the special independent prosecutor also conducted related investigations of several large Korean business groups and members of their senior management for bribery, embezzlement and other possible misconduct, which the Korean prosecutor's office has continued following the end of the special independent prosecutor's term. As of December 31, 2016, our credit exposure to such business groups totaled approximately ₩2,600 billion, accounting for 0.1% of our total assets as of such date. On March 31, 2017, the Seoul Central District Court issued an arrest warrant for former President Park in connection with such investigation. On April 17, 2017, the Korean prosecutor's office indicted former President Park on 18 charges including bribery, abuse of power and coercion. Although the Government believes that the Korean economy is resilient enough to withstand any temporary negative impact of such political development, there is no assurance that it will not have a material adverse effect on the Korean economy and public finances.

## **Government and Politics**

### ***Government and Administrative Structure***

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

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

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

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



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

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

### *Political Parties*

The 20th legislative general election was held on April 13, 2016 and the term of the National Assembly members elected in the 20th legislative general election commenced on May 30, 2016. Currently, there are four major political parties: The Minjoo Party of Korea, or MPK (formerly known as the New Politics Alliance for Democracy, or NPAD, before certain of its members left in December 2015 to form a new party), the Liberty Korea Party, or LKP (formerly known as the Saenuri Party, or SP, before certain of its members left in December 2016), People’s Party, or PP, which was established in February 2016 by certain former members of the NPAD, and Bareun Party, or BP, which was established in January 2017 by certain former members of SP.

As of June 2, 2017, the parties control the following number of seats in the National Assembly:

	<u>MPK</u>	<u>LKP</u>	<u>PP</u>	<u>BP</u>	<u>Others</u>	<u>Total</u>
Number of seats . . . . .	120	107	40	20	12	299

### *Relations with North Korea*

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

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

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

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

- 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 announced that it had successfully tested a hydrogen bomb, its fourth nuclear test and allegedly first test using hydrogen, which is more explosive than plutonium. In February 2016, North Korea tested its intercontinental ballistic missile technology and launched a long-range missile, which it claimed to have launched a satellite into orbit. In response, the Government condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions and withdrew Korean personnel from the inter-Korea Gaesong Industrial Complex and announced its closing. In March 2016, the United Nations Security Council unanimously passed a resolution condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea. In September 2016, North Korea announced that it had successfully tested a nuclear warhead that could be mounted on ballistic missiles. In response, the Government condemned the test, and in November 2016, the United Nations Security Council unanimously passed a resolution imposing additional sanctions on North Korea. Since its last nuclear test, North Korea has continued to develop its nuclear and ballistic missile programmes and has engaged in a series of missile tests, including four missiles that were launched in March 2017 and another missile launched in May 2017.

- In August 2015, two Korean soldiers were seriously wounded in landmine explosions while on routine patrol of the southern side of the demilitarised zone. The Government and the United Nations Command announced that the landmines were emplaced by North Korea, and in response, the Korean army restarted its loudspeaker propaganda broadcasts directed at the northern side of the demilitarised zone. The North Korean army retaliated by firing artillery rounds at the loudspeakers resulting in both sides being placed on the highest level of military readiness. High-ranking officials from the Government and North Korea subsequently met for discussions intending to diffuse military tensions and released a joint statement whereby, among other things, North Korea expressed regret over the landmine explosions that wounded the Korean soldiers.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

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

### ***Foreign Relations and International Organisations***

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

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

- United Nations;
- the International Monetary Fund, or the IMF;

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

### The Economy

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

	As of or for the year ended December 31,				
	2012	2013	2014	2015	2016 <sup>(6)</sup>
	(billions of dollars and trillions of Won, except percentages)				
GDP Growth (at current prices) . . . . .	3.4%	3.8%	4.0%	4.9%	4.7% <sup>(6)</sup>
GDP Growth (at chained 2010 year prices) . . . . .	2.3%	2.9%	3.3%	2.6%	2.8% <sup>(6)</sup>
Inflation . . . . .	2.2%	1.3%	1.3%	0.7%	1.0%
Unemployment <sup>(1)</sup> . . . . .	3.2%	3.1%	3.5%	3.6%	3.7%
Trade Surplus <sup>(2)</sup> . . . . .	\$ 28.3	\$ 44.0	\$ 47.2	\$ 90.3	\$ 89.2
Foreign Currency Reserves . . . . .	\$ 327.0	\$ 346.5	\$ 363.6	\$ 368.0	\$ 371.1
External Liabilities <sup>(3)</sup> . . . . .	\$ 408.9	\$ 423.5	\$ 424.3	\$ 396.1	\$ 380.9 <sup>(6)</sup>
Fiscal Balance . . . . .	₩ 18.5	₩ 14.2	₩ 8.5	₩ (0.2)	₩ 16.9 <sup>(6)</sup>
Direct Internal Debt of the Government <sup>(4)</sup> (as % of GDP <sup>(5)</sup> ) . . . . .	30.9%	32.8%	34.6%	37.3% <sup>(6)</sup>	38.5%
Direct External Debt of the Government <sup>(4)</sup> (as % of GDP <sup>(5)</sup> ) . . . . .	0.6%	0.6%	0.5%	0.5% <sup>(6)</sup>	0.4%

Notes:

- (1) Average for year.
- (2) Derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
- (3) Calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010.
- (4) Does not include guarantees by the Government. See “— Debt — External and Internal Debt of the Government — Guarantees by the Government” for information on outstanding guarantees by the Government.
- (5) At chained 2010 year prices.
- (6) Preliminary.

Source: The Bank of Korea

### Worldwide Economic and Financial Difficulties

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

- the financial difficulties affecting many governments worldwide, in particular in southern Europe and Latin America;

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

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

As a result of adverse global financial and economic conditions, there has been significant volatility in the Korea Composite Stock Index in recent years. See “— The Financial System — Securities Markets”. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies and banks to raise capital. In addition, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won generally increases the cost of imported goods and services and the required amount of the Won revenue for Korean companies to service foreign currency-denominated debt.

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

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

- steadily rising household debt consisting of housing loans and merchandise credit, which increased to approximately ₩1,342.6 trillion as of December 31, 2016 from ₩843.2 trillion as of December 31, 2010, primarily due to increases in mortgage loans and purchases with credit cards;
- a slowdown in consumer spending and depressed consumer sentiment, due in part to national tragedies including the sinking of the Sewol passenger ferry in April 2014, which led to the death of hundreds of passengers, and the outbreak of infectious diseases, such as the outbreak of the Middle East Respiratory Syndrome (“MERS”) in May 2015, which resulted in the death of over 30 people and the quarantine of thousands;
- a decrease in tax revenue and a substantial increase in the Korean government’s expenditures for pension and social welfare programmes, due in part to an ageing population (defined as the population of people aged 65 years or older) that accounts for 13.5% of the Republic’s total population as of December 31, 2016, an increase from 7.2% as of December 31, 2000, and is expected to surpass 15% in 2020 and 20% in 2026, which could lead to the Korean government’s budget deficit;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- decreases in the market prices of Korean real estate;
- the occurrence of severe health epidemics, including epidemics that affect the livestock industry; and

- deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing controversy between Korea and China regarding the decision to allow the United States to deploy the Terminal High Altitude Area Defence system in Korea).

### ***Gross Domestic Product***

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

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

### Gross Domestic Product

	2012	2013	2014	2015	2016 <sup>(1)</sup>	As % of GDP 2016 <sup>(1)</sup>
	(billions of Won)					
<b>Gross Domestic Product at</b>						
<b>Current Market Prices:</b>						
Private . . . . .	707,614.0	727,799.9	748,200.8	771,239.2	798,364.1	49.5
Government . . . . .	204,324.2	214,467.3	224,724.2	234,766.4	249,118.3	15.2
Gross Capital Formation . . . . .	427,028.5	416,000.3	435,078.1	452,315.1	478,283.5	28.5
Exports of Goods and Services . . . . .	776,062.4	770,114.8	747,134.3	709,122.0	691,616.4	45.9
Less Imports of Goods and Services . . . . .	(737,572.4)	(698,936.9)	(669,058.0)	(600,239.3)	(580,332.7)	(38.9)
Statistical Discrepancy . . . . .	—	—	—	(3,079.4)	371.2	(0.1)
Expenditures on Gross Domestic Product . . . . .	1,377,456.7	1,429,445.4	1,486,079.3	1,564,123.9	1,637,420.8	100.0
Net Factor Income from the Rest of the World . . . . .	14,138.8	10,199.0	4,684.5	4,259.2	1,645.6	0.5
Gross National Income <sup>(2)</sup> . . . . .	1,391,595.5	1,439,644.4	1,490,763.9	1,568,383.1	1,639,066.5	100.5
<b>Gross Domestic Product at</b>						
<b>Chained 2010 Year Prices:</b>						
Private . . . . .	667,781.2	680,349.5	692,236.0	707,492.7	725,003.2	48.3
Government . . . . .	193,473.5	199,783.4	205,869.2	212,021.6	221,179.1	14.5
Gross Capital Formation . . . . .	409,639.9	409,153.8	430,685.5	462,114.3	486,549.4	31.4
Exports of Goods and Services . . . . .	756,558.4	788,788.0	804,797.1	803,746.1	820,983.4	55.4
Less Imports of Goods and Services . . . . .	(685,009.4)	(696,724.6)	(706,938.4)	(721,740.4)	(753,996.2)	(49.8)
Statistical Discrepancy . . . . .	(142.1)	(172.8)	1,019.1	2,481.2	5,157.2	0.2
Expenditures on Gross Domestic Product <sup>(3)</sup> . . . . .	1,341,966.5	1,380,832.6	1,426,972.4	1,466,788.3	1,508,265.0	100.0
Net Factor Income from the Rest of the World in the Terms of Trade . . . . .	13,577.8	10,037.5	4,706.4	4,249.8	1,635.5	0.5
Trading Gains and Losses from Changes in the Terms of Trade . . . . .	(33,075.1)	(19,138.8)	(14,000.4)	38,787.9	59,876.5	2.7
Gross National Income <sup>(4)</sup> . . . . .	1,322,449.9	1,371,733.1	1,417,814.2	1,510,005.6	1,569,994.6	103.2
Percentage Increase (Decrease) of GDP over Previous Year At						
Current Prices . . . . .	3.4	3.8	4.0	5.3	4.7	
At Chained 2010 Year Prices . . . . .	2.3	2.9	3.3	2.8	2.8	

Notes:

- (1) Preliminary.
- (2) GDP plus net factor income from the rest of the world is equal to the Republic's gross national income.
- (3) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add to the total GDP.
- (4) Under the "chain-linked" measure of Gross National Income, the components of Gross National Income will not necessarily add to the total Gross National Income.

Source: The Bank of Korea.

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

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

	2012	2013	2014	2015	2016 <sup>(1)</sup>	As % of GDP 2016 <sup>(1)</sup>
	(billions of Won)					
Industrial Sectors: . . . . .	507,201.3	531,054.1	547,231.2	578,352.0	605,586.7	37.0
Agriculture, Forestry and Fisheries . . . . .	30,775.1	30,437.2	31,560.3	32,612.2	32,665.0	2.0
Mining and Manufacturing . . . . .	390,288.6	406,127.7	411,030.4	426,228.8	438,591.1	26.8
Mining and Quarrying . . . . .	2,278.5	2,471.0	2,520.2	2,577.1	2,653.7	0.2
Manufacturing . . . . .	388,010.1	403,656.7	408,510.2	423,651.7	435,937.4	26.6
Electricity, Gas and Water Supply . . . . .	26,178.2	30,238.7	37,373.8	44,988.9	49,650.1	3.0
Construction . . . . .	59,959.4	64,250.5	67,266.7	74,522.1	84,680.5	5.2
Services: . . . . .	744,253.9	772,184.1	807,624.1	845,294.8	880,312.9	53.8
Wholesale and Retail Trade, Restaurants and Hotels . . . . .	146,807.7	150,251.9	152,205.2	156,363.1	163,161.6	10.0
Transportation and Storage . . . . .	43,570.7	46,772.0	50,306.8	56,154.6	59,667.5	3.6
Finance and Insurance . . . . .	75,808.5	72,478.1	75,859.8	78,699.7	80,522.4	4.9
Real Estate and Leasing . . . . .	98,923.6	103,527.1	109,549.0	114,618.7	118,152.9	7.2
Information and Communication . . . . .	48,774.2	50,589.2	52,510.8	54,257.2	56,194.3	3.4
Business Activities . . . . .	88,828.1	94,758.4	100,936.7	106,944.2	110,288.6	6.7
Public Administration and Defence . . . . .	88,654.6	93,776.3	98,333.5	102,848.3	108,212.6	6.6
Education . . . . .	68,546.3	71,599.3	74,007.8	76,237.2	78,155.2	4.8
Health and Social Work . . . . .	50,031.3	52,851.5	57,129.7	61,980.4	67,793.6	4.1
Cultural and Other Services . . . . .	34,309.0	35,580.3	36,784.7	37,191.4	38,164.2	2.3
Taxes Less Subsidies on Products . . . . .	126,001.4	126,207.2	131,224.0	140,477.2	151,521.1	9.3
Gross Domestic Product at Current Market Prices . . . . .	1,377,456.7	1,429,445.4	1,486,079.3	1,564,123.9	1,637,420.8	100.0
Net Factor Income from the Rest of the World . . . . .	14,138.8	10,199.0	4,684.5	4,259.2	1,645.6	0.1
Gross National Income at Current Market Price . . . . .	1,391,595.5	1,439,644.4	1,490,763.9	1,568,383.1	1,639,066.5	100.1

Note:

(1) Preliminary.

Source: The Bank of Korea.



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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016<sup>(1)</sup></u>
GDP per capita (thousands of Won) . . . . .	27,439	28,346	29,284	30,660	31,952
GDP per capita (U.S. dollar) . . . . .	24,350	25,886	27,805	27,097	27,533
Average Exchange Rate (in Won per U.S. dollar) . . .	1,126.9	1,095.0	1,053.2	1,131.5	1,160.5

Note:

(1) Preliminary.

Source: The Bank of Korea.

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016<sup>(1)</sup></u>
GNI per capita (thousands of Won) . . . . .	27,721	28,548	29,377	30,744	31,984
GNI per capita (U.S. dollar) . . . . .	24,600	26,070	27,892	27,171	27,561
Average Exchange Rate (in Won per U.S. dollar) . . .	1,126.9	1,095.0	1,053.2	1,131.5	1,160.5

Note:

(1) Preliminary.

Source: The Bank of Korea.

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

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

	2012	2013	2014	2015	2016 <sup>(1)</sup>	As % of GDP 2016 <sup>(1)</sup>
	(billions of Won)					
Industrial Sectors: . . . . .	494,500.8	510,804.1	527,016.1	538,722.4	554,831.7	36.8
Agriculture, Forestry and Fisheries . . . . .	27,506.9	28,357.7	29,378.2	29,251.4	28,414.3	1.9
Mining and Manufacturing . . . . .	385,853.1	399,773.1	413,839.1	421,057.7	430,686.2	28.6
Mining and Quarrying . . . . .	2,170.5	2,347.1	2,344.40	2,314.5	2,352.3	0.2
Manufacturing . . . . .	383,682.6	397,426.0	411,494.7	418,743.2	428,333.9	28.4
Electricity, Gas and Water Supply . . . . .	26,710.3	26,629.2	27,327.9	28,722.1	29,754.4	2.0
Construction . . . . .	54,430.5	56,044.1	56,470.9	59,691.2	65,976.8	4.4
Services: . . . . .	718,906.2	739,463.1	763,853.5	786,394.3	805,071.2	53.4
Wholesale and Retail Trade, Restaurants and Hotels . . . . .	141,698.2	145,620.3	149,150.5	152,013.0	156,069.4	10.3
Transportation and Storage . . . . .	46,877.6	47,556.1	48,646.9	49,486.3	50,535.8	3.4
Finance and Insurance . . . . .	75,547.3	78,583.9	83,020.5	88,568.7	90,584.9	6.0
Real Estate and Leasing . . . . .	93,182.9	93,999.5	97,112.9	98,773.8	99,296.1	6.6
Information and Communication . . . . .	50,199.3	52,773.2	55,164.8	56,532.2	58,151.0	3.9
Business Activities . . . . .	83,352.8	87,244.6	91,424.0	95,713.9	97,695.3	6.5
Public Administration and Defence . . . . .	82,940.5	85,024.5	87,052.8	88,495.2	90,554.2	6.0
Education . . . . .	64,386.6	64,773.0	64,865.2	65,158.4	65,535.0	4.3
Health and Social Work . . . . .	48,693.4	51,247.1	54,740.1	58,653.1	63,204.1	4.2
Cultural and Other Services . . . . .	31,972.6	32,683.2	33,106.0	32,999.7	33,445.4	2.2
Taxes Less Subsidies on Products . . . . .	128,708.4	130,627.4	136,454.6	142,688.3	149,066.7	9.9
Gross Domestic Product at Chained 2010 Year Prices <sup>(2)</sup> . . . . .	1,341,966.5	1,380,832.6	1,426,972.4	1,466,788.3	1,508,265.0	100.0

Notes:

(1) Preliminary.

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

Source: The Bank of Korea.

GDP growth in 2012 was 2.3% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.2% and exports of goods and services increased by 5.1%, which more than offset a decrease in gross domestic fixed capital formation by 0.5% and an increase in imports of goods and services by 2.4%, each compared with 2011.

GDP growth in 2013 was 2.9% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.2%, exports of goods and services increased

by 4.3% and gross domestic fixed capital formation increased by 3.3%, which more than offset an increase in imports of goods and services by 1.7%, each compared with 2012.

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

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

Based on preliminary data, GDP growth in 2016 was 2.8% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.9%, gross domestic fixed capital formation increased by 5.2% and exports of goods and services increased by 2.1%, which more than offset an increase in imports of goods and services by 4.5%, each compared with 2015.

Based on preliminary data, GDP growth in the first quarter of 2017 was 2.9% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.2%, gross domestic fixed capital formation increased by 10.4% and exports of goods and services increased by 3.9%, which more than offset an increase in imports of goods and services by 9.9%, each compared with the corresponding period of 2016.

## Principal Sectors of the Economy

### *Industrial Sectors*

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

<b>Industrial Production</b> (2010 = 100)						
	<b>Index Weight<sup>(1)</sup></b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>(2)</sup></b>
All Industries . . . . .	10,000.0	107.4	108.2	108.4	108.1	109.2
Mining and Manufacturing . . . . .	9,611.6	107.5	108.2	108.4	108.2	109.2
Mining . . . . .	33.9	99.8	103.8	95.6	97.1	95.5
Petroleum, Crude Petroleum and Natural Gas . . . . .	8.7	90.2	86.2	71.1	59.1	53.4
Metal Ores . . . . .	0.9	108.5	98.4	99.9	78.9	75.0
Non-metallic Minerals . . . . .	24.3	102.9	110.3	104.2	111.4	111.3
Manufacturing . . . . .	9,577.7	107.5	108.2	108.5	108.2	109.3
Food Products . . . . .	434.4	103.4	103.7	104.8	106.7	108.4
Beverage Products . . . . .	82.4	108.2	108.8	110.0	113.2	115.7
Tobacco Products . . . . .	43.2	105.6	96.5	103.9	96.3	109.0
Textiles . . . . .	160.6	99.1	97.6	95.7	89.8	86.8
Wearing Apparel, Clothing Accessories and Fur Articles . . . . .	145.2	97.9	93.6	87.8	84.4	81.9
Tanning and Dressing of Leather, Luggage and Footwear . . . . .	42.1	98.2	111.5	110.0	103.9	104.3
Wood and Products of Wood and Cork (Except Furniture) . . . . .	31.7	87.9	92.9	89.1	92.5	88.7
Pulp, Paper and Paper Products . . . . .	126.8	102.7	105.1	106.9	105.7	108.3
Printing and Reproduction of Recorded Media . . . . .	50.2	90.5	86.8	86.5	84.3	83.5
Coke, hard-coal and lignite fuel briquettes and Refined Petroleum Products . . . . .	471.0	109.1	104.6	110.1	116.7	124.1
Chemicals and Chemical Products . . . . .	847.5	106.6	110.9	111.8	114.3	118.0
Pharmaceuticals, Medicinal Chemicals and Botanical Products . . . . .	144.1	101.2	103.2	104.6	106.7	113.5
Rubber and Plastic Products . . . . .	421.1	106.4	109.9	110.7	110.6	108.9
Non-metallic Minerals . . . . .	271.7	95.2	100.6	96.9	103.3	106.8
Basic Metals . . . . .	827.6	106.8	106.0	109.9	108.1	110.0
Fabricated Metal Products . . . . .	557.8	117.9	117.3	121.6	116.3	109.7
Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses . . . . .	1,794.3	109.7	113.6	111.6	113.1	118.7
Medical, Precision and Optical Instruments, Watches and Clocks . . . . .	148.1	111.6	124.2	112.4	107.8	107.4
Electrical Equipment . . . . .	479.5	98.8	97.0	98.8	95.6	96.6
Other Machinery and Equipment . . . . .	803.6	107.0	102.7	103.1	99.9	98.0
Motor Vehicles, Trailers and Semitrailers . . . . .	1,076.4	114.5	116.1	119.3	120.8	117.3
Other Transport Equipment . . . . .	506.5	107.1	101.7	90.4	82.2	79.3
Furniture . . . . .	69.5	98.2	97.2	104.2	110.0	109.7
Other Products . . . . .	42.4	103.8	104.9	104.8	100.9	104.3
Electricity, Gas . . . . .	388.4	106.4	106.8	107.5	106.8	107.8
Total Index . . . . .	10,000.0	107.4	108.2	108.4	108.1	109.2

Notes:

- (1) Index weights were established on the basis of an industrial census in 2010 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.
- (2) Preliminary.

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

Industrial production increased by 1.3% in 2012, primarily due to increased domestic consumption. Industrial production increased by 0.7% in 2013, primarily due to increased exports. Industrial production increased by 0.2% in 2014, primarily due to increased exports. Industrial production decreased by 0.3% in 2015, primarily due to decreased exports. Based on preliminary data, industrial production increased by 1.0% in 2016, primarily due to increased domestic consumption.

### *Manufacturing*

The manufacturing sector increased production by 1.4% in 2012, primarily due to increased demand for consumer electronics products, electronic equipment and chemical products, by 0.7% in 2013, primarily due to increased demand for consumer electronics products, electronic equipment, chemical products, medical equipment and transport equipment, and by 0.3% in 2014, primarily due to increased demand for basic metals, machinery and equipment and motor vehicles, trailers and semitrailers. The manufacturing sector decreased production by 0.3% in 2015, primarily due to decreased demand for other transport equipment, fabricated metal products, other machinery and equipment, and basic metals. Based on preliminary data, the manufacturing sector increased production by 1.0% in 2016, primarily due to increased demand for consumer electronics products, electronic components, communication equipment and chemical products, which more than offset decreased demand for motor vehicles, trailers and semitrailers.

### *Automobiles.*

In 2012, automobile production decreased by 2.0%, domestic sales volume recorded a decrease of 4.3% and export sales volume recorded an increase of 0.6%, compared with 2011, primarily due to decreased domestic demand for automobiles. In 2013, automobile production decreased by 0.9%, domestic sales volume recorded a decrease of 2.0% and export sales volume recorded a decrease of 2.6%, compared with 2012, primarily due to decreased supply of automobiles resulting mainly from partial strikes by unionised workers of automobile manufacturers in August 2013 and the appreciation of the Won against the U.S. dollar and the Japanese Yen. In 2014, automobile production increased by 0.1% and domestic sales volume recorded an increase of 4.6%, compared with 2013, primarily due to increased domestic demand for recreational vehicles, and export sales volume recorded a decrease of 0.8%, compared with 2013, primarily due to decreased demand for automobiles in Eastern Europe and South America. In 2015, automobile production increased by 0.7% and domestic sales volume recorded an increase of 7.7%, compared with 2014, primarily due to continued increase in domestic demand for recreational vehicles, and export sales volume recorded a decrease of 2.9%, compared with 2014, primarily due to decreased demand for automobiles in China, Russia, Eastern Europe and South America. Based on preliminary data, in 2016, automobile production decreased by 7.2% and export sales volume recorded a decrease of 11.8%, compared with 2015, primarily due to the slowdown of the global economy, and domestic sales volume recorded an increase of 1.0%, compared with 2015, primarily due to the reduction of individual consumption tax on cars.

### *Electronics.*

In 2012, electronics production amounted to ₩314,558 billion, an increase of 0.1% from the previous year, primarily due to increased domestic demand for mobile phones and non-memory semiconductors, and exports amounted to US\$155.2 billion, a decrease of 0.9% from the previous year, primarily due to adverse economic conditions in European countries. In 2012, export sales of semiconductor memory chips constituted approximately 9.2% of the Republic's total exports. In 2013, electronics production amounted to ₩325,684 billion, an increase of 3.5% from the previous year, and exports amounted to US\$169.4 billion, an increase of 9.1% from the previous year, primarily due to increases in demand for mobile phones in emerging markets and global demand for non-memory semiconductors. In 2013, export sales of semiconductor memory chips constituted approximately 10.2% of the Republic's total exports. In 2014, electronics production amounted to ₩329,460 billion, an increase of 1.2% from the previous year, and exports amounted to US\$173.9 billion, an increase of 2.7% from the previous year, primarily due to increases in demand for mobile phones and semiconductors. In 2014, export sales of semiconductor memory chips

constituted approximately 10.9% of the Republic's total exports. In 2015, electronics production amounted to ₩324,162 billion, a decrease of 1.6% from the previous year, and exports amounted to US\$172.9 billion, a decrease of 0.6% from the previous year, primarily due to adverse global economic conditions and the expansion of overseas production. In 2015, export sales of semiconductor memory chips constituted approximately 11.9% of the Republic's total exports. Based on preliminary data, in 2016, electronics production amounted to ₩306,331 billion, a decrease of 5.5% from the previous year, and exports amounted to US\$162.5 billion, a decrease of 6.0% from the previous year, primarily due to continued adverse global economic conditions and the expansion of overseas production. In 2016, export sales of semiconductor memory chips constituted approximately 12.6% of the Republic's total exports.

#### *Iron and Steel.*

In 2012, crude steel production totaled 69.1 million tons, an increase of 0.9% from 2011, and domestic sales volume decreased by 4.1% but export sales volume increased by 4.8%, primarily due to adverse conditions in the domestic shipbuilding and construction industries. In 2013, crude steel production totaled 66.1 million tons, a decrease of 4.4% from 2012, and domestic sales volume and export sales volume decreased by 4.2% and 4.2%, respectively, primarily due to the appreciation of the Won against the U.S. dollar and the Japanese Yen and excess supply from China. In 2014, crude steel production totaled 71.5 million tons, an increase of 8.3% from 2013, and domestic sales volume and export sales volume increased by 7.3% and 10.5%, respectively, primarily due to the recovery of domestic and global demand for crude steel products. In 2015, crude steel production totaled 69.7 million tons, a decrease of 2.6% from 2014, and domestic sales volume increased by 0.5% but export sales volume decreased by 2.2% primarily due to excess supply from China and adverse conditions in the global shipbuilding and construction industries. Based on preliminary data, in 2016, crude steel production totaled 68.6 million tons, a decrease of 1.6% from 2015, and export sales volume decreased by 1.8%, primarily due to intensified export competition and adverse conditions in the global shipbuilding and construction industries, but domestic sales volume increased by 2.6%, primarily due to the recovery of the domestic construction industry.

#### *Shipbuilding.*

In 2012, the Republic's shipbuilding orders amounted to approximately 8 million compensated gross tons, a decrease of 33.3% compared to 2011, primarily due to a downturn in the shipping and shipbuilding industry. In 2013, the Republic's shipbuilding orders amounted to approximately 19 million compensated gross tons, an increase of 137.5% compared to 2012, primarily due to increased demand for LNG carriers, bulk carriers and container carriers. In 2014, the Republic's shipbuilding orders amounted to approximately 13 million compensated gross tons, a decrease of 31.6% compared to 2013, primarily due to a downturn in the domestic and global shipbuilding industry. In 2015, the Republic's shipbuilding orders amounted to approximately 11 million compensated gross tons, a decrease of 15.4% compared to 2014, primarily due to the continued downturn in the domestic and global shipbuilding industry. Based on preliminary data, in 2016, the Republic's shipbuilding orders amounted to approximately 2 million compensated gross tons, a decrease of 81.8% compared to 2015, primarily due to the continued adverse conditions in the domestic and global shipbuilding industry.

#### *Agriculture, Forestry and Fisheries*

The Government's agricultural policy has traditionally focused on:

- grain production;
- development of irrigation systems;
- land consolidation and reclamation;
- seed improvement;

- mechanisation measures to combat drought and flood damage; and
- increasing agricultural incomes.

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

In 2012, rice production decreased 4.7% from 2011 to 4.0 million tons. In 2013, rice production increased 5.0% from 2012 to 4.2 million tons. In 2014, rice production remained at 4.2 million tons. In 2015, rice production increased 2.4% from 2014 to 4.3 million tons. In 2016, rice production decreased 2.3% from 2015 to 4.2 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs.

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

In 2011, the agriculture, forestry and fisheries industry decreased by 2.1% compared to 2010 in terms of production, primarily due to unfavourable weather conditions, including heavy rains, during the summer and a decrease in fishing catch. In 2012, the agriculture, forestry and fisheries industry decreased by 0.6% compared to 2011, primarily due to unfavourable weather conditions, including severe typhoons, which more than offset an increase in the livestock industry. In 2013, the agriculture, forestry and fisheries industry increased by 3.1% compared to 2012, primarily due to an increase in the cultivation and livestock industry. In 2014, the agriculture, forestry and fisheries industry increased by 2.6% compared to 2013, primarily due to increases in the price of certain livestock items, which led to increases in production and the establishment of new agriculture and fishery companies. In 2015, the agriculture, forestry and fisheries industry decreased by 0.4% compared to 2014, primarily due to unfavourable weather conditions. Based on preliminary data, in 2016, the agriculture, forestry and fisheries industry decreased by 2.9% compared to 2015, primarily due to unfavourable weather conditions and a decrease in fishing catch.

### *Construction*

In 2012, the construction industry decreased by 1.6% compared to 2011, primarily due to a decrease in the construction of residential buildings and port facilities. In 2013, the construction industry increased by 3.0% compared to 2012, primarily due to an increase in the construction of residential and commercial buildings. In 2014, the construction industry increased by 0.6% compared to 2013, primarily due to an increase in the construction of private residential buildings. In 2015, the construction industry increased by 5.7% compared to 2014, primarily due to an increase in the construction of private residential and commercial buildings. Based on preliminary data, in 2016, the construction industry increased by 10.5% compared to 2015, primarily due to an increase in the construction of private residential and commercial buildings.

### *Electricity and Gas*

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

#### **Dependence on Imports for Energy Consumption**

	<b>Total Primary Energy Supply</b>	<b>Imports</b>	<b>Imports Dependence Ratio</b>
	<b>(millions of tonnes of oil equivalents, except ratios)</b>		
2012 . . . . .	278.7	267.6	96.0
2013 . . . . .	280.3	268.2	95.7
2014 . . . . .	282.9	269.3	95.2
2015 . . . . .	287.5	272.5	94.8
2016 <sup>(1)</sup> . . . . .	295.4	278.3	94.2



Note:

(1) Preliminary.

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

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

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

### Primary Energy Supply by Source

	Coal		Petroleum		Nuclear		Others <sup>(1)</sup>		Total	
	Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%
	(millions of tons of oil equivalents, except percentages)									
2012 . . . . .	81.1	29.1	106.2	38.1	31.8	11.4	59.6	21.4	278.7	100.0
2013 . . . . .	81.9	29.2	105.8	37.7	29.3	10.5	63.3	22.6	280.3	100.0
2014 . . . . .	84.6	29.9	104.9	37.1	33.0	11.7	60.4	21.4	282.9	100.0
2015 . . . . .	85.5	29.7	109.6	38.1	34.8	12.1	57.6	20.0	287.5	100.0
2016 . . . . .	81.6	27.6	117.8	39.9	34.2	11.6	61.8	20.9	295.4	100.0

Note:

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

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

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. As of December 31, 2016, the Republic had 25 nuclear plants with a total estimated nuclear power generating capacity of 23,116 megawatts and nine nuclear plants under construction. In January 2014, the Ministry of Trade, Industry and Energy released its Second Energy Master Plan and revised the target proportion of nuclear supply in the Korea's energy supply mix from 41% by 2030 to a range from 22% to 29% by 2035. In addition, in July 2015, the Ministry of Trade, Industry and Energy approved the construction of two additional nuclear power plants, which together with previously announced plans to build nuclear power plants would bring the number of nuclear power plants to 36 by 2029. The Government plans to expand infrastructure to supply natural gas to households, pursue a long-term strategy of overseas energy development projects to ensure supply stability, increase clean and renewable energy and provide support for research and development pertaining to green technologies.

### Services Sector

In 2012, the service industry increased by 2.7% compared to 2011 as the health and social work sector increased by 7.1%, the finance and insurance sector increased by 3.6% and the wholesale and retail trade, restaurants and hotels sector increased by 3.4%, each compared with 2011. In 2013, the service industry increased by 2.8% compared to 2012 as the business activities sector increased by 4.7%, the finance and insurance sector increased by 3.6% and the health and social work sector increased by 5.2%, each compared with 2012. In 2014, the service industry increased by 3.1% compared to 2013 as the health and social work sector increased by 7.5%, the finance and insurance sector increased by 5.7% and the business activities sector increased by 4.1%, each compared with 2013. In 2015, the service industry increased by 3.0% compared to 2014 as the finance and insurance sector increased by 6.7%, the business activities sector increased by 4.7% and the health and social work sector increased by 7.1%, each compared with 2014. Based on preliminary data, in 2016, the service industry increased by 2.4% compared to 2015 as the health and social work sector increased by 7.8%, the wholesale and retail trade, restaurants and hotels sector increased by 2.7% and the finance and insurance sector increased by 2.3%, each compared with 2015.

## Prices, Wages and Employment

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

	Producer Price Index <sup>(1)</sup> (2010=100)	Increase (Decrease) Over Previous Year (%)	Consumer Price Index <sup>(1)</sup> (2015=100)	Increase (Decrease) Over Previous Year (%)	Wage Index <sup>(1)(2)</sup> (2010=100)	Increase (Decrease) Over Previous Year (%)	Unemployment Rate <sup>(1)(3)</sup> (%)
2012 . . . . .	107.5	0.7	96.8	2.2	109.1	8.8	3.2
2013 . . . . .	105.7	(1.6)	98.0	1.3	116.4	6.7	3.1
2014 . . . . .	105.2	(0.5)	99.3	1.3	122.9	5.6	3.5
2015 . . . . .	101.0	(4.0)	100.0	0.7	129.1	5.0	3.6
2016 . . . . .	99.0	(1.8)	101.0	1.0	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	3.7

Notes:

- (1) Average for year.
- (2) Nominal wage index of average earnings in manufacturing industry.
- (3) Expressed as a percentage of the economically active population.
- (4) Not available.

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

In 2012, the inflation rate decreased to 2.2%, primarily due to weakened aggregate demand and the implementation of new policies, including free school lunches. In 2013, the inflation rate decreased to 1.3%, primarily due to increased supply of agricultural goods. In 2014, the inflation rate remained at 1.3%, primarily due to increases in the prices of electricity, gas, water supply, food products and education, which were offset by lower oil prices. In 2015, the inflation rate decreased to 0.7%, primarily due to lower oil prices. In 2016, the inflation rate increased to 1.0%, primarily due to increases in agricultural and livestock product prices and private service fees, which more than offset a decrease in oil prices. In the first quarter of 2017, the inflation rate increased to 2.1%, primarily due to increases in food product prices and transportation costs.

In 2012, the unemployment rate decreased to 3.2%, primarily due to an increase in the number of workers employed in the service industry (including healthcare, social welfare and education). In 2013, the unemployment rate decreased to 3.1%, primarily due to the continued increase in the number of workers employed in the service industry. In 2014, the unemployment rate increased to 3.5%, primarily due to the sluggishness of the domestic economy. In 2015, the unemployment rate increased to 3.6%, primarily due to the continued sluggishness of the domestic economy. In 2016, the unemployment rate increased to 3.7%, primarily due to the continued sluggishness of the domestic economy. In the first quarter of 2017, the unemployment rate increased to 4.3%, primarily due to the continued sluggishness of the domestic economy.

From 1992 to 2009, the economically active population of the Republic increased by approximately 24.8% to 24.3 million, while the number of employees increased by approximately 23.7% to 23.5 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 60% and 63% over the past decade. Literacy among workers under 50 is almost universal. As of December 31, 2016, the economically active population of the Republic was 27.2 million and the number of employees was 26.2 million.

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(all figures in percentages, except as indicated)				
Labor force (in thousands of persons) . . . . .	24,681	25,066	25,599	25,936	26,235
<b>Employment by Industry:</b>					
Agriculture, Forestry and Fishing . . . . .	6.2	6.1	5.7	5.2	4.9
Mining and Manufacturing . . . . .	16.7	16.8	17.0	17.4	17.2
S.O.C. & Services . . . . .	77.1	77.2	77.4	77.5	77.9
Electricity, Transport, Communication and Finance . . . . .	12.1	12.2	11.9	11.8	11.8
Business, Private & Public Service and Other Services . . . . .	35.1	35.5	35.5	35.6	36.3
Construction . . . . .	7.2	7.0	7.0	7.0	7.0
Wholesale & Retail Trade, Hotels and Restaurants . .	22.7	22.5	23.0	23.0	22.9
Total Employed . . . . .	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<b>Employment by Gender:</b>					
Male . . . . .	58.3	58.1	58.0	57.7	57.6
Female . . . . .	41.7	41.9	42.0	42.3	42.4
Total Employed . . . . .	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: The Bank of Korea

As of July 1, 2004, the Republic adopted a five-day workweek for large corporations with over 1,000 employees, publicly-owned (state-run) companies, banks and insurance companies, reducing working hours from 44 to 40 hours a week. The adoption of the five-day workweek has been extended to companies with over 300 employees and to government employees as of July 1, 2005 and to companies with over 100 employees as of July 1, 2006. Companies with more than 50 employees adopted the five-day workweek as of July 1, 2007 and those with over 20 adopted the five-day workweek as of July 1, 2008. Companies with less than 20 employees also adopted the five-day workweek on July 1, 2011.

Approximately 10.2% of the Republic's workers were unionised as of December 31, 2015. Labour unrest in connection with demands by unionised workers for better wages and working conditions and greater job security occur from time to time in the Republic. Some of the significant incidents in recent years include the following:

- In June 2012, unionised taxi drivers went on their first nationwide strike demanding fare increases and protesting against increased fuel costs.
- In August 2012, unionised workers of Hyundai Motor Company ("Hyundai Motor") went on a series of partial strikes demanding a higher bonus increase and the end of overnight shifts.
- In August 2013, unionised workers at Hyundai Motor and Kia Motors Corporation ("Kia Motors") went on partial strikes demanding higher wages.
- In December 2013, unionised workers at the state owned Korea Railroad Corporation ("Korail") went on strike against Korail's plan to establish a separate company to operate a new bullet train line fearing that such plan would eventually lead to privatisation of Korail and layoffs of existing workers.
- In November 2014, unionised workers at Hyundai Heavy Industries went on a series of partial strikes demanding higher wages.
- In April 2015, tens of thousands of members of the Korean Confederation of Trade Unions, which includes teacher and civil servant union groups, went on general strike demanding that the Government scrap its plans to reform the labour market and pension programme for public workers.

- In September 2016, unionised subway and railroad workers launched a joint nationwide strike, the first in 22 years, demanding that the Government scrap its proposed merit pay system for subway and railroad workers.
- In October 2016, unionised workers at Hyundai Motor went on full strike, the first in 12 years, demanding higher wages, while unionised workers at Kia Motors went on partial strike protesting the wage gap between workers at Kia Motors and workers at Hyundai Motor.

Actions such as these by labour unions may hinder implementation of the labour reform measures and disrupt the Government's plans to create a more flexible labour market. Although much effort is being expended to resolve labour disputes in a peaceful manner, there can be no assurance that further labour unrest will not occur in the future. Continued labour unrest in key industries of the Republic may have an adverse effect on the economy.

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

## **The Financial System**

### *Structure of the Financial Sector*

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

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

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

In July 2007, the Korean National Assembly passed the Financial Investment Services and Capital Markets Act or the FSCMA, under which various industry-based capital markets regulatory

systems were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements.

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

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

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

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

### ***Banking Industry***

The banking industry comprises commercial banks and specialised banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in the Republic since 1967 but provide a relatively small proportion of the country’s banking services. As of December 31, 2016, there were six nationwide banks, six regional banks and 37 foreign banks with branches operating in the Republic.

Specialised banks meet the needs of specific sectors of the economy in accordance with Government policy; they are organised under, or chartered by, special laws. Specialised banks include (i) The Korea Development Bank, (ii) The Export-Import Bank of Korea, (iii) The Industrial

Bank of Korea, (iv) SuHyup Bank and (v) NongHyup Bank. The Government has made capital contributions to three of these specialised banks as follows:

- The Korea Development Bank: the Government owns directly all of its paid-in capital and has made capital contributions since its establishment in 1954. Recent examples include the Government's contributions to its capital of ₩2,055 billion in 2015 and ₩308 billion in 2016. Taking into account these capital contributions, its total paid-in capital was ₩17,543 billion as of December 31, 2016.
- The Export-Import Bank of Korea: the Government owns, directly and indirectly, all of its paid-in capital and has made capital contributions since its establishment in 1976. Recent examples include the Government's contributions to its capital of ₩510 billion in 2014, ₩1,130 billion in 2015 and ₩1,620 billion in 2016. Taking into account these capital contributions, its total paid-in capital was ₩10,398 billion as of December 31, 2016.
- The Industrial Bank of Korea: the Government owned, directly and indirectly, 55.2% of its common shares and all of its preferred shares as of December 31, 2016. The Government had owned all of the issued share capital of The Industrial Bank of Korea until 1994, but the Government's minimum share ownership requirement was repealed in 1997, and the Government has since periodically adjusted its ownership percentage in the Industrial Bank of Korea through transactions involving the purchase and sale of its common shares. In 2014, the Industrial Bank of Korea issued an aggregate of 3,022,240 new common shares to the Government for ₩36 billion in cash and the Government sold 49,009,880 common shares of the Industrial Bank of Korea for ₩675 billion in cash. In addition, in April 2014, the Industrial Bank of Korea disposed of 26,200,882 of its common shares held as treasury shares through an international offering for ₩294 billion. In 2015, the Industrial Bank of Korea issued an aggregate of 3,184,713 new common shares to the Government for ₩40 billion in cash. In March 2016, the Industrial Bank of Korea issued an aggregate of 3,576,857 new common shares to the Government for ₩40 billion in cash. Taking into account such transactions, the Government's total paid-in capital was ₩1,674 billion as of December 31, 2016.

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

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

	<b>Total Loans</b>	<b>Non-Performing Assets<sup>(1)</sup></b>	<b>Percentage of Total</b>
	(trillions of won)		(percentage)
December 31, 2012 . . . . .	1,390.9	18.5	1.3
December 31, 2013 . . . . .	1,441.6	25.7	1.8
December 31, 2014 . . . . .	1,557.9	24.2	1.6
December 31, 2015 . . . . .	1,664.3	30.0	1.8
December 31, 2016 <sup>(2)</sup> . . . . .	1,732.9	24.6	1.4

Notes:

(1) Assets classified as substandard or below.

(2) Preliminary.

Source: Financial Supervisory Service.

In 2012, these banks posted an aggregate net profit of ₩8.7 trillion, compared to an aggregate net profit of ₩11.8 trillion in 2011, primarily due to a decrease in gain on sale of equity securities and an increase in impairment loss on available-for-sale securities. In 2013, these banks posted an aggregate net profit of ₩3.9 trillion, compared to an aggregate net profit of ₩8.7 trillion in 2012, primarily due to decreased net interest income and increased loan loss provisions. In 2014, these



banks posted an aggregate net profit of ₩6.0 trillion, compared to an aggregate net profit of ₩3.9 trillion in 2013, primarily due to decreased loan loss provisions. In 2015, these banks posted an aggregate net profit of ₩3.4 trillion, compared to an aggregate net profit of ₩6.0 trillion in 2014, primarily due to increased loan loss provisions. Based on preliminary data, in 2016, these banks posted an aggregate net profit of ₩1.6 trillion, compared to an aggregate net profit of ₩3.4 trillion in 2015, primarily due to increased loan loss provisions.

### ***Non-Bank Financial Institutions***

Non-bank financial institutions include:

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

As of December 31, 2016, 79 mutual savings banks, 23 life insurance institutions, which includes joint venture life insurance institutions and wholly-owned subsidiaries of foreign life insurance companies, and eight credit card companies operated in the Republic.

### ***Money Markets***

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

### ***Securities Markets***

On January 27, 2005, the Korea Exchange was established pursuant to the now repealed Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three major markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a joint stock company with limited liability, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign financial investment companies.

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



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

December 29, 2011	1,825.7	October 31, 2014	1,964.4
January 31, 2012	1,955.8	November 28, 2014	1,980.8
February 29, 2012	2,030.3	December 31, 2014	1,915.6
March 31, 2012	2,014.0	January 30, 2015	1,949.3
April 30, 2012	1,982.0	February 27, 2015	1,985.8
May 31, 2012	1,843.5	March 31, 2015	2,041.0
June 29, 2012	1,854.0	April 30, 2015	2,127.2
July 31, 2012	1,882.0	May 29, 2015	2,114.8
August 31, 2012	1,905.1	June 30, 2015	2,074.2
September 28, 2012	1,996.2	July 31, 2015	2,030.2
October 31, 2012	1,912.1	August 29, 2015	1,941.5
November 30, 2012	1,932.9	September 30, 2015	1,962.8
December 28, 2012	1,997.1	October 30, 2015	2,029.5
January 31, 2013	1,961.9	November 30, 2015	1,992.0
February 28, 2013	2,026.5	December 30, 2015	1,960.3
March 29, 2013	2,004.9	January 29, 2016	1,912.1
April 30, 2013	1,964.0	February 29, 2016	1,916.7
May 30, 2013	2,001.1	March 31, 2016	1,995.8
June 28, 2013	1,863.3	April 29, 2016	1,994.2
July 31, 2013	1,914.0	May 31, 2016	1,983.4
August 30, 2013	1,926.4	June 30, 2016	1,970.4
September 30, 2013	1,997.0	July 29, 2016	2,016.2
October 31, 2013	2,030.1	August 31, 2016	2,034.7
November 29, 2013	2,044.9	September 30, 2016	2,043.6
December 30, 2013	2,011.3	October 31, 2016	2,008.2
January 29, 2014	1,941.2	November 30, 2016	1,983.5
February 28, 2014	1,980.0	December 29, 2016	2,026.5
March 31, 2014	1,985.6	January 31, 2017	2,067.6
April 30, 2014	1,961.8	February 28, 2017	2,091.6
May 30, 2014	1,995.0	March 31, 2017	2,160.2
June 30, 2014	2,002.2	April 28, 2017	2,205.4
July 31, 2014	2,076.1	May 31, 2017	2,347.4
August 29, 2014	2,068.5	June 30, 2017	2,391.8
September 30, 2014	2,020.1	July 31, 2017	2,402.7

On December 27, 1997, the last day of trading in 1997, the index stood at 376.3, a sharp decline from 647.1 on September 30, 1997. The fall resulted from growing concerns about the Republic's weakening financial and corporate sectors, the Republic's falling foreign currency reserves, the sharp depreciation of the Won against the U.S. Dollar and other external factors, such as a sharp decline in stock prices in Hong Kong on October 24, 1997 and financial turmoil in Southeast Asian countries. The Korea Composite Stock Price Index recovered to reach 2,064.9 in late 2007. As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, there was a significant overall decline in the stock prices of Korean companies during the fourth quarter of 2008 and first half of 2009 and the index has fluctuated since then. The index was 2,395.5 on August 4, 2017.

### ***Supervision System***

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

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

### ***Deposit Insurance System***

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

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

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

## **Monetary Policy**

### ***The Bank of Korea***

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

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

### ***Interest Rates***

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

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

## Money Supply

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

	December 31,				
	2012	2013	2014	2015	2016
	(billions of Won)				
Money Supply (M1) <sup>(1)</sup> . . . . .	470,010.6	515,643.4	585,822.6	708,452.9	795,531.1
Quasi-money <sup>(2)</sup> . . . . .	1,365,631.0	1,405,151.6	1,491,411.4	1,538,922.1	1,611,928.0
Money Supply (M2) <sup>(3)</sup> . . . . .	1,835,641.6	1,920,795.0	2,077,234.0	2,247,375.0	2,407,459.1
Percentage Increase Over Previous Year . . . . .	4.8%	4.6%	8.1%	8.2%	7.1%

### Notes:

- (1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.
- (2) Includes time and installment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.
- (3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: The Bank of Korea.

## Exchange Controls

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

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

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

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

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

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

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

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

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

### ***Foreign Exchange***

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

	<u>Won/U.S. Dollar Exchange Rate</u>		<u>Won/U.S. Dollar Exchange Rate</u>
December 30, 2011 . . . . .	1,153.3	November 29, 2013 . . . . .	1,062.1
January 31, 2012 . . . . .	1,125.0	December 31, 2013 . . . . .	1,055.3
February 29, 2012 . . . . .	1,126.5	January 29, 2014 . . . . .	1,079.2
March 30, 2012 . . . . .	1,137.8	February 28, 2014 . . . . .	1,067.7
April 30, 2012 . . . . .	1,134.2	March 31, 2014 . . . . .	1,068.8
May 31, 2012 . . . . .	1,177.8	April 30, 2014 . . . . .	1,031.7
June 29, 2012 . . . . .	1,153.8	May 30, 2014 . . . . .	1,021.6
July 31, 2012 . . . . .	1,136.2	June 30, 2014 . . . . .	1,014.4
August 31, 2012 . . . . .	1,134.6	July 31, 2014 . . . . .	1,024.3
September 28, 2012 . . . . .	1,118.6	August 29, 2014 . . . . .	1,013.6
October 31, 2012 . . . . .	1,094.1	September 30, 2014 . . . . .	1,050.6
November 30, 2012 . . . . .	1,084.7	October 31, 2014 . . . . .	1,054.0
December 31, 2012 . . . . .	1,071.1	November 28, 2014 . . . . .	1,101.1
January 31, 2013 . . . . .	1,082.7	December 31, 2014 . . . . .	1,099.2
February 28, 2013 . . . . .	1,085.4	January 30, 2015 . . . . .	1,090.8
March 29, 2013 . . . . .	1,112.1	February 27, 2015 . . . . .	1,099.2
April 30, 2013 . . . . .	1,108.1	March 31, 2015 . . . . .	1,105.0
May 31, 2013 . . . . .	1,128.3	April 30, 2015 . . . . .	1,068.1
June 28, 2013 . . . . .	1,149.7	May 29, 2015 . . . . .	1,108.0
July 31, 2013 . . . . .	1,113.6	June 30, 2015 . . . . .	1,124.1
August 31, 2013 . . . . .	1,110.9	July 31, 2015 . . . . .	1,166.3
September 30, 2013 . . . . .	1,075.6	August 31, 2015 . . . . .	1,176.3
October 31, 2013 . . . . .	1,061.4	September 30, 2015 . . . . .	1,194.5

	<u>Won/U.S. Dollar Exchange Rate</u>		<u>Won/U.S. Dollar Exchange Rate</u>
October 30, 2015 . . . . .	1,142.3	September 30, 2016 . . . . .	1,096.3
November 30, 2015 . . . . .	1,150.4	October 31, 2016 . . . . .	1,145.2
December 31, 2015 . . . . .	1,172.0	November 30, 2016 . . . . .	1,168.5
January 29, 2016 . . . . .	1,208.4	December 30, 2016 . . . . .	1,208.5
February 29, 2016 . . . . .	1,235.4	January 31, 2017 . . . . .	1,157.8
March 31, 2016 . . . . .	1,153.5	February 28, 2017 . . . . .	1,132.1
April 29, 2016 . . . . .	1,143.9	March 31, 2017 . . . . .	1,116.1
May 31, 2016 . . . . .	1,190.6	April 28, 2017 . . . . .	1,130.1
June 30, 2016 . . . . .	1,164.7	May 31, 2017 . . . . .	1,123.9
July 31, 2016 . . . . .	1,125.7	June 30, 2017 . . . . .	1,139.6
August 31, 2016 . . . . .	1,118.5	July 31, 2017 . . . . .	1,119.1

Prior to November 1997, the Government had permitted exchange rates to float within a daily range of 2.25%. In response to the substantial downward pressures on the Won caused by the Republic's economic difficulties in late 1997, in November 1997, the Government expanded the range of permitted daily exchange rate fluctuations to 10%. The Government eliminated the daily exchange rate band in December 1997, and the Won now floats according to market forces. The value of the Won relative to the U.S. dollar depreciated from ₩888.1 to US\$1.00 on June 30, 1997 to ₩1,964.8 to US\$1.00 on December 24, 1997. Due to improved economic conditions and increases in trade surplus, the Won has appreciated against the U.S. dollar until the trend reversed in March 2008. During the period from January 2, 2008 through April 16, 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by foreign investors of their investments in the Korean stock market. The market average exchange rate was ₩1,127.6 to US\$1.00 on August 4, 2017.

## **Balance of Payments and Foreign Trade**

### ***Balance of Payments***

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

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

### Balance of Payments<sup>(1)</sup>

<u>Classification</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016<sup>(4)</sup></u>
	(millions of dollars)				
Current Account . . . . .	50,835.0	81,148.2	84,373.0	105,939.6	98,677.4
Goods . . . . .	49,406.0	82,781.0	88,885.4	122,269.2	120,445.7
Exports <sup>(2)</sup> . . . . .	603,509.2	618,156.9	613,020.6	542,881.2	511,776.1
Imports <sup>(2)</sup> . . . . .	554,103.2	535,375.9	524,135.2	420,612.0	391,330.4
Services . . . . .	(5,213.6)	(6,499.2)	(3,678.5)	(14,916.8)	(17,608.0)
Income . . . . .	12,116.7	9,055.7	4,150.8	3,572.4	1,459.3
Current Transfers . . . . .	(5,474.1)	(4,189.3)	(4,984.7)	(4,985.2)	(5,619.6)
Capital and Financial Account . . . . .	51,540.7	80,077.6	89,325.1	106,239.0	100,349.0
Capital Account . . . . .	(41.7)	(27.0)	(8.9)	(60.2)	(36.6)
Financial Account <sup>(3)</sup> . . . . .	51,582.4	80,104.6	89,334.0	106,299.2	100,385.6
Net Errors and Omissions . . . . .	789.1	(1,016.6)	4,969.9	419.8	1,744.8

Notes:

- (1) Figures are prepared based on the sixth edition of Balance of Payment Manual, or BPM6, published by International Monetary Fund in December 2010 and implemented by the Government in December 2013.
- (2) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.
- (3) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.
- (4) Preliminary.

Source: The Bank of Korea.

The Republic recorded a current account surplus of approximately US\$105.9 billion in 2015. The current account surplus in 2015 increased from the current account surplus of US\$84.4 billion in 2014, primarily due to an increase in surplus from the goods account which more than offset an increase in deficit from the services account. Based on preliminary data, the Republic recorded a current account surplus of approximately US\$98.7 billion in 2016. The current account surplus in 2016 decreased from the current account surplus of US\$105.9 billion in 2015, primarily due to a decrease in surplus from the goods account and an increase in deficit from the service account. Based on preliminary data, the Republic recorded a current account surplus of approximately US\$19.6 billion in the first quarter of 2017. The current account surplus in the first quarter of 2017 decreased from the current account surplus of US\$25.4 billion in the corresponding period of 2016, primarily due to an increase in deficit from the service account.

### ***Foreign Direct Investment***

Since 1960, the Government has adopted a broad range of related laws, administrative rules and regulations, providing a framework for the conduct and regulation of foreign investment activities. In September 1998, the Government promulgated the Foreign Investment Promotion Act, or the FIPA, which replaced previous foreign direct investment related laws, rules and regulations, to promote inbound foreign investments by providing incentives to, and facilitating investment activities in the Republic by, foreign nationals. The FIPA prescribes, among others, procedural requirements for inbound foreign investments, incentives for foreign investments such as tax reductions, and requirements relating to designation and development of foreign investment target regions. The Government believes that providing a stable and receptive environment for foreign direct investment will accelerate the inflow of foreign capital, technology and management techniques.

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

### Foreign Direct Investment

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(billions of dollars)				
<b>Contracted and Reported Investment:</b>					
Greenfield Investment <sup>(1)</sup> . . . . .	12.5	9.6	11.0	14.1	15.0
Merger & Acquisition . . . . .	<u>3.8</u>	<u>5.0</u>	<u>8.0</u>	<u>6.8</u>	<u>6.3</u>
Total . . . . .	<u>16.3</u>	<u>14.5</u>	<u>19.0</u>	<u>20.9</u>	<u>21.3</u>
Actual Investment: . . . . .	10.7	9.9	12.1	16.5	10.4 <sup>(2)</sup>

Notes:

(1) Includes building new factories and operational facilities.

(2) Preliminary.

Source: Ministry of Trade, Industry and Energy

In 2016, the contracted and reported amount of foreign direct investment in the Republic increased to US\$21.3 billion from US\$20.9 billion in 2015, primarily due to an increase in foreign investment in (i) the service sector to US\$15.5 billion in 2016 from US\$14.7 billion in 2015 and (ii) the manufacturing sector to US\$5.1 billion in 2016 from US\$4.6 billion in 2015, which more than offset a decrease in foreign investment in the electricity, gas and construction sector to US\$0.6 billion in 2016 from US\$1.6 billion in 2015.

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

### Foreign Direct Investment by Region and Country

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(billions of dollars)				
<b>North America</b>					
U.S.A. . . . .	3.7	3.5	3.6	5.5	3.9
Others . . . . .	<u>0.7</u>	<u>1.1</u>	<u>1.4</u>	<u>2.9</u>	<u>1.4</u>
	4.4	4.6	5.0	8.4	5.3
<b>Asia</b>					
Japan . . . . .	4.5	2.7	2.5	1.7	1.2
Hong Kong . . . . .	1.7	1.0	1.1	1.5	2.1
Singapore . . . . .	1.4	0.4	1.7	2.5	2.3
China . . . . .	0.7	0.5	1.2	2.0	2.0
Others . . . . .	<u>0.5</u>	<u>0.4</u>	<u>0.3</u>	<u>0.7</u>	<u>0.5</u>
	8.8	5.0	6.8	8.4	8.1
<b>European Union</b>					
Malta . . . . .	0.3	1.8	0.4	0.7	4.1
Netherlands . . . . .	0.6	0.6	2.4	0.5	1.5
England . . . . .	0.4	0.1	0.4	0.3	0.4
Germany . . . . .	0.4	0.4	0.2	0.5	0.3
France . . . . .	0.2	0.5	0.2	0.1	0.2
Luxembourg . . . . .	0.2	0.7	1.9	0.2	0.2
Others . . . . .	<u>0.9</u>	<u>0.8</u>	<u>1.2</u>	<u>0.4</u>	<u>0.8</u>
	3.0	4.9	6.7	2.7	7.5
Others regions and countries . . . . .	<u>0.1</u>	<u>0.0</u>	<u>0.5</u>	<u>1.4</u>	<u>0.4</u>
Total . . . . .	<u>16.3</u>	<u>14.5</u>	<u>19.0</u>	<u>20.9</u>	<u>21.3</u>

Source: Ministry of Trade, Industry and Energy



## **Trade Balance**

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

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

	<b>Exports<sup>(1)</sup></b>	<b>As % of GDP<sup>(2)</sup></b>	<b>Imports<sup>(3)</sup></b>	<b>As % of GDP<sup>(2)</sup></b>	<b>Balance of Trade</b>	<b>Exports as % of Imports</b>
	<b>(billions of dollars, except percentages)</b>					
2012 . . . . .	547.9	46.0%	519.6	43.6%	28.3	105.4
2013 . . . . .	559.6	44.4%	515.6	40.9%	44.0	108.5
2014 . . . . .	572.7	44.1%	525.5	40.5%	47.2	109.0
2015 . . . . .	526.8	42.1%	436.5	34.9%	90.3	120.7
2016 <sup>(4)</sup> . . . . .	495.4	39.7%	406.2	32.5%	89.2	122.0

Notes:

- (1) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
- (2) At chained 2010 year prices.
- (3) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
- (4) Preliminary.

Source: The Bank of Korea; Korea Customs Service.

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

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

**Exports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>**

	<u>2012</u>	<u>As % of 2012 Total</u>	<u>2013</u>	<u>As % of 2013 Total</u>	<u>2014</u>	<u>As % of 2014 Total</u>	<u>2015</u>	<u>As % of 2015 Total</u>	<u>2016<sup>(2)</sup></u>	<u>As % of 2016 Total<sup>(2)</sup></u>
	(billions of dollars, except percentages)									
Foods & Consumer										
Goods . . . . .	6.8	1.2	6.7	1.1	7.0	1.2	6.8	1.3	7.4	1.5
Raw Materials and										
Fuels . . . . .	65.4	11.9	61.2	10.9	59.2	10.3	39.5	7.5	33.0	6.7
Petroleum &										
Derivatives . . . . .	56.6	10.3	53.2	9.5	51.2	8.9	32.4	6.1	26.8	5.4
Others . . . . .	8.8	1.6	8.0	1.4	8.0	1.4	7.1	1.3	6.2	1.3
Light Industrial										
Products . . . . .	40.5	7.4	39.0	6.9	38.6	6.7	35.4	6.7	35.4	7.1
Heavy & Chemical										
Industrial Products . . . . .	435.2	79.3	452.8	77.8	467.9	81.7	445.1	84.5	419.7	84.7
Electronic & Electronic										
Products . . . . .	156.0	28.5	171.2	30.6	174.4	30.5	170.5	32.4	159.4	32.2
Chemicals & Chemical										
Products . . . . .	59.6	10.9	64.4	11.5	65.6	11.5	55.9	10.6	55.3	11.2
Metal Goods . . . . .	47.2	8.6	43.6	7.8	47.5	8.3	41.4	7.9	39.9	8.1
Machinery & Precision										
Equipment . . . . .	55.7	10.2	55.3	9.9	57.9	10.1	57.3	10.9	55.2	11.1
Transport Equipment . . . . .	112.1	20.5	113.1	20.2	116.5	20.3	112.8	21.4	101.0	20.4
Passenger Cars . . . . .	42.4	7.7	44.3	7.9	44.8	7.8	41.7	7.9	37.5	7.6
Ship & Boat . . . . .	38.2	7.0	36.2	6.5	38.7	6.8	38.8	7.4	33.5	6.8
Others . . . . .	31.5	5.7	32.6	5.8	33.0	5.8	32.3	6.1	30.0	6.1
Others . . . . .	4.6	0.8	5.2	0.9	6.0	1.0	7.2	1.4	8.9	1.8
<b>Total . . . . .</b>	<u>547.9</u>	<u>100.0</u>	<u>559.6</u>	<u>100.0</u>	<u>572.7</u>	<u>100.0</u>	<u>526.8</u>	<u>100.0</u>	<u>495.4</u>	<u>100.0</u>

Notes:

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

(2) Preliminary

Source: The Bank of Korea; Korea Customs Service.

### Imports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>

	As % of 2012		As % of 2013		As % of 2014		As % of 2015		As % of 2016 <sup>(2)</sup>	
	2012	Total	2013	Total	2014	Total	2015	Total	2016 <sup>(2)</sup>	Total <sup>(2)</sup>
(billions of dollars, except percentages)										
Industrial Materials and										
Fuels . . . . .	325.1	62.6	313.8	60.9	311.2	59.2	219.0	50.2	191.0	47.0
Crude Petroleum . . . . .	108.3	20.8	99.4	19.3	94.9	18.1	55.1	12.6	44.3	10.9
Mineral . . . . .	28.3	5.4	24.7	4.8	24.6	4.7	17.6	4.0	15.5	3.8
Chemicals . . . . .	43.8	8.4	43.2	8.4	43.9	8.4	39.6	9.1	39.1	9.6
Iron & Steel										
Products . . . . .	26.4	5.1	24.6	4.8	27.0	5.1	21.2	4.9	18.9	4.7
Non-ferrous Metal . . . . .	12.6	2.4	12.5	2.4	12.8	2.4	11.6	2.7	10.7	2.6
Others . . . . .	105.7	20.3	109.4	21.2	108.0	20.5	74.0	16.9	62.5	15.4
Capital Goods . . . . .	140.3	27.0	144.2	28.0	149.0	28.3	150.8	34.5	147.8	36.4
Machinery & Precision										
Equipment . . . . .	49.8	9.6	50.1	9.7	50.8	9.7	49.1	11.2	47.8	11.8
Electric & Electronic										
Machines . . . . .	76.3	14.7	80.9	15.7	84.5	16.1	87.5	20.0	84.9	20.9
Transport Equipment . . . . .	12.1	2.3	11.3	2.2	11.6	2.2	12.4	2.8	13.0	3.2
Others . . . . .	2.1	0.4	1.9	0.4	2.1	0.4	1.9	0.4	2.1	0.5
Consumer Goods . . . . .	54.2	10.4	58.2	11.3	65.3	12.4	66.7	15.3	67.4	16.6
Cereals . . . . .	7.9	1.5	8.5	1.6	7.9	1.5	6.9	1.6	6.2	1.5
Goods for Direct										
Consumption . . . . .	14.3	2.8	14.5	2.8	16.7	3.2	17.1	3.9	17.8	4.4
Consumer Durable										
Goods . . . . .	19.4	3.7	21.0	4.1	24.7	4.7	26.6	6.1	27.0	6.6
Consumer Nondurable										
Goods . . . . .	12.6	2.4	14.3	2.8	16.0	3.0	16.0	3.7	16.4	4.0
Total . . . . .	<u>519.6</u>	<u>100.0</u>	<u>515.6</u>	<u>100.0</u>	<u>525.5</u>	<u>100.0</u>	<u>436.5</u>	<u>100.0</u>	<u>406.2</u>	<u>100.0</u>

Notes:

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

(2) Preliminary.

Source: The Bank of Korea; Korea Customs Service.

In 2012, the Republic recorded a trade surplus of US\$28.3 billion. Exports decreased by 1.3% to US\$547.9 billion in 2012 from US\$555.2 billion in 2011, primarily due to adverse economic conditions in European countries. Imports decreased by 0.9% to US\$519.6 billion in 2012 from US\$524.4 billion in 2011, primarily due to decreased investment spending.

In 2013, the Republic recorded a trade surplus of US\$44.1 billion. Exports increased by 2.1% to US\$559.7 billion in 2013 from US\$547.9 billion in 2012, primarily due to increased demand for wireless communication devices, semiconductors and other information technology related products from the United States, China and the Southeast Asian nations. Imports decreased by 0.8% to US\$515.6 billion in 2013 from US\$519.6 billion in 2012, primarily due to decreased imports of oil, iron and steel.

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

In 2015, the Republic recorded a trade surplus of US\$90.3 billion in 2015. Exports decreased by 8.0% to US\$526.8 billion in 2015 from US\$572.7 billion in 2014, primarily due to adverse global economic conditions. Imports decreased by 16.9% to US\$436.5 billion in 2015 from

US\$525.5 billion in 2014, primarily due to a decrease in oil prices, which also decreased unit prices of major raw materials.

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

Based on preliminary data, the Republic recorded a trade surplus of US\$16.1 billion in the first quarter of 2017. Exports increased by 14.9% to US\$132.3 billion in the first quarter of 2017 from US\$115.2 billion in the corresponding period of 2016, primarily due to increased demand for semiconductors and petrochemical products. Imports increased by 23.9% to US\$116.2 billion in the first quarter of 2017 from US\$93.8 billion in the corresponding period of 2016, primarily due to an increase in oil prices, which also led to increased unit prices of other major raw materials, and increased imports of machinery, precision equipment and electronic machines.

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

<b>Exports</b>										
	2012	As % of 2012 Total	2013	As % of 2013 Total	2014	As % of 2014 Total	2015	As % of 2015 Total	2016 <sup>(1)</sup>	As % of 2016 Total <sup>(1)</sup>
(millions of dollars, except percentages)										
China . . . . .	134,322.6	24.5	145,869.5	26.1	145,287.7	25.4	137,123.9	26.0	124,432.9	25.1
United States . . . . .	58,524.6	10.7	62,052.5	11.1	70,284.9	12.3	69,832.1	13.3	66,462.3	13.4
Japan . . . . .	38,796.1	7.1	34,662.3	6.2	32,183.8	5.6	25,576.5	4.9	24,355.0	4.9
Hong Kong . . . . .	32,606.2	6.0	27,756.3	5.0	27,256.4	4.8	30,418.2	5.8	32,782.4	6.6
Singapore . . . . .	22,887.9	4.2	22,289.0	4.0	23,749.9	4.1	15,011.2	2.8	12,458.9	2.5
Vietnam . . . . .	15,946.0	2.9	21,087.6	3.8	22,351.7	3.9	27,770.8	5.3	32,630.5	6.6
Taiwan . . . . .	14,814.9	2.7	15,699.1	2.8	15,077.4	2.6	12,004.3	2.3	12,220.5	2.5
India . . . . .	11,922.0	2.2	11,375.8	2.0	12,782.5	2.2	12,029.6	2.3	11,596.3	2.3
Indonesia . . . . .	13,955.0	2.5	11,568.2	2.1	11,360.7	2.0	7,872.4	1.5	6,608.5	1.3
Mexico . . . . .	9,042.4	1.7	9,727.4	1.7	10,846.0	1.9	10,891.9	2.1	9,720.8	2.0
Australia . . . . .	9,250.5	1.7	9,563.1	1.7	10,282.5	1.8	10,830.6	2.1	7,500.7	1.5
Russia . . . . .	11,097.1	2.0	11,149.1	2.0	10,129.2	1.8	4,685.7	0.9	4,768.8	1.0
Germany . . . . .	7,509.7	1.4	7,907.9	1.4	7,570.9	1.3	6,220.2	1.2	6,443.0	1.3
Others <sup>(2)</sup> . . . . .	167,194.8	30.5	168,924.6	30.2	173,501.0	30.3	156,489.1	29.7	143,445.3	29.0
<b>Total . . . . .</b>	<b>547,869.8</b>	<b>100.0</b>	<b>559,632.4</b>	<b>100.0</b>	<b>572,664.6</b>	<b>100.0</b>	<b>526,756.5</b>	<b>100.0</b>	<b>495,425.9</b>	<b>100.0</b>

Notes:

(1) Preliminary.

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service.

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

### Imports

	2012	As % of 2012 Total	2013	As % of 2013 Total	2014	As % of 2014 Total	2015	As % of 2015 Total	2016 <sup>(1)</sup>	As % of 2016 Total <sup>(1)</sup>
(millions of dollars, except percentages)										
China . . . . .	80,784.6	15.5	83,052.9	16.1	90,082.2	17.1	90,250.3	20.7	86,980.1	19.9
Japan . . . . .	64,363.1	12.4	60,029.4	11.6	53,768.3	10.2	45,853.8	10.5	47,466.6	10.9
United States . .	43,341.0	8.3	41,511.9	8.1	45,283.3	8.6	44,024.4	10.1	43,215.9	9.9
Saudi Arabia . . .	39,707.1	7.6	37,665.2	7.3	36,694.5	7.0	19,561.5	4.5	15,741.7	3.6
Qatar . . . . .	25,504.7	4.9	25,873.8	5.0	25,723.1	4.9	16,474.8	3.8	10,081.3	2.3
Australia . . . . .	22,987.9	4.4	20,784.6	4.0	20,413.0	3.9	16,437.8	3.8	15,175.9	3.5
Germany . . . . .	17,645.4	3.4	19,336.0	3.8	21,298.8	4.0	20,956.5	4.8	18,917.0	4.3
Kuwait . . . . .	18,297.1	3.5	18,725.1	3.6	16,892.0	3.2	8,973.4	2.1	7,262.3	1.7
Taiwan . . . . .	14,012.0	2.7	14,632.6	2.8	15,689.8	3.0	16,653.9	3.8	16,403.1	3.8
United Arab Emirates . . . . .	15,115.3	2.9	18,122.9	3.5	16,194.3	3.1	8,614.7	2.0	6,941.1	1.6
Indonesia . . . . .	15,676.3	3.0	13,190.0	2.6	12,266.3	2.3	8,850.4	2.0	8,285.3	1.9
Malaysia . . . . .	9,796.4	1.9	11,095.8	2.2	11,097.9	2.1	8,609.4	2.0	7,507.8	1.7
Others <sup>(2)</sup> . . . . .	152,353.6	29.3	151,565.3	29.4	160,111.0	30.5	131,238.1	30.1	152,520.9	34.9
Total . . . . .	<u>519,584.5</u>	<u>100.0</u>	<u>515,585.5</u>	<u>100.0</u>	<u>525,514.5</u>	<u>100.0</u>	<u>436,499.0</u>	<u>100.0</u>	<u>436,499.0</u>	<u>100.0</u>

Notes:

(1) Preliminary.

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service.

In the past, the outbreak of severe health epidemics in Korea and various parts of the world increased uncertainty about prospects for international trade and economic growth for affected countries, as well as world economic prospects in general. In response to these outbreaks, the Government issued advisories on disease prevention and conducted special monitoring. In May 2015, an outbreak of Middle East Respiratory Syndrome, or MERS, resulted in the death of over 30 people and the quarantine of thousands. The Government continues to cooperate with regional and international efforts to develop and implement additional measures to contain and prevent MERS and other diseases. Another outbreak of MERS or similar incidents in the future, however, may have an adverse effect on Korean and world economies and on international trade.

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

Since the Government announced its plans to pursue free trade agreements, or FTAs, in 2003, the Republic has entered into FTAs with key trading partners. The Republic has had bilateral FTAs in effect with Chile since 2004, Singapore since 2006, India since 2010, Peru since 2011, the United States since 2012, Turkey since 2013, Australia since 2014, Canada, China, New Zealand and Vietnam since 2015 and Colombia since July 2016. In March 2017, the Republic signed a regional

FTA with each of Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua. The Republic is currently in negotiations with a number of other key trading partners. In addition, the Republic has had regional FTAs in effect with the European Free Trade Association since 2006, the Association of Southeast Asian Nations since 2009 and the European Union since 2011 and is currently negotiating additional regional FTAs, including one with China and Japan.

### *Non-Commodities Trade Balance*

The Republic had a non-commodities trade surplus of US\$1.4 billion in 2012, a non-commodities trade deficit of US\$1.6 billion in 2013, a non-commodities trade deficit of US\$4.5 billion in 2014 and a non-commodities trade deficit of US\$16.3 billion in 2015. Based on preliminary data, the Republic had a non-commodities trade deficit of US\$21.8 billion in 2016.

### *Foreign Currency Reserves*

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

#### **Total Official Reserves**

	December 31,				
	2012	2013	2014	2015	2016
	(millions of dollars)				
Gold . . . . .	\$ 3,761.4	\$ 4,794.5	\$ 4,794.7	\$ 4,794.7	\$ 4,794.7
Foreign Exchange <sup>(1)</sup> . . . . .	316,897.7	335,647.5	353,600.5	358,513.8	361,701.4
Total Gold and Foreign Exchange . .	320,659.1	340,442.0	358,395.2	363,308.5	366,496.1
Reserve Position at IMF . . . . .	2,783.6	2,527.7	1,917.1	1,411.8	1,727.5
Special Drawing Rights . . . . .	3,525.6	3,489.9	3,280.5	3,241.4	2,878.0
Total Official Reserves . . . . .	<u>\$326,968.4</u>	<u>\$346,459.6</u>	<u>\$363,592.7</u>	<u>\$367,961.9</u>	<u>\$371,101.6</u>

Note:

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

Source: The Bank of Korea; International Monetary Fund.

The Government's foreign currency reserves increased to US\$262.2 billion as of December 31, 2007 from US\$8.9 billion as of December 31, 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to US\$201.2 billion as of December 31, 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions. The Government's foreign currency reserves increased to US\$306.4 billion as of December 31, 2011, US\$327.0 billion as of December 31, 2012, US\$346.5 billion as of December 31, 2013, US\$363.6 billion as of December 31, 2014, US\$368.0 billion as of December 31, 2015 and US\$371.1 billion as of December 31, 2016, primarily due to continued trade surpluses and capital inflows. The amount of the Government's foreign currency reserve was US\$378.5 billion as of May 31, 2017.

### **Government Finance**

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

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

2015 budgeted revenues increased by 2.2% to ₩346.4 trillion from ₩338.9 trillion in 2014, led by an increase in budgeted tax revenues (including revenues from income tax, value added tax and social security contributions). 2015 budgeted expenditures and net lending increased by 8.6% to ₩353.4 trillion from ₩325.4 trillion in 2014, led by increases in budgeted expenditures on economic growth, social security, public assistance, military services and welfare services for senior citizens, unemployed people and temporary workers. The 2015 budget anticipated a ₩7.0 billion budget deficit.

2016 budgeted revenues increased by 6.8% to ₩369.9 trillion from ₩346.4 trillion in 2015, led by an increase in budgeted tax revenues (including revenues from social security contributions and income tax). 2016 budgeted expenditures and net lending increased by 4.0% to ₩367.4 trillion from ₩353.4 trillion in 2015, led by increases in budgeted expenditures on economic growth (including research and development), welfare services for senior citizens, unemployed people and temporary workers, promotion of cultural industries, military services, public assistance, child care and education. The 2016 budget anticipated a ₩2.5 billion budget surplus.

2017 budgeted revenues increased by 3.4% to ₩382.4 trillion from ₩369.9 trillion in 2016, led by an increase in budgeted tax revenues (including revenues from social security contributions, taxes on goods and services and taxes on income, profits and capital gains). 2017 budgeted expenditures and net lending increased by 0.3% to ₩368.6 trillion from ₩367.4 trillion in 2016, led by increases in budgeted expenditures on welfare services for senior citizens, children, unemployed people and temporary workers, military services, infrastructure and community development. The 2017 budget anticipated a ₩13.8 billion budget surplus.



The following table shows consolidated Government revenues and expenditures:

### Consolidated Central Government Revenues and Expenditures

	Actual					Budget		
	2012	2013	2014	2015	2016	2015	2016	2017
	(billions of Won)							
Total Revenues . . . . .	311,456	314,438	320,895	339,186	371,264	346,421	369,913	382,359
Current Revenues . . . . .	307,754	311,136	318,185	335,911	367,888	341,919	365,782	378,560
Total Tax Revenues . . . . .	246,918	248,046	255,313	270,974	299,451	271,176	293,269	304,271
Taxes on income, profits and capital gains . . . . .	91,699	91,674	95,976	105,751	120,612	102,920	114,680	119,641
Social security contributions . . . . .	43,904	46,140	49,793	53,089	56,889	55,441	60,530	62,010
Tax on property . . . . .	8,832	8,591	9,054	11,113	11,112	10,328	10,303	10,875
Taxes on goods and services . . . . .	77,811	77,642	79,055	79,442	89,221	80,437	86,549	89,258
Taxes on international trade and transaction . . . . .	9,816	10,562	8,721	8,495	8,045	8,553	8,292	8,991
Other tax . . . . .	14,857	13,438	12,715	13,084	13,571	13,498	12,915	13,498
Non-Tax Revenues . . . . .	60,836	63,089	62,872	64,936	98,437	70,743	72,513	74,288
Operating surpluses of departmental enterprise sales and property income . . . . .	25,242	24,591	23,112	22,129	24,489	24,505	25,920	26,981
Administration fees & charges and non-industrial sales . . . . .	7,364	8,537	7,997	8,664	8,469	10,403	8,578	8,977
Fines and forfeits . . . . .	17,488	18,164	19,556	20,777	22,266	21,962	23,484	22,879
Contributions to government employee pension fund . .	8,134	8,776	9,915	10,929	11,289	10,458	11,372	12,370
Current revenue of non-financial public enterprises . . . . .	2,608	3,021	2,292	2,437	1,924	3,415	3,159	3,082
Capital Revenues . . . . .	3,702	3,302	2,710	3,276	3,376	4,502	4,131	3,800
Total Expenditures and Net Lending . . . . .	292,977	300,238	312,394	339,351	354,354	353,422	367,413	368,635
Total Expenditures . . . . .	286,921	302,036	311,507	330,537	342,612	339,673	352,710	361,583
Current Expenditures . . . . .	252,620	268,019	280,466	296,216	309,981	304,008	320,293	330,967
Expenditure on goods and service . . . . .	55,384	57,769	59,616	63,160	65,145	69,625	70,166	71,472
Interest payment . . . . .	14,239	13,386	14,057	14,056	13,964	14,377	14,434	14,486
Subsidies and other current transfers . . . . .	179,433	193,451	203,649	216,189	228,349	216,685	232,033	241,817
Current expenditure of non-financial public enterprises . . . . .	3,564	3,414	3,143	2,810	2,524	3,681	3,661	3,192
Capital Expenditures . . . . .	34,301	34,017	31,041	34,322	32,631	35,665	32,417	30,616
Net Lending . . . . .	6,056	(1,798)	888	8,814	11,741	13,749	14,703	7,052

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

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

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

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

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

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

For 2012, the Republic recorded total revenues of ₩311.5 trillion and total expenditures and net lending of ₩293.0 trillion. The Republic had a fiscal surplus of ₩18.5 trillion in 2012.

For 2013, the Republic recorded total revenues of ₩314.4 trillion and total expenditures and net lending of ₩300.2 trillion. The Republic had a fiscal surplus of ₩14.2 trillion in 2013.

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

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

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

## **Debt**

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2015 amounted to approximately ₩582.9 trillion, an increase of 9.5% over the previous year. The Ministry of Strategy and Finance administers the national debt of the Republic. The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2016 amounted to approximately ₩616.1 trillion, an increase of 5.7% over the previous year. The Ministry of Strategy and Finance administers the national debt of the Republic.

## External and Internal Debt of the Government

The following table sets out, by currency and the equivalent amount in U.S. dollars, the estimated outstanding direct external debt of the Government as of December 31, 2016:

### Direct External Debt of the Government

	Amount in Original Currency	Equivalent Amount in U.S. Dollars <sup>(1)</sup>
	(millions)	
US\$ . . . . .	US\$3,900.0	US\$3,900.0
Chinese Yuan (CNY) . . . . .	CNY3,000.0	430.1
Euro (EUR) . . . . .	EUR1,125.0	1,180.0
Total . . . . .		<u>US\$5,510.1</u>

Note:

- (1) Amounts expressed in currencies other than US\$ are converted to US\$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2016.

The following table summarises, as of December 31 of the years indicated, the outstanding direct internal debt of the Republic:

### Direct Internal Debt of the Government

	(billions of Won)
2012 . . . . .	414,213.5
2013 . . . . .	453,674.0
2014 . . . . .	493,584.9
2015 . . . . .	547,625.6
2016 . . . . .	584,785.0

The following table sets out all guarantees by the Government of indebtedness of others:

### Guarantees by the Government

	December 31,				
	2012	2013	2014	2015	2016
	(billions of Won)				
Domestic . . . . .	32,783.6	32,978.5	29,158.4	26,393.8	24,241.6
External <sup>(1)</sup> . . . . .	—	—	—	—	—
Total . . . . .	<u>32,783.6</u>	<u>32,978.5</u>	<u>29,158.4</u>	<u>26,393.8</u>	<u>24,241.6</u>

Note:

- (1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on December 31 of each year.

For further information on the outstanding indebtedness, including guarantees, of the Republic, see "— Tables and Supplementary Information".

## External Liabilities

The following tables set out certain information regarding the Republic's external liabilities calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013. Under BPM6, in particular, prepayments received in connection with the construction of ships are excluded from the external liabilities.

	December 31,				
	2012	2013	2014	2015	2016 <sup>(1)</sup>
	(billions of dollars)				
Long-term Liabilities . . . . .	281.0	311.7	307.9	291.7	275.8
General Government . . . . .	60.8	63.0	65.2	62.8	64.8
Monetary Authorities . . . . .	21.2	29.2	25.9	20.1	10.8
Banks . . . . .	97.8	102.2	104.0	103.1	94.1
Other Sectors . . . . .	101.2	117.4	112.9	105.7	106.1
Short-term Liabilities . . . . .	128.0	111.8	116.4	104.3	105.2
General Government . . . . .	0.0	0.0	1.8	2.3	2.5
Monetary Authorities . . . . .	14.9	10.8	12.2	12.0	6.9
Banks . . . . .	85.4	77.9	79.9	74.8	78.4
Other Sectors . . . . .	27.7	23.0	22.5	15.2	17.4
Total External Liabilities . . . . .	<u>408.9</u>	<u>423.5</u>	<u>424.3</u>	<u>396.1</u>	<u>380.9</u>

Note:

(1) Preliminary.

## Debt Record

The Government has always paid when due the full amount of principal of, interest on, and amortisation of sinking fund requirements of, all of its indebtedness.

## Tables and Supplementary Information

### (A) External Debt of the Government

#### (1) External Bonds of the Government

Series	Issue Date	Maturity Date	Interest Rate (%)	Currency	Original Principal Amount	Principal Amount Outstanding as of December 31, 2016
2005-001 . . .	November 2, 2005	November 3, 2025	5.625	USD	400,000,000	400,000,000
2006-002 . . .	December 7, 2006	December 7, 2021	4.25	EUR	375,000,000	375,000,000
2009-001 . . .	April 16, 2009	April 16, 2019	7.125	USD	1,500,000,000	1,500,000,000
2013-001 . . .	September 11, 2013	September 11, 2023	3.875	USD	1,000,000,000	1,000,000,000
2014-001 . . .	June 10, 2014	June 10, 2044	4.125	USD	1,000,000,000	1,000,000,000
2014-002 . . .	June 10, 2014	June 10, 2024	2.125	EUR	750,000,000	750,000,000
2015-003 . . .	December 16, 2015	December 16, 2018	3.000	CNY	3,000,000,000	3,000,000,000
Total External Bonds in Original Currencies . . . . .						USD 3,900,000,000 EUR 1,125,000,000 CNY 3,000,000,000
Total External Bonds in Equivalent Amount of Won <sup>(1)</sup> . . . . .						<u>₩6,658,980,000,000</u>

Note:

(1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to ₩1,208.50, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd. Euro amounts are converted to Won amounts at the rate of EUR1.00 to ₩1,267.60, the market average exchange rate in effect on

December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd. CNY amounts are converted to Won amounts at the rate of CNY1.00 to ₩173.26, the market average exchange rate in effect on December 31, 2016, as announced by Seoul Money Brokerage Services, Ltd.

(2) *External Borrowings of the Government*

None.

(B) *External Guaranteed Debt of the Government*

None.

(C) *Internal Debt of the Government*

<u>Title</u>	<u>Range of Interest Rates</u>	<u>Range of Years of Issue</u>	<u>Range of Years of Original Maturity</u>	<u>Principal Amounts Outstanding as of December 31, 2016</u>
	(%)			(billions of Won)
<b>1. Bonds</b>				
Interest-Bearing Treasury Bond for Treasury Bond Management Fund . . . . .	1.00-5.75	2006-2016	2017-2046	516,908.2
Interest-Bearing Treasury Bond for National Housing I . . . . .	1.25-3.00	2007-2016	2012-2021	62,776.3
Interest-Bearing Treasury Bond for National Housing II . . . . .	0.0-3.0	1991-2012	2011-2030	1,191.3
Interest-Bearing Treasury Bond for National Housing III . . . . .	0	2005	2015	3.9
Non-interest-Bearing Treasury Bond for Contribution to International Organisations <sup>(1)</sup> . . . . .	0	1967-1985	—	9.4
Total Bonds . . . . .				<u>580,889.1</u>
<b>2. Borrowings</b>				
Borrowings from The Bank of Korea . . . . .	1.402-1.453	2016	2017	1,289.8
Borrowings from the Sports Promotion Fund . . . . .	1.205-2.845	2014-2016	2017-2019	200.0
Borrowings from The Korea Foundation Fund . . . . .	1.515-1.995	2015-2016	2017-2018	40.0
Borrowings from the Korea Credit Guarantee Fund . . . . .	2.305-2.755	2014	2018	455.0
Borrowings from Korea Technology Finance Corporation . . . . .	2.305-2.755	2014-2016	2018	195.0
Borrowings from the Credit Guarantee Fund for Agriculture, Forestry and Fisheries Suppliers . . . . .	1.875-3.215	2014-2015	2018-2020	1,100.0
Borrowings from the Government Employees' Pension Fund . . . . .	1.467	2015	2017	10.0
Borrowings from the Film Industry Development Fund . . . . .	1.385-2.87	2014-2016	2017-2019	80.0
Borrowings from the Housing Finance Credit Guarantee Fund . . . . .	1.385-1.67	2016	2019-2021	526.1
Total Borrowings . . . . .				<u>3,895.9</u>
Total Internal Funded Debt . . . . .				<u>584,785.0</u>

Note:

(1) Interest Rates and Years of Original Maturity not applicable.

*(D) Internal Guaranteed Debt of the Government*

<u>Title</u>	<u>Range of Interest Rates</u>	<u>Range of Years of Issue</u>	<u>Range of Years of Original Maturity</u>	<u>Principal Amounts Outstanding as of December 31, 2016</u>
	(%)			(billions of Won)
<b>1. Bonds of Government-Affiliated Corporations</b>				
Korea Deposit Insurance Corporation . . . . .	1.34-3.67	2012-2016	2017-2020	12,550.0
Korea Student Aid Foundation . . . . .	Floating-5.07	2010-2016	2017-2036	11,660.0
Total Bonds . . . . .				<u>24,210.0</u>
<b>2. Borrowings of Government-Affiliated Corporations</b>				
Rural Development Corporation and Federation of Farmland . . . . .	5.5	1989	2023	31.6
Total Borrowings . . . . .				<u>31.6</u>
Total Internal Guaranteed Debt . . . . .				<u>24,241.6</u>

## TAXATION

### Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a holder. This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Pricing Supplement.

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes. A “Non-U.S. Holder” means a beneficial owner of Notes that is neither a U.S. Holder nor a partnership.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax adviser concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Korea (the “Treaty”) all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

*Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Code.*

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THEIR ELIGIBILITY**



**FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

**U.S. Federal Income Tax Characterisation of the Notes**

The characterisation of a Series or Tranche of Notes may be uncertain and will depend on the terms of those Notes. The determination of whether an obligation represents debt, equity or some other instrument or interest is based on all the relevant facts and circumstances. Depending on the terms of a particular Series or Tranche of Notes, the Notes may not be characterised as debt for U.S. federal income tax purposes despite the form of the Notes as debt instruments. There may be no statutory, judicial or administrative authority directly addressing the characterisation of some of the types of Notes that are anticipated to be issued under the Programme or of instruments similar to the Notes. As a consequence, it may be unclear how a Series or Tranche of Notes should be properly characterised for U.S. federal income tax purposes. Further possible characterisations, if applicable, may be discussed in the relevant Pricing Supplement or any information memorandum or series information memorandum.

No rulings will be sought from the U.S. Internal Revenue Service (“IRS”) regarding the characterisation of any of the Notes issued hereunder for U.S. federal income tax purposes. Each holder should consult its own tax adviser about the proper characterisation of the Notes for U.S. federal income tax purposes, and the consequences to the holder of acquiring, owning or disposing of the Notes.

The following summary applies to Notes that are properly treated as debt for U.S. federal income tax purposes.

**Taxation of U.S. Holders**

***Payments of Interest***

*General*

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “foreign currency”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “Original Issue Discount — General”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder’s method of accounting for U.S. federal income tax purposes, reduced by the allocable amount of amortisable bond premium, subject to the discussion below. Interest paid by the Issuer on the Notes and original issue discount (“OID”), if any, accrued with respect to the Notes (as described below under “Original Issue Discount”) generally will constitute income from sources outside the United States.

*Effect of Korean Withholding Taxes*

As discussed in “— Korean Taxation” under current law payments of interest and OID on the Notes to foreign investors are subject to Korean withholding taxes. As discussed under “Terms and Conditions of the Notes — Taxation”, the Issuer is liable for the payment of additional amounts to U.S. Holders so that U.S. Holders receive the same amounts they would have received had no Korean withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders will be treated as having actually received the amount of Korean taxes withheld by the Issuer with respect to a Note, and as then having actually paid over the withheld taxes to the Korean tax authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest or OID may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for

Korean income taxes withheld by the Issuer. Interest generally will constitute “passive category income” for purposes of the foreign tax credit. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Korean withholding taxes.

### ***Original Issue Discount***

#### *General*

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “Short-Term Note”), will be treated as issued with OID (a “Discount Note”) if the excess of the Note’s “stated redemption price at maturity” over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “instalment obligation”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest.” A qualified stated interest payment generally is any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

### *Acquisition Premium*

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “acquisition premium”) and that does not make the election described below under “Election to Treat All Interest as Original Issue Discount”, is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

### *Short-Term Notes*

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note’s stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder’s purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### *Fungible Issue*

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

### *Market Discount*

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a “Market Discount Note”) if the Note’s stated redemption price at maturity or, in the case of a Discount Note, the Note’s “revised issue price”, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note’s stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an instalment obligation, the Note’s weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes “*de minimis* market discount”. For this purpose, the “revised issue price” of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the sale or retirement of a Market Discount Note (including any payment on a Note that is not qualified stated interest) generally will be treated as ordinary income to the extent of the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may avoid such treatment by electing to include market discount in income currently over the life of the Note. This election applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the IRS.

A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently may be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note. Such interest is deductible when paid or incurred to the extent of income from the Note for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that such excess exceeds the portion of the market discount allocable to the days during the taxable year on which such Note was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

#### *Variable Interest Rate Notes*

Notes that provide for interest at variable rates (“Variable Interest Rate Notes”) generally will bear interest at a “qualified floating rate” and thus will be treated as “variable rate debt instruments” under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a “variable rate debt instrument” if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note’s term will be either significantly less than or significantly greater than the average value

of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" generally will not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) equal to or in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant-yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will



account for the OID and qualified stated interest as if the U.S. Holder held the “equivalent” fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement.

#### *Notes Purchased at a Premium*

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “Original Issue Discount — Election to Treat All Interest as Original Issue Discount”.

#### *Election to Treat All Interest as Original Issue Discount*

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “Original Issue Discount — General,” with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described above under “Notes Purchased at a Premium”) or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “Market Discount” to include market discount in income currently over the life of all debt instruments having market discount that are acquired on or after the first day of the first taxable year to which the election applies. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

#### *Purchase, Sale and Retirement of Notes*

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the U.S. Holder’s adjusted tax basis of the Note. A U.S. Holder’s adjusted tax basis in a Note generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder’s income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under “Original Issue Discount — Market Discount” or “Original Issue Discount — Short-Term Notes” or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year.

Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilise foreign tax

credits attributable to any Korean withholding tax imposed on a sale or disposition. Prospective purchasers should consult their tax advisers as to the availability of and limitations on any foreign tax credit attributable to this Korean withholding tax.

### ***Foreign Currency Notes***

#### ***Interest***

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the accrual basis U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### ***OID***

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### ***Market Discount***

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the sale or retirement of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.



### *Bond Premium*

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income (or OID) in units of the foreign currency. On the date bond premium offsets interest income (or OID), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

### *Sale or Retirement*

As discussed above under “— Purchase, Sale and Retirement of Notes”, a U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder’s tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder’s purchase price for the Note (as adjusted for amortised bond premium, if any) (i) on the date of sale or retirement and (ii) on the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

### *Disposition of Foreign Currency*

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

### *Reportable Transactions*

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases generally is imposed on any taxpayer that fails to timely file an information return with the

IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

## **Taxation of Non-U.S. Holders**

### *U.S. Notes*

Payments of interest (including OID, if any) made to a Non-U.S. Holder on a Note issued by the Issuer's New York branch (a "U.S. Note") will be subject to U.S. withholding tax at a rate of 30 per cent. of the gross amount, unless eligible for one of the exceptions described below. Subject to the discussion of backup withholding and FATCA below, no withholding of U.S. federal income tax will be required with respect to payments of interest on a U.S. Note made to a Non-U.S. Holder, provided that:

- the Non-U.S. Holder does not actually or constructively own 10 per cent. or more of the total combined voting power of all of the class of the Issuer's stock that is entitled to vote;
- the Non-U.S. Holder is not a "controlled foreign corporation" that is related to the Issuer (actually or constructively);
- the income from the U.S. Notes held by the Non-U.S. Holder is not effectively connected with the conduct of a trade or business within the United States;
- the Non-U.S. Holder is not a bank whose receipt of interest on the U.S. Notes is described in Section 881(c)(3)(A) of the Code; and
- either (A) the beneficial owner of the U.S. Notes certifies to the Issuer or its agent on IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or successor form), under penalty of perjury, that it is not a U.S. person and provides its name and address and the certificate is renewed periodically as required by the Treasury Regulations, or (B) the U.S. Notes are held through certain intermediaries and the beneficial owner of the notes satisfies certification requirements of applicable Treasury Regulations, and in either case, neither the Issuer nor its agent has actual knowledge or reason to know that the beneficial owner of the U.S. Note is a U.S. person. Special certification rules apply to certain Non-U.S. Holders that are entities rather than individuals.

If a Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exemption described above (the "Portfolio Interest Exemption"), payments of interest on a U.S. Note made to such Non-U.S. Holder will be subject to a 30 per cent. withholding tax unless the beneficial owner of the U.S. Note provides the Issuer or its agent, as the case may be, with a properly executed:

- IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or successor form) claiming an exemption from withholding or reduced rate of tax under an applicable tax treaty (a "Treaty Exemption"); or
- IRS Form W-8ECI (or successor form) stating that interest paid on the U.S. Note is not subject to withholding tax because it is effectively connected with the conduct of a U.S. trade or business of the beneficial owner, each form to be renewed periodically as required by the Treasury Regulations.

If interest on a U.S. note is effectively connected with the conduct of a U.S. trade or business of the beneficial owner, the Non-U.S. Holder, although exempt from the withholding tax described above (provided that the certification requirements discussed above are satisfied), generally will be subject to United States federal income tax on such interest on a net income basis in the same manner as if it were a U.S. person unless an applicable income tax treaty provides otherwise. In addition, if such Non-U.S. Holder is a corporation, it may be subject to a branch profits tax equal to 30 per cent. (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to adjustments. For this purpose, interest on a U.S. Note will be included in such corporation's earnings and profits.

Subject to the discussion of backup withholding and FATCA below, no withholding of United States federal income tax will be required with respect to any gain realised by a Non-U.S. Holder upon the sale, exchange or other disposition (including a retirement or redemption) of a U.S. Note.

In general, a Non-U.S. Holder will not be subject to United States federal income tax on gain realised on the sale, exchange or other disposition (including a retirement or redemption) of a U.S. Note unless (a) the Non-U.S. Holder is an individual who is present in the United States for a period or periods aggregating 183 or more days in the taxable year of the disposition and certain other conditions are met, in which case the Non-U.S. Holder will be subject to United States federal income tax on any gain recognised, which may be offset by certain United States source losses, at a flat rate of 30 per cent. (except as otherwise provided by an applicable income tax treaty), or (b) such gain is effectively connected with the Non-U.S. Holder's U.S. trade or business, in which case the Non-U.S. Holder will be taxed in the same manner as discussed above with respect to effectively connected interest.

### *Non-U.S. Notes*

The following three paragraphs describe certain U.S. federal income tax considerations for Non-United States Persons relating to Notes issued by the Issuer outside of its New York Branch. ("Non-U.S. Notes"). Subject to the discussion of backup withholding and FATCA below, no withholding of U.S. federal income tax will be required with respect to payments of interest made to a Non-U.S. Holder on a Non-U.S. Note.

If a Non-U.S. Holder is engaged in a United States trade or business and interest received on a Non-U.S. Note is effectively connected with the conduct of this trade or business, the Non-U.S. Holder will be subject to tax on the interest received on the Non-U.S. Note on a net income basis in the same manner as if the Non-U.S. Holder were a U.S. Holder. If the Non-U.S. Holder is a corporation, any effectively connected income may also be subject to a branch profits tax at a rate of 30 per cent. (or such lower rate as may be specified by an applicable income tax treaty).

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain realised upon a sale or other disposition of a Non-U.S. Note unless the gain is effectively connected with the conduct of a trade or business within the United States (and, under certain income tax treaties, if this gain is attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder); or, if the Non-U.S. Holder is an individual and holds the Non-U.S. Note as a capital asset, unless he is present in the United States for 183 days or more in the taxable year of disposition, meets certain other conditions, and is not eligible for relief under an applicable income tax treaty.

Non-U.S. Holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of owning Notes.

### **Backup Withholding and Information Reporting**

In general, payments of principal, interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of accrued OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. U.S. Holders should consult their tax advisers regarding the application of these rules and any other reporting obligations that may apply to the ownership or disposition of the Notes, including requirements related to certain "specified foreign financial assets."

Payments of principal, and interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of Notes, by a U.S. paying agent or other U.S. intermediary to a holder of a Note that is not a U.S. Holder will not be subject to backup withholding tax and information reporting requirements if appropriate certification (Form W-8BEN or some other appropriate form) is provided by the holder to the payor and the payor does not have actual knowledge that the certificate is false.

## **FATCA Withholding**

Certain provisions of U.S. law, commonly known as FATCA, impose reporting requirements and a withholding tax of 30 per cent. on (i) certain U.S. source payments, (ii) payments of gross proceeds from the disposition of assets that produce U.S. source interest or dividends, and (iii) certain payments by foreign financial institutions (“foreign passthru payments”) made to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Korea) have entered into, or have agreed in substance to intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions.

Under FATCA, this withholding would potentially apply to interest on a U.S. Note, proceeds from the sale or retirement of a U.S. Note starting on January 1, 2019, and foreign passthru payments on Non-U.S. Notes beginning on January 1, 2019 (at the earliest). FATCA withholding in respect of foreign passthru payments is not required for “obligations” that are not treated as equity for U.S. federal income tax purposes unless such obligations are issued or materially modified after the date that is six months after the date on which the final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register. If Non-U.S. Notes are issued on or before the grandfathering date, and additional Non-U.S. Notes (as described under “Terms and Conditions of the Notes — Further Issues”) that are not distinguishable from these Non-U.S. Notes are issued after the expiration of the grandfather period and are subject to withholding under FATCA, then withholding agents may treat all Non-U.S. Notes, including the grandfathered Non-U.S. Notes, as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## **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 advisors.

The taxation of non-resident individuals and non-Korean corporations (“non-residents”) 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 income is effectively connected. Non-residents without a permanent establishment in Korea are taxed in the manner described below. Non-residents with permanent establishment in Korea are taxed in accordance with different rules.

### ***Tax on Interest***

In principle, interest paid to a non-resident by a Korean company is subject to withholding of Korean income and corporation tax unless exempted by relevant laws or tax treaties.

The Special Tax Treatment Control Law (the “STTCL”) exempts interest payment on notes denominated in a foreign currency (excluding payment to a Korean corporation, permanent establishments of non-Korean corporations in Korea, or resident individual) from Korean income and corporation tax, provided that the notes are issued outside of Korea. The local income tax referred to below is also therefore eliminated.

Accordingly, if not exempt under this STTCL, interest payment on the Notes will be subject to withholding of Korean income or corporation tax at the rate of 14.0 per cent. for a non-resident. In addition, a local surtax called local income tax will be imposed at the rate of 10.0 per cent. of the income or corporation tax (raising the rate of total tax to 15.4 per cent.).

Tax is withheld by the payer of the interest. In principle, Korean law entitles the withholding tax payer and the withholding tax obligator who have suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld in case the withholding tax obligator pays Korean tax withheld by the 10th day of the month following the month in which the interest was paid and submits the payment statement to a relevant tax office by the end of February of the next year from the interest payment date.

Tax rates may be reduced or exempted by applicable tax treaties, Conventions or agreements between Korea and the country of the recipient of the interest. The relevant tax treaties are summarised below. Effective 1 July 2012, in order to obtain the benefit of the reduced withholding tax rates available under the relevant tax treaties, a non-resident holder should submit an application for entitlement to reduced tax rate to the payer of the interest prior to the first payment date of interest. In order to obtain the benefit of a tax exemption available under applicable tax treaties, a non-resident holder should submit an application for exemption to the payer of the interest, together with a certificate of the non-resident holder's tax residence issued by a competent authority of the non-resident holder's residence country. The payor of the interest is required to submit the application for exemption together with the certificate of the non-resident holder's tax residence to its district tax office no later than the ninth day of the month following the month in which the interest is paid. However, this requirement does not apply to exemptions under Korean tax law.

Subject to certain exceptions, Korean tax law also requires an overseas investment vehicle (which is defined as an organisation established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing, or otherwise investing in any such assets as are valuable for investment and then distributes the yield therefrom to investors) ("OIV") to obtain the application for entitlement to reduced tax rate or the application for exemption from the beneficial owners and submit an OIV report of overseas investment vehicle to the withholding tax obligator, together with a detailed statement on the beneficial owner of the income.

### ***Tax on Capital Gains***

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 other non-residents (unless the sale is to the non-resident's permanent establishments in Korea). In addition, capital gains earned by non-residents with or without permanent establishments in Korea from the transfer of Notes taking place outside Korea are currently exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be a foreign issuance under the STTCL.

In the absence of an applicable tax treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of capital gains tax is the lower of 11.0 per cent. (including local surtax) of the gross realisation proceeds (the "Gross Realisation Proceeds") or (subject to the production of satisfactory evidence of the acquisition cost of the relevant Korean securities) 22.0 per cent. (including local surtax) of the capital gains earned. The capital gain is calculated as the Gross Realisation Proceeds less the acquisition cost and transaction cost. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributing to sales of Korean securities. Unless the seller can claim the benefit of an exemption of tax under an applicable tax treaty or in the absence of the seller producing satisfactory evidence of its acquisition cost in relation to the Korean securities being sold, the purchaser or the securities company, as applicable, must withhold an amount equal to 11.0 per cent. (including local surtax) of the Gross Realisation Proceeds. Any withheld tax must be paid no later than the 10th day of the month following the month in which the payment for the purchase of the relevant Korean securities occurred. Failure to timely transmit the withheld tax to the Korean tax authorities technically subjects the purchaser or the securities company to penalties under Korean tax law.

In order to obtain the benefit of a tax treaty exemption, a non-resident seller should submit to the purchaser prior to or at the time of payment, such evidence of tax residence of the seller as the Korean tax authorities may require in support of the claim for treaty protection. Further, Korean tax law requires a non-resident seller to submit to the purchaser or the securities company, as applicable,



the application for the exemption with a certificate of tax residence of the non-resident seller issued by a competent authority of the non-resident seller's country of domicile, and the purchaser or the securities company should submit to the tax office by the ninth day of the month immediately following the date of the first payment in order to obtain the benefit of a tax treaty exemption. However, this requirement will not be applicable to the exemption under Korean tax law.

Subject to certain exceptions, the Korean tax law requires an OIV to obtain the application for exemption from the beneficial owners and submit an OIV report, together with a detailed statement on the beneficial owner of the income, to the purchaser or the securities company prior to the payment date of such income. The purchaser or the securities company is required to submit such application, together with the applicable OIV report, to the tax office by the ninth day of the month immediately following the date of the first payment of such income.

### ***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of death the deceased was domiciled in Korea and (2) 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 tax rate varies from 10.0 per cent. to 50.0 per cent. according to the value of the relevant property and the identity of the persons involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under 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.

### ***Stamp Duty and Securities Transaction Tax***

No stamp, issue or registration duties will be payable in Korea by the holders of the Notes in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea. No securities transaction tax will be imposed upon the transfer of the Notes.

### ***Tax Treaties***

At the date of this Information Memorandum, Korea has tax treaties with, inter alia, Algeria, Australia, Austria, Bangladesh, Belgium, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Islamic Republic of Iran, Israel, Italy, Japan, Kingdom of Nepal, Kingdom of Saudi Arabia, Kuwait, Kazakhstan, Luxembourg, Malaysia, Malta, Mexico, Mongolia, Morocco, the Netherlands, New Zealand, Norway, Pakistan, Papua New Guinea, the Philippines, Poland, Portuguese Republic, Republic of Albania, Republic of Azerbaijan, Republic of Belarus, Republic of Chile, Republic of Croatia, Republic of Estonia, Republic of Fiji, Republic of Iceland, Republic of Latvia, Republic of Lithuania, Republic of South Africa, Republic of Venezuela, Romania, Russia, Singapore, the Slovak Republic, Spain, Sri Lanka, State of Qatar, Sweden, Switzerland, Thailand, Tunisia, Turkey, Ukraine, the Union of Myanmar, United Arab Emirates, the United Kingdom, the United States of America, Uzbekistan, Lao People's Democratic Republic, Sultanate of Oman, Hashemite Kingdom of Jordan, Republic of Slovenia, Vietnam, Gabon, Brunei, Bahrain, Ecuador, Uruguay, Colombia, Kyrgyz, Panama, Peru, Hong Kong, Tajikistan, Serbia, Georgia and Turkmenistan. Under these treaties, the rate of withholding tax generally is reduced to 0.0 per cent. to 16.5 per cent. and the tax on capital gains is often eliminated.

Each holder of the Notes should consult with its tax adviser as to whether it is entitled to the benefit of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest or capital gains to submit to the payer or purchaser, as the case may be, proof sufficient to establish the party's eligibility for tax benefits. In the absence of sufficient proof, the payer or the purchaser, as the case may be, must withhold tax at the normal rates.

## United Kingdom Taxation

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs ("HMRC") practice relating only to United Kingdom withholding tax treatment of payments of principal and interest in respect of Notes. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules apply. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.**

### *Payment of Interest on the Notes Issued by the Issuer Acting Otherwise than Through its London Branch*

Payments of interest on the Notes that do not have a United Kingdom source may be made without withholding or deduction for or on account of United Kingdom income tax.

### *Payment of Interest on the Notes Issued by the Issuer Acting Through its London Branch*

Payments of interest on the Notes that have a United Kingdom source may be made without deduction or withholding for or on account of United Kingdom income tax, provided the Issuer continues to be a Bank within the meaning of section 991 of the Income Tax Act 2007 (the "Act") and the interest on the Notes is paid in the ordinary course of its business within the meaning of section 878 of the Act.

Payments of interest on the Notes that have a United Kingdom source may also be made without deduction of or withholding on account of United Kingdom income tax provided that the Issuer is a company for United Kingdom tax purposes and the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. The Singapore Stock Exchange is a recognised stock exchange. The Notes will satisfy this requirement if they are officially listed in Singapore in accordance with provisions corresponding to those generally applicable in European Economic Area states and are admitted to trading on the Main Board of the Singapore Stock Exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax whether or not the Issuer is or continues to be a bank within the meaning of section 991 of the Act and whether or not the interest is paid in the ordinary course of its business.

Interest on the Notes that have a United Kingdom source may also be paid without withholding or deduction on account of United Kingdom income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes that have a United Kingdom source may also be paid without withholding or deduction on account of United Kingdom income tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to remain outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes that have a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20.00 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).



## **PRC Taxation**

The holders of Notes denominated in RMB (the “RMB Notes”), who are not resident in the PRC for PRC tax purposes, will not be subject to withholding tax, income tax or any other taxes or duties imposed by any governmental authority in the PRC in respect of the RMB Notes or any repayment of principal and payment of interest made thereon.

### **The Proposed Financial Transaction Tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “Commission’s Proposal”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or provisions under any other federal, State, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, “Similar Laws”), and entities whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement (each, a “Plan”).

### General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an “ERISA Plan”) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary’s duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

### Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest,” within the meaning of ERISA, or “disqualified persons,” within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Issuer or a Dealer is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labour has issued prohibited transaction class exemptions, or “PTCEs,” that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be purchased or held by any person investing “plan assets” of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

## **Representation**

Accordingly, by acceptance of a Note or any beneficial interest therein, each purchaser and subsequent transferee of a Note or any beneficial interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Note or any beneficial interest therein constitutes assets of any Plan or (ii) the acquisition, holding and disposition of the Notes or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated Programme Agreement dated 15 June 2012 (as amended and/or supplemented from time to time, the “Programme 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 for any particular purchase will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Programme Agreement the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of the Notes under the Programme.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.*

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (iii) it is outside the United States and is not a U.S. person;
- (b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (c) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (d) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (c) above, if then applicable;
- (e) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

- (f) that the Notes in registered form, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR REALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (g) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i)(A) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (B) to a QIB in compliance with Rule 144A and (ii) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”; and

- (h) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “Form of the Notes”.

The IAI Investment Letter will State, among other things, the following:

- (a) that the Institutional Accredited Investor has received a copy of the Information Memorandum and such other information as it deems necessary in order to make its investment decision;
- (b) that the Institutional Accredited Investor understands that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Information Memorandum and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (c) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (d) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time;



- (e) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (f) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire
- (g) Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

### **United States**

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and may 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 under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable terms of the Notes will identify whether D Rules apply or whether TEFRA is not applicable.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“Regulation S Notes”), each Dealer has represented and agreed, and each other Purchaser will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each other Purchaser will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate



principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

Each issuance of Dual Currency Notes or Index Linked Notes shall be subject to such additional United States selling restrictions as the Issuer 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.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme and each other Purchaser will be required to represent and agree, that:

- (a) 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 Financial Services and Markets Act (“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
- (b) 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.

### **Prohibition of Sales to EEA Retail Investors**

From 1 January 2018, unless the Pricing Supplement in respect of any 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 this Information Memorandum as completed by the final terms contained in the Pricing Supplement 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:
  - a. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or
  - b. a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - c. not a qualified investor as defined in Directive 2003/71/EC (as amended, 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.

## **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme and each other Purchaser will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Information Memorandum as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer or any Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **Korea**

The Notes may not be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law passed by the Korea National Assembly on 18 January 2009 and promulgated on 30 January 2009 as last amended on 17 January 2017 with effect from 18 July 2017), 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.

## **Hong Kong**

Each Dealer has represented and agreed, and each other Purchaser will be required to represent 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) other than (i) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance 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 or which do not constitute an offer to the public within the meaning of that 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 Securities and Futures Ordinance and any rules made under that Ordinance.

## **The Netherlands**

Each Dealer has represented and agreed, and each other Purchaser will be required to represent and agree, that any Notes will only be offered in The Netherlands to Qualified Investors (as defined in the Prospectus Directive), unless such offer is otherwise made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

## **Singapore**

Each Dealer has acknowledged that this Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed 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 such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Information Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes may not be circulated or distributed, nor may any Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person

pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### **People's Republic of China**

Each Dealer has represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

### **General**

Each Dealer has represented and agreed, and each other Purchaser will be required to represent and agree, that (to the best of its knowledge and belief) it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Information Memorandum 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 responsibility therefor. If a jurisdiction requires that an offering of Notes be made by a licenced broker or dealer and the Dealers or any affiliate of the Dealers is a licenced broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer and 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 restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer and/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 and/or its affiliates in the ordinary course of their business. The Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to 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 Information Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

## GENERAL INFORMATION

### 1. Authorisation

The establishment and update of the Programme and the issue of Notes under the Programme have been duly authorised by the approval of the Governor of the Bank of Korea dated 30 July 1996. The update of the Programme has been duly authorised by the internal approval of the Issuer dated 10 2016. However, further internal authorisations are required prior to the issue of Notes under the Programme.

A report with the Minister of Strategy and Finance of Korea will be required for each Tranche of the Notes in an amount exceeding U.S.\$50 million with a maturity exceeding one year.

No other governmental approval is necessary for the issue of any Notes in Korea or for their sale and purchase in the secondary market outside Korea.

### 2. Listing of Notes on the Singapore Stock Exchange

Approval-in-principle has been received from the Singapore Stock Exchange for the listing of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted to the Official List of the Singapore Stock Exchange. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes will be traded on the Singapore Stock Exchange in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).

### 3. Significant or Material Change

Save as disclosed in the Information Memorandum, there has been no significant change in the financial or trading position of the Issuer or its subsidiaries taken as a whole since December 31, 2015 and there has been no material adverse change in the financial position or prospects of the Issuer or its subsidiaries taken as a whole since December 31, 2016.

### 4. Documents on display and available for inspection

Copies of the following documents may be inspected at the registered office of the Issuer and at the specified office of the Fiscal Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date hereof and throughout the life of the Programme:

- (i) the KDB Act, the Enforcement Decree and the By-Laws (in English);
- (ii) the audited financial statements of the Issuer (in English) as of and for each of the financial years ended December 31, 2015 and 2016;
- (iii) the most recently available financial statements of the Issuer and the most recently available unaudited interim financial statements (if any) of the Issuer (in English);
- (iv) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the Deed Poll;
- (v) this Information Memorandum;
- (vi) any future prospectuses, offering circulars, 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, or the Fiscal Agent, as the case may be, as to the identity of such holder) to this Information Memorandum and the documents incorporated therein by reference; and

(vii) in the case of a syndicated issue of listed Notes, the subscription agreement (or equivalent document).

## **5. Auditor**

Shin Hyung-chul was appointed as the current statutory auditor of the Issuer on 11 April 2014. The business address of Shin Hyung-chul is 14 Eunhaeng-ro, Youngdeungpo-gu, Seoul 07242, Korea.

As of the date hereof, the external auditor of the Bank was Nexia Samduk, located at 12F, S&S Building, 48 Ujeongguk-ro, Jongno-gu, Seoul 03150, Korea.

## **6. Litigation**

There are no nor have there been any legal or arbitration proceedings including any such proceedings which are pending or threatened of which the Issuer is aware which may have or have had during the 12 months prior to the date hereof a significant effect on the financial position of the Issuer and its subsidiaries taken as a whole.

## **7. Clearing Systems**

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The appropriate Common Codes for each issue allocated by Euroclear and Clearstream, Luxembourg will be contained in the relevant Pricing Supplement. Transactions will normally be effected for settlement not earlier than three days after the date of the transaction. The Issuer may also apply to have the Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN, Common Code and the CMU instrument number, 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.



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<p><b>Goldman Sachs International</b> Peterborough Court 133 Fleet Street London EC4A 2BB</p>	<p><b>The Hongkong and Shanghai Banking Corporation Limited</b> Level 17 HSBC Main Building 1 Queen's Road Central Hong Kong</p>	<p><b>ING Bank N.V., Singapore Branch</b> 9 Raffles Place #19-02 Republic Plaza Singapore 048619</p>	<p><b>J.P. Morgan Securities plc</b> 25 Bank Street Canary Wharf London E14 5JP United Kingdom</p>	<p><b>KDB Asia Limited</b> Suite 2005 – 2009 20/F Two International Finance Centre 8 Finance Street Central Hong Kong</p>
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<p><b>National Australia Bank Limited</b> Level 27 One Pacific Place 88 Queensway Hong Kong</p>	<p><b>First Abu Dhabi Bank PJSC</b> FAB Building Khalifa Business Park Al Qurm District P.O. Box: 6316 Abu Dhabi United Arab Emirates</p>	<p><b>Nomura International plc</b> 1 Angel Lane London EC4R 3AB United Kingdom</p>	<p><b>RBC Europe Limited</b> Riverbank House 2 Swan Lane London EC4R 3BF</p>	<p><b>Société Générale</b> 29, boulevard Haussmann 75009 Paris France</p>
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**REGISTERED OFFICE OF THE ISSUER**

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\* Unless otherwise specified in the applicable Pricing Supplement, Deutsche Bank AG, London Branch will act as Fiscal Agent.

\*\* Unless otherwise specified in the applicable Pricing Supplement, Deutsche Bank Trust Company Americas will act as Registrar.

\*\*\* Unless otherwise specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch and Deutsche Bank Luxembourg S.A. will act as Transfer Agent.

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