

# NH FINANCIAL GROUP ANNUAL REPORT 2017

# CONTENTS

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02	FINANCIAL HIGHLIGHTS
04	CEO MESSAGE

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## **NONGHYUP FINANCIAL GROUP OVERVIEW**

---

10	CORPORATE PROFILE
11	HISTORY
12	VISION & STRATEGY
14	AFFILIATION AND OWNERSHIP
16	BOARD OF DIRECTORS
18	ORGANIZATIONAL CHART
19	RISK MANAGEMENT

---



## **FOCUS ON**

---

24	FOURTH INDUSTRIAL REVOLUTION
28	ENHANCING CUSTOMER ASSET VALUE
31	NH FINANCIAL GROUP CIB
32	GLOBAL EXPANSION

---



## **BUSINESS OVERVIEW**

---

36	NONGHYUP BANK
50	NH LIFE INSURANCE
58	NH PROPERTY & CASUALTY INSURANCE
64	NH INVESTMENT & SECURITIES
72	NH-AMUNDI ASSET MANAGEMENT
76	NH CAPITAL
80	NH SAVINGS BANK
84	NH FUTURES

---



## **SOCIAL CONTRIBUTION**

---

91	SOCIAL CONTRIBUTION AREAS OF NH FINANCIAL GROUP
92	MAJOR SOCIAL CONTRIBUTION ACTIVITIES

---



## **96 MANAGEMENT'S DISCUSSION & ANALYSIS**

---



## **104 FINANCIAL STATEMENTS**

---

118	NETWORK & INFORMATION
-----	-----------------------

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EVERY  
MOMENT  
OF YOUR  
**FINANCIAL**  
**LIFE**

Leading the way to a more fulfilling future, always ready to meet all financial needs,  
NH Financial Group is there for you at every moment of your financial life.

We seek to spread joy and bring happiness into our customers' lives  
and will continue challenging ourselves toward innovation  
to deliver a successful year and a better tomorrow.

# FINANCIAL HIGHLIGHTS

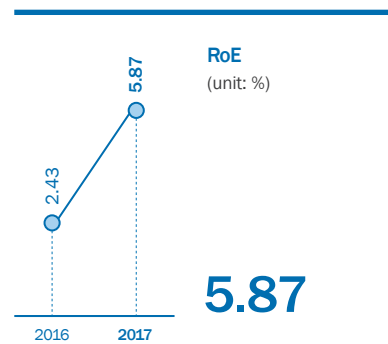
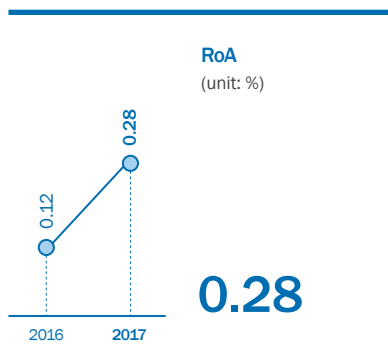
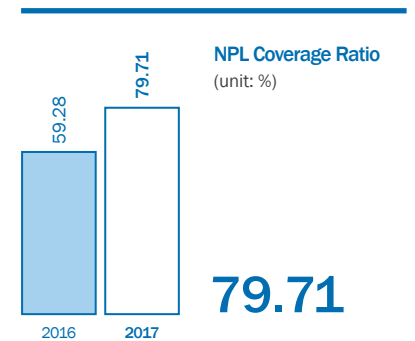
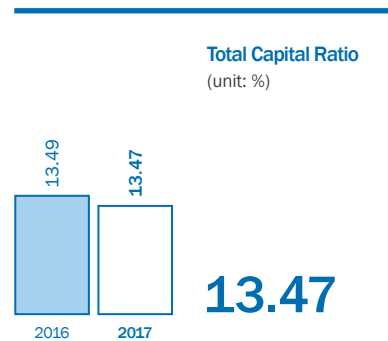
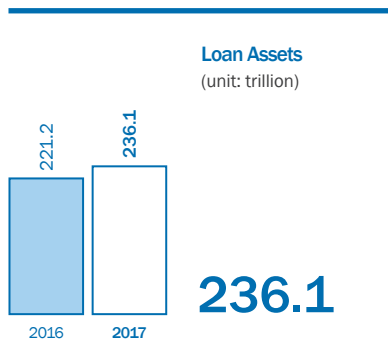
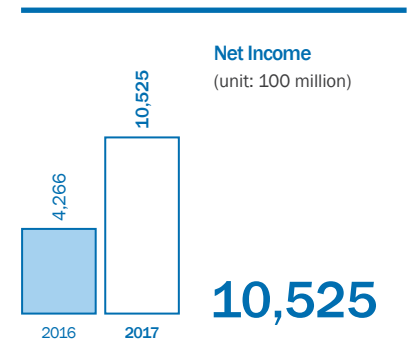
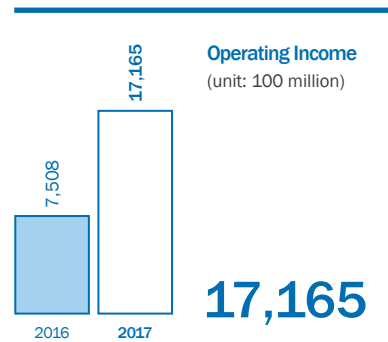
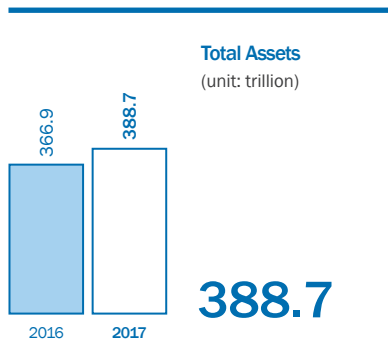
## (CONSOLIDATED)

(unit: KRW 100 million, %, %p)

	2017	2016	YoY	%
<b>Profitability</b>				
Operating income	17,165	7,508	9,657	128.6
Net income	10,525	4,266	6,259	146.7
Net income attributable to controlling interests	8,598	3,210	5,388	167.9
Net income attributable to controlling interests before agricultural assistance expenses	11,272	6,051	5,221	86.3
RoA	0.28	0.12	0.16	
RoE	5.87	2.43	3.44	
RoA before agricultural assistance expenses	0.35	0.20	0.15	
RoE before agricultural assistance expenses	7.41	4.09	3.32	
<b>Business volume (KRW trillion)</b>				
Total assets	388.7	366.9	21.8	5.9
Total assets including AUM	490.6	464.4	26.2	5.6
Capital	21.1	20.4	0.7	3.4
Attributable to controlling interests	18.2	17.5	0.7	4.0
<b>Business size</b>				
Loan assets	236.1	221.2	14.9	6.7
Deposit liabilities	209.3	196.5	12.8	6.5
<b>Capital adequacy</b>				
Total Capital Ratio	13.47	13.49	(0.02)	
Common equity tier 1 ratio	10.49	10.02	0.47	
Tier 1 ratio	11.49	11.24	0.25	
<b>Asset quality</b>				
Substandard and below ratio	1.05	1.38	(0.33)	
NPL Coverage Ratio	79.71	59.28	20.43	

\* Agricultural assistance expenses: Expenses levied on NH Bank and other subsidiaries by the NACF, in accordance with Article 159 Section 2 of the Agricultural Cooperative Act, for the stable procurement of funds necessary to carry out projects to support members and member cooperatives such as promoting agricultural product processing centers (the same hereafter).

NH Financial Group posted its best results since the Group's launch with a cumulative net income of KRW 1 trillion 52.5 billion, representing a 146.7% growth YoY (controlling interest net income of KRW 859.8 billion, representing a 167.8% growth YoY). Over the same period, our total assets rose 5.9% to KRW 388.7 trillion, loan assets rose 6.7% to KRW 236.1 trillion, and deposits rose 6.5% to KRW 209.3 trillion.





# CEO MESSAGE

Over the past year, NH Financial Group strived as always to realize our vision of ‘cool reason, warm heart’ based on our meticulous attention to work and genuine affection for farmers.

Dear shareholders and customers,

I would like to begin by expressing my gratitude for your boundless support and trust in NH Financial Group.

The business environment in 2017 made it difficult for us to predict the direction and breadth of change, and the circumstances were not friendly.

The world is witnessing momentous changes wrought by the convergence and integration of information and communications technology (ICT), artificial

intelligence (AI), and other advances in technology. The global economy is experiencing growing protectionism with increased trade disputes, acceleration of interest rate hikes in the United States, and retightening of financial regulations after a decade-long trend of deregulation.

Meanwhile in Korea, the problem of household loans which reached KRW 1,450 trillion and continued restructuring in shipbuilding, shipping, automotive, and other major industries are causing anxiety.

Despite the challenging environment, we implemented forceful innovation strategies including credit review system reforms since we took a “big bath” in 2016. Consequently, NH Financial Group posted its best results since the Group’s launch with a cumulative net income of KRW 1 trillion 52.5 billion, representing a 146.7% growth YoY (controlling interest net income of KRW 859.8 billion, representing a 167.8% growth YoY). Over the same period, our total assets rose 5.9% to KRW 388.7 trillion, loan assets

rose 6.7% to KRW 236.1 trillion, and deposits rose 6.5% to KRW 209.3 trillion.

We achieved outstanding results across business lines. Our main affiliates, NH Bank and NH Investment & Securities, posted their best ever performances with net incomes of KRW 652.1 billion and KRW 350.1 billion respectively. The figures signify YoY growth of 486.9% for NH Bank and 48.3% for NH Investment & Securities. Other subsidiaries also had a successful year of growth based on diverse customer-focused activities. Net profits for NH Life Insurance stood at KRW 85.4 billion, NH Property & Casualty at KRW 26.5 billion, NH-Amundi Asset Management at KRW 13.5 billion, NH Capital at KRW 35.3 billion, and NH Savings Bank at KRW 9.6 billion.

As rapid changes make everything hard to predict, it is important for us to uphold NongHyup’s unchanging fundamentals and to strengthen the unique, inimitable competitiveness that sets us apart from other financial groups.



So what are NHFG's fundamental principles?

I believe they are embodied by four keywords: pillar, trust, cooperation, and innovation.

**First, NH Financial Group will be a pillar of support for the agricultural community and farmers.**

We exist to help farmers attain a more prosperous future. There can be no progress for NH Financial Group without the economic, social, and cultural advancement

of farmers. This is essential to our identity and what differentiates us from other financial groups. In particular, we will build a strong foundation to fulfill our role as pan-NACF's profit center, generating stable profits and providing agricultural support.

**Second, we will prioritize customers' trust.**

The trust of customers is every financial group's raison d'être and one of our unchanging fundamentals. The essence of finance is reliable asset management that meets customer needs. Customers' trust naturally follows when this key role is performed well. Our employees approach their responsibilities by placing precedence on customers' trust among other values.

**Third, we will maximize synergy through cooperation.**

NH Financial Group has unrivaled resources to facilitate exclusive cooperative projects. Built on the spirit of cooperation that emphasizes mutual aid, the Group has a network of diverse cooperative channels, including agricultural/livestock cooperatives and pan-NACF affiliates.

To maximize synergy, we will begin by reinforcing cooperation between NH Financial Group and subsidiaries, and between subsidiaries. We will actively pursue cooperation among financial groups, especially holding companies, while strengthening the organic cooperative network with NACF, Mutual Finance, and NH Agribusiness Group. In keeping with the trend of increasing convergence and integration between different sector companies, we will continue working with platform firms whose forte is in customer protection and marketing.





**In Korean, the albatross is called shincheonong (信天翁), meaning 'the old man who trusts the sky.' Indeed the albatross is known to fly higher and farther than any other bird, but its true value becomes evident in strong winds. It can face a storm head-on and fly into the wind to rise up into the sky. Its skill in measuring the wind's direction and strength, and efficient use of exceptionally long wings make such soaring flight possible.**

**Fourth, we will transition into a smart financial group through ceaseless innovation.**

Finance is at the center of the fourth industrial revolution which represents a seismic shift in our world. It is easy for the financial sector to converge with other industries, and innovation happens quickly in finance. However, that makes it all the more crucial to respond swiftly. For our part, NH Financial Group is putting a great deal of effort into Group-wide digitalization so we can transition into a digital finance company.

Chatbots are already widely used by finance companies at home and abroad to answer customers' everyday questions. We will further explore pragmatic ways of applying IoT, AI, and big data analysis to product development, customer reception, financial fraud detection, and more. Based on detailed inspections of work processes, we will completely overhaul outdated practices that do not belong in the 'smart' age of technology and in doing so, contribute to the work-life balance of NH Financial Group members.

Rough winds are also blowing in the financial environment, but we at NH Financial Group will ride the winds and soar to new heights. To do that, we will make 2018 a year for discovering and developing our unique, inimitable competitiveness. Employees are driven by a sense of calling because we believe NH Financial Group plays a pivotal role in the nation's economic progress with our professional expertise and support for farmers. Like latitudinal and longitudinal lines on a map, our outstanding capabilities and heartfelt passion will guide the future of NH Financial Group.

Thank you.

CHAIRMAN & CEO

KIM GWANG-SOO

*GS Kim.*

# NH FINANCIAL GROUP **OVERVIEW**

NH Financial Group is growing into Asia's leading cooperative financial group  
as the only Korean financial institution founded solely  
with private domestic funds.





# CORPORATE PROFILE

True to our position as one of the four major financial holding companies in the country, we at NH Financial Group strive to respond judiciously to rapid changes in the social, economic, and financial environment and provide customers with better services. NH Financial Group encompasses banking, insurance, securities, asset management, credit specialist and savings bank subsidiaries to offer our customers better services and is also pioneering socially responsible finance to solidify its standing as Korea's leading financial group.



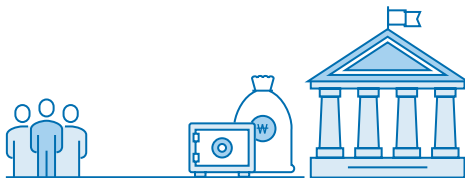
# HISTORY

## 2011

- 03. Revisions to the Agricultural Cooperatives Act passed by the National Assembly

## 2012

- 02. Spin-off plan for establishment of NH Financial Group approved by BoD
- 03. Establishment of NH Financial Group



- 10. Invested additional KRW 350 billion in NH Life Insurance and KRW 60 billion in NH Property & Casualty, acquired NH Capital put option shares (KRW 12.2 billion)
- 11. Invested additional KRW 50 billion in NH Capital, raising equity stake to 89.78%
- 12. Invested additional KRW 150 billion in NH Investment & Securities, raising equity stake to 68.13%

## 2013

- 01. Acquired NH Capital put option shares, raising equity stake to 100.00%



- 03. Invested additional KRW 450 billion in NH Bank
- 06. Invested additional KRW 150 billion in NH Investment & Securities, raising equity stake to 76.09%
- 10. Invested additional KRW 500 billion in NH Bank
- 12. Selected as preferred bidder for former Woori Financial Holdings' securities operations

## 2014

- 04. Invested additional KRW 70 billion in NH capital
- 06. Acquired 37.85% of former Woori Investment & Securities, 98.89% of former Woori Aviva Life Insurance, and 100% of former Woori Savings Bank
- 09. Signed contract with DGB Financial Group for sale of former Woori Aviva Life Insurance
- 10. Invested additional KRW 45 billion in NH Life Insurance and KRW 15.7 billion in NH Property & Casualty Insurance

## 2015

- 01. Sale of former Woori Aviva Life Insurance to DGB Financial Group
- 03. Invested additional KRW 400 billion in NH Bank
- 08. Invested additional KRW 150 billion in NH Property & Casualty Insurance
- 10. Invested additional KRW 35.8 billion in NH-Amundi Asset Management

## 2016

- 03. Invested additional KRW 50 billion in NH Capital



## 2017

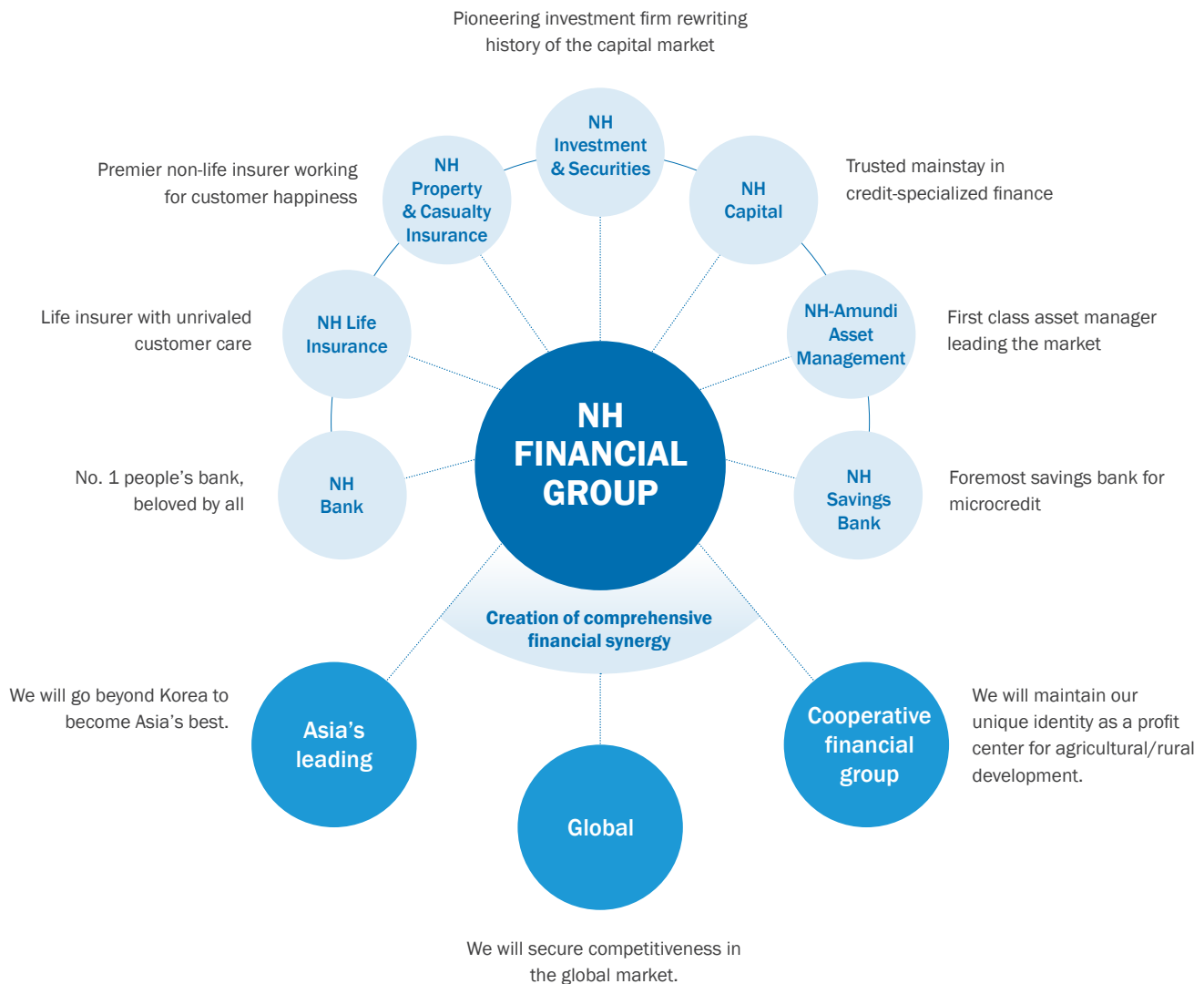
- 02. Invested additional KRW 100 billion in NH Capital

# VISION & STRATEGY

## VISION OF NH FINANCIAL GROUP



NH Financial Group established a framework for comprehensive financial services with its transformation into a holding company and seeks to take a new leap forward to become Asia's leading global cooperative financial group.



## NHFG'S VALUE SYSTEM



Vision

Asia's leading Global  
Cooperative financial group

Management  
Principles

**EXCEED CUSTOMERS' EXPECTATIONS**

**DEVELOP FIRST RATE HUMAN RESOURCES**

**HELP CREATE GROUP SYNERGY**

**CONTRIBUTE TO SOCIETY**

Core  
Values

**FOCUS ON CUSTOMERS**

**PERFORMANCE-DRIVEN ACTION**

**PURSUIT OF INNOVATION**

**MUTUAL TRUST**

Code of  
Conduct

Customer value

Customer emotion

Customer emphasis

Social contribution

Sense of purpose

Audacity

Self-improvement

Passion

Creative thinking

Pursuit of change

Continued improvement

Differentiation

Strengthened communication

End of factionalism

Pursuit of common interests

Cooperation

## NHFG'S CORE VALUES



All NongHyup members share the values and beliefs that form NH Financial Group's core values and set the standard for the way we think and act.



### Focus on Customers

Guided by honesty and trust, we always think and act from the customer's perspective and work to ultimately fulfill our social responsibilities.



### Performance-Driven Action

We challenge ourselves to be the best and gain expertise to achieve our goals, acting decisively and swiftly with ceaseless enthusiasm.



### Pursuit of Innovation

We reject complacency and embrace creative approaches so we can secure the competitive edge to become future market leaders.



### Mutual Trust

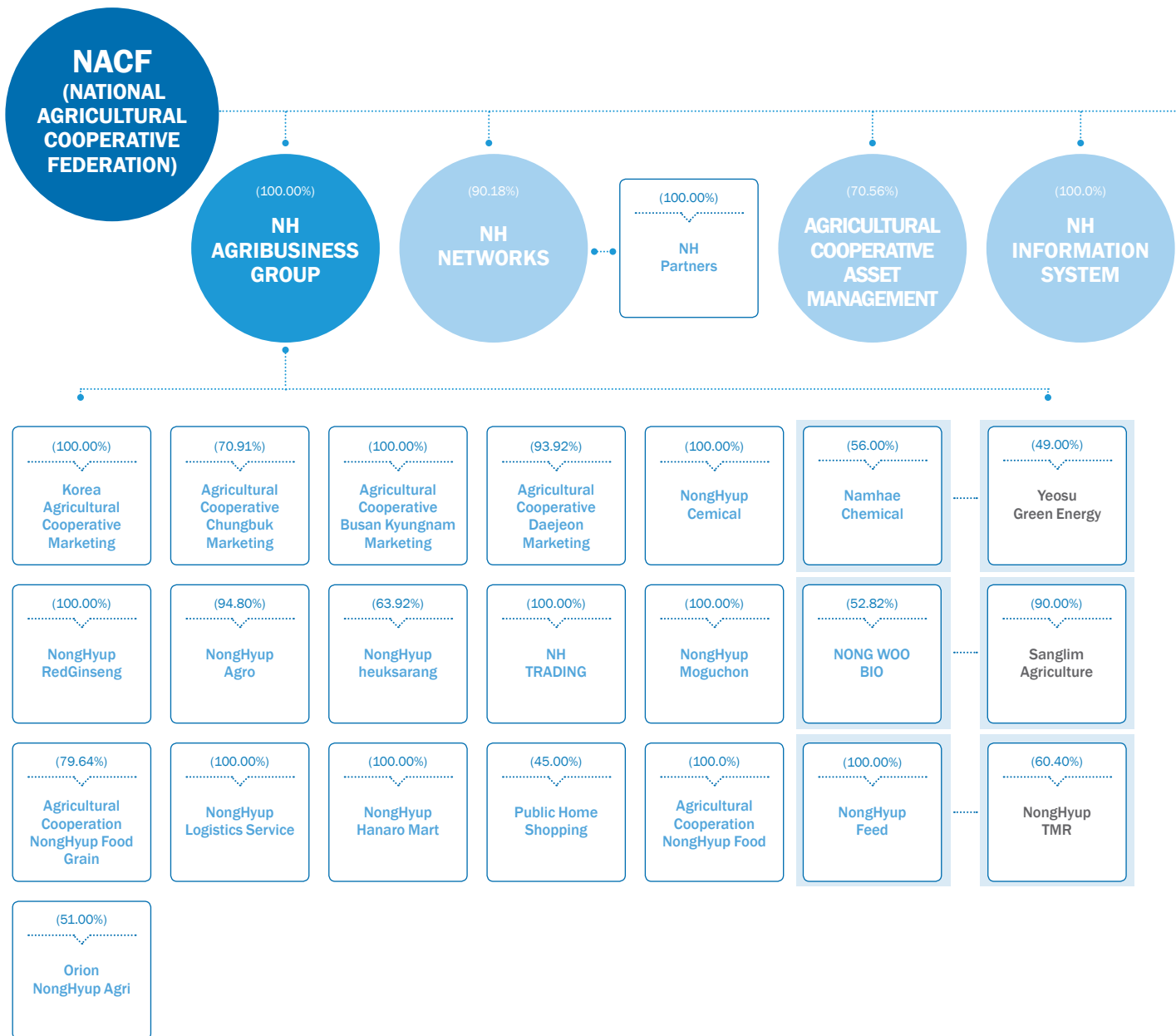
We seek to grow together by maximizing solidarity based on respect and consideration between subsidiaries, departments, and individuals.

# AFFILIATION AND OWNERSHIP

## AFFILIATION

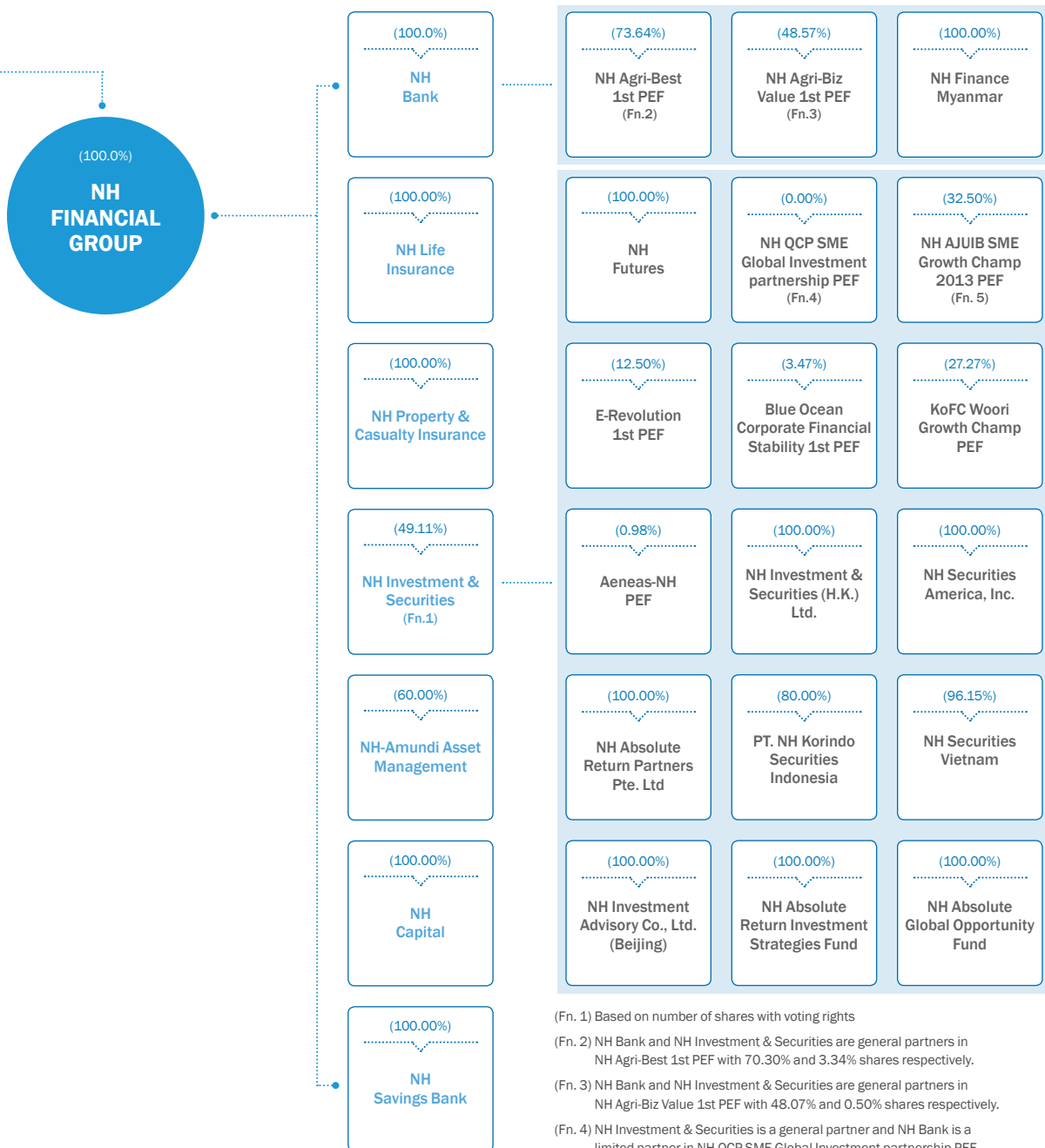


On a common share basis (Unit: %)





## OWNERSHIP



(Fn. 1) Based on number of shares with voting rights  
 (Fn. 2) NH Bank and NH Investment & Securities are general partners in NH Agri-Best 1st PEF with 70.30% and 3.34% shares respectively.  
 (Fn. 3) NH Bank and NH Investment & Securities are general partners in NH Agri-Biz Value 1st PEF with 48.07% and 0.50% shares respectively.  
 (Fn. 4) NH Investment & Securities is a general partner and NH Bank is a limited partner in NH QCP SME Global Investment partnership PEF.  
 (Fn. 5) NH Investment & Securities is a general partner in NH AJUIB SME Growth Champ 2013 PEF with 0.05% share; NH Bank and NH Capital are limited partners with 29.95% and 2.50% shares respectively.

# BOARD OF DIRECTORS

## EXECUTIVES



### Chairman & CEO

#### **KIM GWANG-SOO**

##### Career Experience

- Seoul National University; Institut d'Études Politiques de Paris, École nationale d'administration
- Commissioner, Korea Financial Intelligence Unit (KoFIU)
- Advisor, Yulchon LLC
- Chairman & CEO, NH Financial Group (current)

### Inside Director

#### **LEE KANG-SHIN**

##### Career Experience

- Korea University
- Director of Chungnam Sales Division, NH Bank
- Director of Planning, NH Bank
- Vice-President, NH Financial Group (current)

### Non-standing Director

#### **YOO NAM-YOUNG**

##### Career Experience

- Gwangju University
- Director, National Agricultural Cooperative
- Chairman, Jeongeup Agriculture Cooperative (current)

### Outside Director

#### **JUNG BYUNG-WOOK**

##### Career Experience

- Sungkyunkwan University
- Prosecutor, Seoul High Prosecutors' Office
- Lawyer, Jung Byung-wook Law Firm (current)

### Outside Director

#### **LEE KI-YOUN**

##### Career Experience

- Yonsei University (MA, PhD)
- Deputy Governor, Financial Supervisory Service
- Visiting Professor, Consumer & Family Sciences, Sungkyunkwan University (current)

### Outside Director

#### **LEE JOON-HAENG**

##### Career Experience

- Yonsei University (MA), University of Pennsylvania (PhD)
- President, Korea Derivatives Association
- Professor, Economics, Seoul Women's University (current)

### Outside Director

#### **PARK HAE-SIK**

##### Career Experience

- Boston University, Brown University (MA, PhD)
- Senior Research Fellow, Korea Institute of Finance
- Director of International Finance, Korea Institute of Finance (current)

## BOD COMMITTEES AND ACTIVITIES



### EXECUTIVE NOMINATION COMMITTEE

#### Members

- Chair: Lee Joon-haeng
- Inside Director: Lee Kang-shin
- Non-standing Director: Yoo Nam-young
- Outside Directors: Lee Ki-youn, Jung Byung-wook

#### Mission

- Nominate candidates for executive positions, including CEO & Chairman and outside directors

#### Mandate

- Nominate candidates for NHFG CEO & Chairman
- Nominate candidates for NHFG outside directors and Audit Committee
- Nominate candidates for CEO of wholly-owned subsidiaries

### AUDIT COMMITTEE

#### Members

- Chair: Lee Ki-youn
- Outside Directors: Lee Joon-haeng, Park Hae-sik

#### Mission&Mandate

- Audit executives' performance of duties by reviewing NHFG and subsidiaries' operations and assets; deliberating and voting on associated issues

### RISK MANAGEMENT COMMITTEE

#### Members

- Chair: Park Hae-sik
- Inside Director: Lee Kang-shin
- Outside Directors: Lee Joon-haeng, Jung Byung-wook

#### Mission

- Serve as NHFG's top decision-making body to manage general risks that occur during the course of business

#### Mandate

- Establish basic risk management guidelines in line with management strategy
- Determine appropriate risk levels (risk appetite)
- Approve acceptable exposure or stop-loss limits
- Set various limits, handle issues related to over-limit approval
- Manage issues related to allocation of risk capital
- Enact/revise risk management regulations
- Newly develop credit risk system subject to IRB and related modifications
- Estimated outcome of credit risk measurement factors subject to IRB and related modifications
- Issues related to risk management organization and division of work
- Issues related to operation of the risk management information system
- Miscellaneous issues per request of the Group's BOD or committee

## BOD MAIN ACTIVITIES

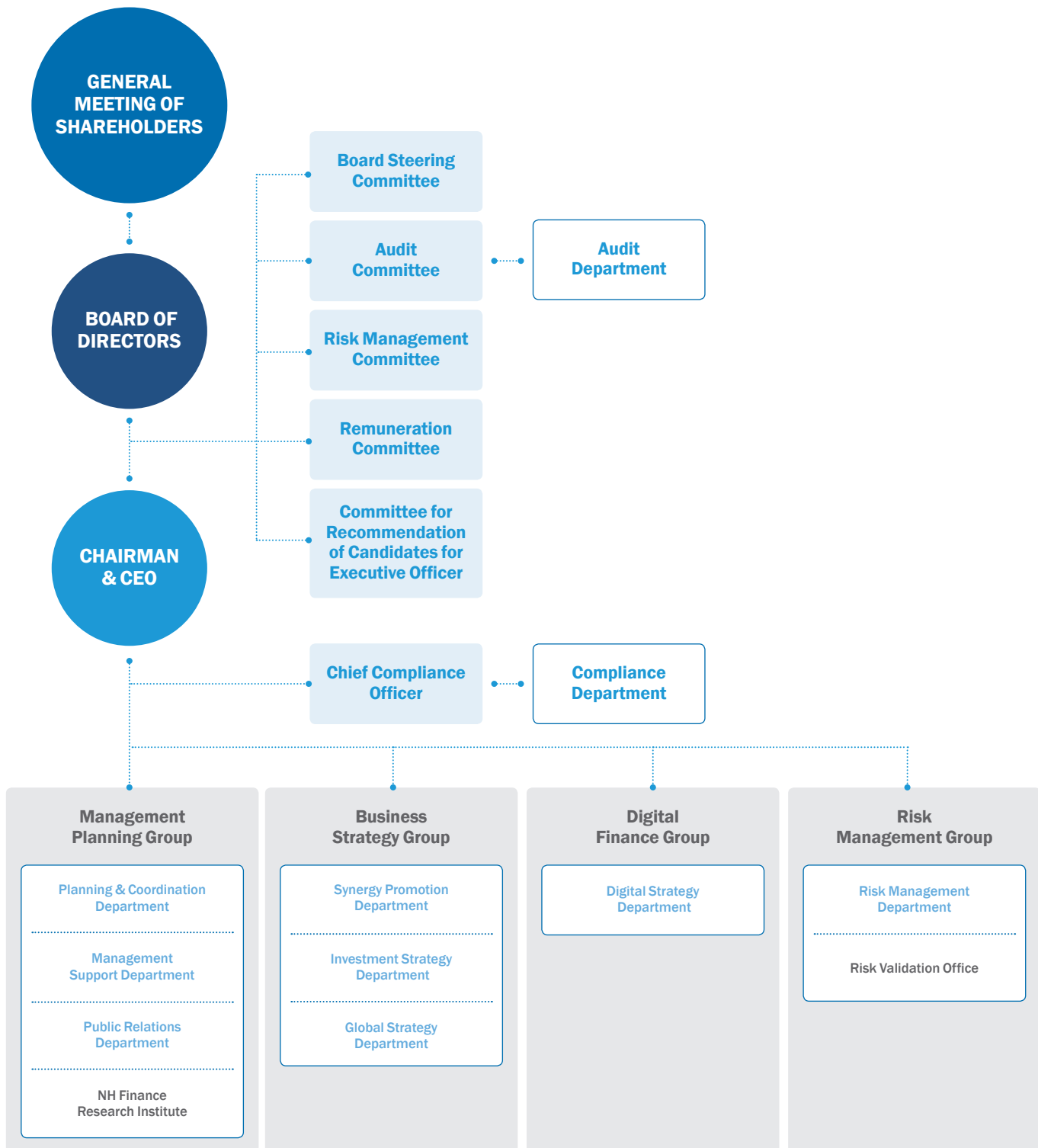


(January 1, 2017 ~ December 31, 2017)

Meeting No.	Date	Resolution	Outcome
1	January 20	2017 corporate bond issuance plan (Proposal)	Approved
		Capital investment in NH Capital (Proposal)	Approved
		BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
		Status of provision and management of 2016 customer information	Accepted
		Report on outside director candidate group	Accepted
2	February 13	Approval of financial statements and annual report for the 2016 fiscal year (Proposal)	Approved
		Decision on convening 2017 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		2016 report on operation of the internal accounting control system	Accepted
		2016 report on inspection results regarding operation of the NHFG internal control system	Accepted
		2016 report on evaluation results for directors and BOD (committees)	Accepted
3	March 8	Appointment of BOD chairman (Proposal)	Approved
		Appointment of committee members within BOD (Proposal)	Approved
4	March 24	Enactment of NHFG internal transactions regulations (Proposal)	Approved
		Limit on BOD remuneration (Proposal)	Approved
		Decision on convening 2017 general shareholders' meeting and items on the agenda (Proposal)	Approved
		2016 audit report	Accepted
5	April 20	Report on CEO & Chairman candidate recommendations	Accepted
6	April 28	Decision on convening 2017 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		Appointment of BOD committee members (Proposal)	Approved
		Analysis of NHFG 1Q 2017 performance	Accepted
		BOD committee meeting results	Accepted
7	May 26	Status report on operation of NHFG Risk Dash Board	Accepted
8	June 23	Partial revisions to regulations on executives' remuneration (Proposal)	Approved
		Decision to convene 2017 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
9	July 28	Analysis of NHFG 1H 2017 performance	Accepted
		BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
10	August 25	Partial revisions to NHFG articles of association (Proposal)	Approved
		Partially revised standards to internal regulations on corporate governance (Proposal)	Approved
		Partially revised regulations on BOD regulations (Proposal)	Approved
		Partially revised regulations on Remuneration Committee regulations (Proposal)	Approved
		Partially revised regulations on outside directorship system regulations (Proposal)	Approved
		Decision to convene 2017 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
11	September 21	Partially revised regulations on executives' remuneration regulations (Proposal)	Approved
		Decision to convene 2017 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		Plan for NHFG capital adequacy management	Accepted
		Status and plans regarding 4th industrial revolution response measures	Accepted
12	October 27	Analysis of 3Q 2017 NHFG performance	Accepted
		BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
13	November 27	2018 NHFG management plan (Proposal)	Approved
		2018 NHFG reorganization (Proposal)	Approved
14	December 6	Qualification verification of director candidates, excluding outside directors (Proposal)	Approved
		Decision to convene 2017 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		Real estate REITs market expansion plan	Accepted
15	December 22	Appointment of chief risk officer (Proposal)	Approved
		Appointment of compliance officer (Proposal)	Approved
		Succession planning in the event the chief risk officer or compliance officer cannot carry out their duties (Proposal)	Approved
		Case report on key digital finance projects	Accepted
16	December 26	Report on final selection of CEO candidates for wholly-owned subsidiaries	Accepted

# ORGANIZATIONAL CHART

(As of Jan. 1<sup>st</sup> 2018)



# RISK MANAGEMENT

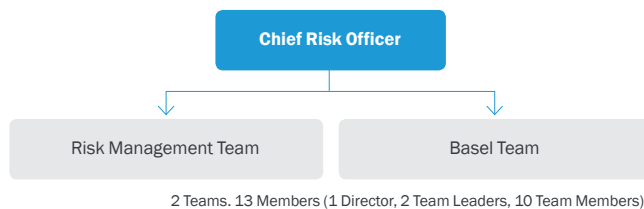
NH Financial Group is committed to the practice of its risk management philosophy which states:

“We share a sense of responsibility for the risk management for the sustainable growth of our organization, take into account potential risks in making decisions, comply with the set principles and standards in business conduct, and pursue balance between risk and return.” This philosophy is the basis for the 6 action principles and 18 guidelines that we established to steer us in our daily operations.

## RISK MANAGEMENT HISTORY

Year	Highlights	Remarks
2012	Creation of NHFG Risk Management Group and Risk Management Team	March 2, 2012. Launch of NHFG
2014	Creation of Basel Team	Response to NHFG's implementation of Basel III
2015	Formation of Risk Validation Team	Concurrent members of NH Bank's credit review department and NHFG
2017	Risk Validation Team elevated to Risk Validation Office	Under direct supervision of CRO

## RISK MANAGEMENT ORGANIZATION



## MAIN DUTIES

- Establishment of NHFG risk management policies and strategies
- Calculation and management of NHFG' BIS ratio
- Integrated management of risks, including NHFG's integrated risk capital
- NHFG integrated exposure management
- Management of NHFG credit rating model and risk calculation factors

## RISK MANAGEMENT BODIES

### Risk Management Committee

#### Members and Meeting Frequency

3 outside directors, 1 non-standing director, 1 inside director (total: 5); meets at least once quarterly

<Risk Management Committee Members (2017)>

Year	Career Highlights	Remarks
Jeon Hong-yeol	Advisor, Kim & Jang Law Firm (current) Deputy Governor, Financial Supervisory Service (former)	Chair
Min Sang-gi	Chairman, Public Funds Oversight Committee (former) Professor, Seoul National University Business School	Member
Sohn Sang-ho	Senior Research Fellow, Korea Institute of Finance (current) Deputy Governor, Financial Supervisory Service (former)	Member
Yoo Nam-young	Chairman, Jeongeup Agriculture Cooperative (current) Director, National Agricultural Cooperative (former)	Member
Oh Byung-gwan	Director of Planning, NH Financial Group (current) Planning Manager, National Agricultural Cooperative Federation	Member

### Key Resolutions

Establish basic risk management policies, determine NHFG's risk appetite, approve allocation of risk capital and exposure limits

### Key Items

Status of Risk Dash Board operations, comparison of various limits vs. performance, and various issues related to risk management

## Risk Management Council

### Members and Meeting Frequency

Chief risk officer (CRO), deputy risk officer, and general manager of the Risk Validation Office from NHFG; director of risk management from NH Bank, CROs from subsidiaries (Total: 10); meets at least once quarterly

#### <Risk Management Council Members (2017)>

Chair	NHFG CRO
NHFG	Huh Chung-hoe, Deputy Risk Officer Jang Byung-il, General Manager of Risk Validation Office
NH Bank	Kim Won-dong, Director of Risk Management
NH Life Insurance	Chae Hee-seong, CRO
NH Property & Casualty Insurance	Kim Young-tae, CRO
NH Investment & Securities	Yeom Sang-seop, CRO
NH Capital	Lee Yoo, CRO
NH Savings Bank	Lee Gwang-seok, CRO
NH-Amundi Asset Management	Kim Chang-hwan, CRO

### Key Resolutions

Matters delegated by the Risk Management Committee and other matters as needed

### Key Items

Allocation of risk capital and management of risk capital limit, establishment and enactment of NHFG risk management policies, calculation and management of risk, and other items regarding Group-wide risk management that require joint deliberation

## Risk Management Meetings

### Mission

Provide quick response system to address risk factors through organic cooperation between subsidiaries and NHFG's Risk Management Group

### Members

Hosted by the NHFG CRO, as a rule, but hosted by the director of risk management in the case of NH Bank due to concurrent posts of NHFG/NH Bank CRO

#### <Risk Management Meetings >

	Non-banking subsidiaries	NH Bank
Host	CRO of NHFG	Deputy Risk Officer of NHFG
Participants	NHFG	General Manager, Team Head, RMs, Relevant Personnel
	Subsidiaries	CROs of Affiliates, General Managers (Team Heads), Relevant Personnel
		Team Head, RMs, Relevant Personnel
		Primary Team Heads, Relevant Personnel

### Meeting Frequency

Meetings are categorized into 3 groups depending on each subsidiary's impact on NHFG's risk.

Subsidiary	Meeting Frequency
NH Bank, NH Life Insurance, NH Investment & Securities	At least twice quarterly
NH Property & Casualty Insurance, NH Capital	At least once quarterly
NH Savings Bank, NH-Amundi Asset Management	At least twice half-yearly

## 2017 KEY INITIATIVES

### Implementation of early warning system through Risk Dash Board

Improve forecasting abilities by monitoring advance indices for early recognition of risks per industry/subsidiary

### Risk Dash Board Operation

- Make risk inspection a part of daily operations through regular monitoring of risk indicators to preemptively manage risks, discover blind spots, and analyze risk factors and establish response measures when the threshold for risk indicators is crossed.
- Operation of the Risk Dash Board is divided into two categories, 'areas requiring early response to industry-specific risks' and 'areas requiring early response to subsidiary risks.'
- Industry-specific early response: establish/manage monitoring indicators for industries with exposure measures that exceed a certain amount
- Subsidiary early response: establish/manage monitoring indicators by type, reflecting the characteristics of each subsidiary

### Management of NHFG asset quality

On subsidiary level, strengthened management of household loans for low credit groups, loans for small business owners, and borrowers made vulnerable by the interest rate hike

### Strengthened risk response capabilities in anticipation of increased volatility in the financial market, including interest rate hike

Inspected effect of interest rate hike in the United States and Korea on NHFG; inspected rate-sensitive risks for each subsidiary

### Strengthening of NHFG capital adequacy

Reached NHFG's target capital adequacy rate by establishing risk weighted asset limit for each subsidiary

First, to expand the strategic risk management function, we will raise the qualitative level of our asset portfolios by increasing assets with high return on risk weighted assets (RoRWA) and decreasing assets with low RoRWA. When establishing management plans, we will set limits on risk-weighted assets for each subsidiary and establish business plans within the parameters of the limits to improve NHFG's capital adequacy ratio. We also plan to build a risk management system for global businesses and new business sectors.

Second, to strengthen our risk management in vulnerable areas, we will carry out intensive monitoring of high risk assets such as high risk sectors and loans, and minimize concentration risk through flexible management of limits. We will mitigate the earnings volatility of marketable assets caused by the interest rate hike by managing subsidiaries' duration gap.

Third, we will expand our risk management infrastructure with an upgraded NHFG Credit Risk Data Mart while strengthening the risk management system in response to Basel III's new regulations on liquidity, etc. We will also encourage meetings to discuss risk-related issues to discover risks early and to take preemptive action.

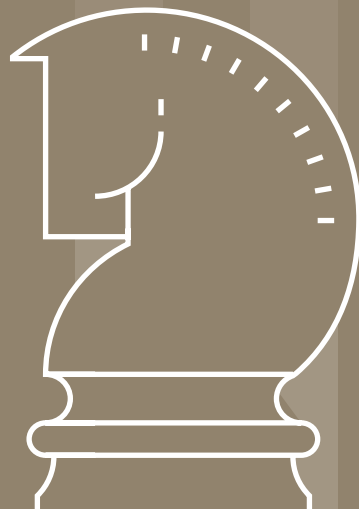
## 2018 RISK MANAGEMENT PLANS

We predict that risk factors in 2018 will include increased volatility in the financial market following the acceleration of the interest rate hike in the United States as well as the burden of capital expansion following the adoption of new supervisory regulations like Basel III and IFRS 17. Consequently, our Risk Management Division established nine action plans in three areas with the goal of "strategic risk management to improve profitability in anticipation of risks."

Goal			
STRATEGIC RISK MANAGEMENT TO IMPROVE PROFITABILITY IN ANTICIPATION OF RISKS			
Category	Action Plan		
Expand strategic risk management function	1. Enhance asset portfolio through expanded application of RoRWA	2. Improve capital adequacy ratio through stronger management of risk-weighted assets	3. Build risk management system for new businesses
Strengthen risk management in vulnerable areas	4. Focus monitoring on vulnerable areas such as high risk sectors/loans	5. Minimize concentration risks through flexible limit management (managing limits flexibly)	6. Strengthen marketable assets management in anticipation of greater volatility in the financial market
Upgrade NHFG's integrated risk management	7. Expand risk management infrastructure to reinforce NHFG's integrated risk management	8. Fortify risk management system in response to new supervisory regulations	9. Take preemptive action on risks by revitalizing risk management meetings

# FOCUS ON

Following the successful transition to a holding company, NH Financial Group is maximizing synergies among the different business lines to grow into Asia's leading cooperative financial group on the global stage.







## FOCUS ON

### FOURTH INDUSTRIAL REVOLUTION

The significance of the fourth industrial revolution, which is receiving the global spotlight, goes beyond new technologies such as artificial intelligence and robotics. Rather, it refers to the evolution to a more intelligent society through the convergence of technologies and industries. Swift response to this phenomenon is vital for the financial sector, given easy convergence with IT and other industries as well as rapid innovation. Accordingly, NH Financial Group has been expending much effort for digitalization of finance and transition to a digital finance company.

#### TO Platform Strategy (NH Bank)

This is a new marketing strategy for attracting new customers via cooperation with prominent external platforms in Korea and enhancing customer management in line with the surge in customers who turn to external platforms, rather than the bank, for financial services.

#### Simple payment

- Expand new businesses via alliance with simple payment platforms
- Attract new strategic industries and hold target events by drawing on market leadership in simple payment

#### Mobile debit card <sup>note)</sup>

Note) Service that allows users to make cash withdrawals and payments via the smartphone by registering their NH ATM cards and accounts on their smartphones

- First in the banking sector to enter the online payment market with in-house program\*
- \* Payments through the in-house program enables gathering and analysis of customers' transaction details for big data analysis.
- Lead the payment market through alliance with online payment platforms and ICT companies

#### Joint marketing

- Issue smart bills through promotions using external platforms
- Analyze target customers per platform and hold customized promotions
- Use NH Bank [NH20 HaeBom (Youth Brand)] to hold joint events targeting KakaoPay users
- Analyze simple payment users' usage data, share analysis and use it as reference in drawing up marketing strategies

#### BE Platform Strategy (NH Bank)

This is a strategy to strengthen customer contact points and customer services by upgrading the in-house mobile platform to provide differentiated products and services.

#### All One Bank

All One Bank, the NH Financial Group's joint platform, increases opportunities for income generation through expansion of affiliates' customer base.

#### Service upgrade

- Enhance function of the Group's joint platform with the introduction of NH integrated financial services—integrated account access (card/insurance/securities), product access (card/ insurance /capital/savings bank)
- Boost simple remittance through introduction of AllOne remittance and higher remittance amount
- Introduce services for different age groups—big font service, games, congratulatory & condolence payments

### Expand customer base and users to bolster non-face-to-face marketing

- Users stand at 1.43 million as of end of 2017 (net increase of 1 million)
- Attracted 32,000 users via synergy among financial affiliates
- Active marketing based on higher customer loyalty than other banks

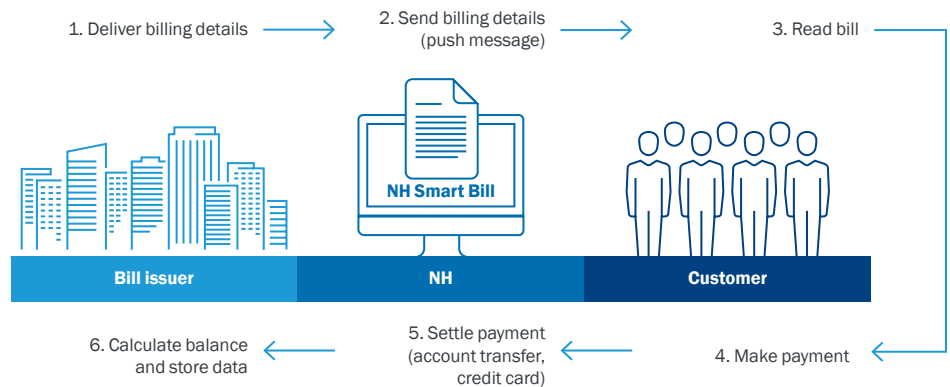
### Increase external recognition through stronger promotion

- Carry out diverse PR activities through finance-related expos and various media
- Jointly use characters on homepage, branch banners, etc.

## Smart Bill

Smart Bill is a platform close to everyday life that innovates billing and payment methods for customers. Automatic alerts and easy payments via mobile devices remove the need for paper bills and receipts.

### Smart Bill billing and payment procedure



### Current service scope

- NH affiliates: NH Card, NH Life Insurance
- External: local taxes of Gyeonggi Province, water and sewage bills, apartment utility bills, national taxes/fines

## Exploring New Markets with Open API (NH Bank)

Through the only open API (Application Programming Interface)\* in the domestic banking sector, NH Bank is fostering a new financial ecosystem centering on NACF and spearheading fintech innovation in Korea.

\* Open API: open program that enables fintech companies and others to develop products and services

## Launch of successful model of open platform [P2P money management service]

### Launch of financial sector's first money management service customized for P2P companies

- Greater scalability due to direct link via API without an intermediary (VAN operator)
- Service opened for 12 companies, 40,000 transactions (during six months after opening)

### Expand open platform through new API development

- Explore new business models (loans backed by trade receivables, user authentication, etc.)
- Expand sales channels with customized product API development (deposits, microloans, etc.)

## Customer Consulting AI System (NH Bank)

The launch of Areumi AI, Korea's first AI financial consulting system using real-time voice recognition technology (chatbot), is enhancing customer service.

### Accurate service

- Short-term goal
- Use the AI system to help employees of branch offices (bank/agricultural and livestock cooperatives) and customer service centers give accurate answers to customers' questions in order to ease their workload and provide customers with standardized services

### Convenient service

- Long-term goal
- Use the AI system to serve customers—interactive banking\* (voice banking), customer consulting through chatbot, etc.

\*Interactive banking: [phone banking/chatbot/AI speaker] (Customer) "Send KRW 100,000 from my account to my mother."  
[NH Bank financial system] real-time transfer

## Wealth Management Using Robo-Advisor (NH Investment & Securities)

We deliver customized investment solutions that reflect the customer's preferences and assets. We provide a unique customer experience with services that use AI algorithms for analysis of investment preferences, which are then used to advise on portfolios and manage assets.

### NH Investment & Securities' Portfolio Market

- 'Advisory platform' that provides customized portfolios in the non-face-to-face channels and supports trading of financial products
- Lineup of 38 products of 20 asset managers, Portfolio Market AUM of KRW 19 billion (as of December 2017)

### Commercialization of various algorithms

- Commercialize various algorithms that have received advisory/discretionary authorization by participating in the robo-advisor testbed supervised by the Financial Services Commission

## BE Platform Strategy (NH Bank)

### New Technology Verification via External Cooperation (NH Capital)

We verify new technologies and promote NH Financial Group through cooperation with prominent IT companies in Korea and abroad to stand at the forefront of the fourth industrial revolution.

#### Cooperation with Amazon

- Use cloud computing to ensure efficiency of IT infrastructure and enable swift response to the market
- Shift to use of cloud for 'automatic issuance of registration documents for collateral for loans (cars, construction machinery, etc.) → extraction of text from images'
- Based on Amazon machine learning of the extracted text, conduct automatic checks that predict patterns in collateral that have high possibility of delinquency to minimize error and shorten the review period

#### Cooperation with LG CNC

- Conduct preliminary check on new technology via development of chatbot for demonstration that supports 24/7 customer consulting, 365 days a year
- Develop chatbot scenarios and demonstrations for questions frequently asked by customers

## Non-Face-To-Face Insurance Sales Infrastructure (NH Life Insurance/NH Property & Casualty Insurance)

We are preparing basic infrastructure for entry into the online insurance market, which has strong growth potential.

### NH Life Insurance

#### Non-face-to-face insurance sales system

- Launch of cancer insurance, pension savings insurance, and medical indemnity insurance
- Provide smart infrastructure with [responsive web\*]

\* Responsive web: webpage where the screen is automatically optimized for the device (PC/tablet/mobile) and resolution

#### Send out mobile insurance terms and conditions

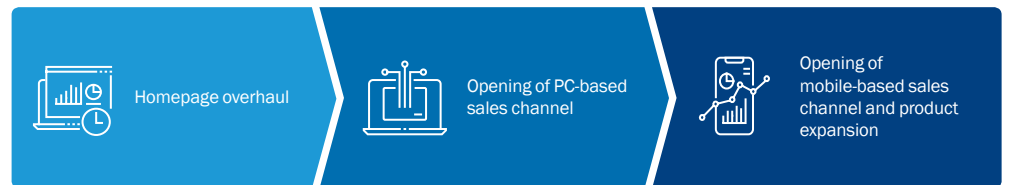
- Innovate customer service by delivering terms and conditions via the mobile medium instead of sending out thick and heavy booklets

#### Link with NH Bank mobile platform

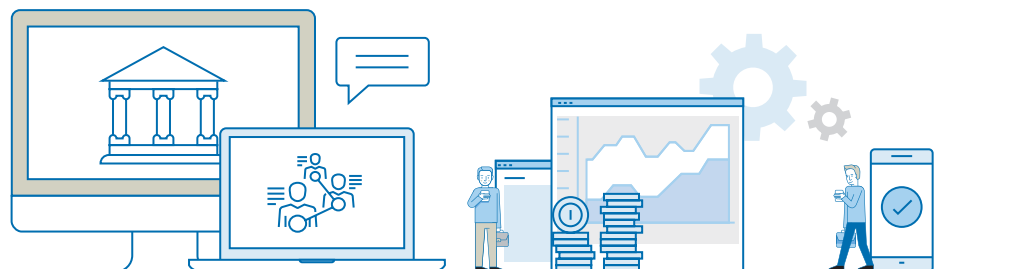
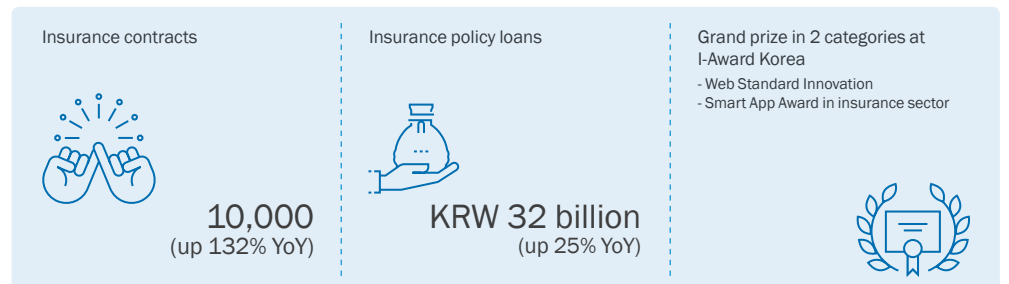
- Upload diverse contents—insurance policy loans thru All One Bank, assessment of value of protection-type insurance, etc.
- All One Bank
- Link paper circulars (58 types) to Smart Bill

### NH Property & Casualty Insurance

#### Steadily strengthen non-face-to-face insurance sales system



#### Non-face-to-face product sales



**FOCUS ON**

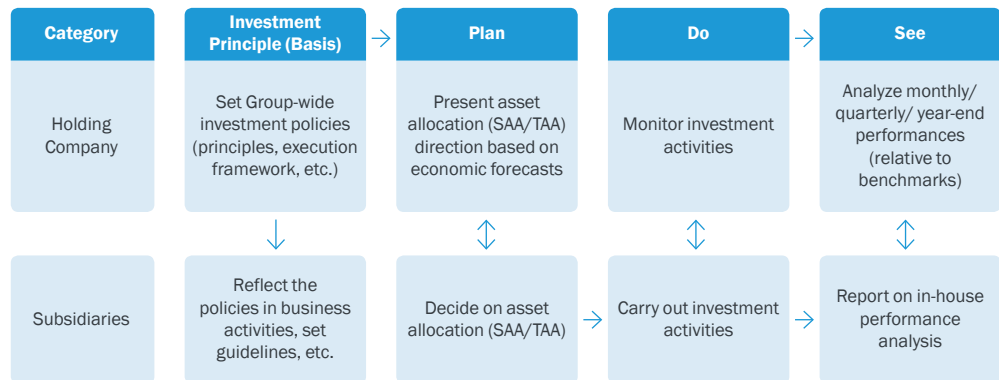
**ENHANCING CUSTOMER ASSET VALUE**

We have been carrying out many activities to strengthen investment capabilities with the goal of enhancing NH Financial Group’s assets as well as customers’ assets since 2014. We started off by setting up a project taskforce for that purpose that year and continued our efforts to upgrade investment processes until the end of 2017. In 2018, we intend to pursue a two-track strategy encompassing investment and wealth management, and implement related action plans.

**Investment**

**Overview**

We maintain systematic investment processes that are in line with the investment principles of NH Financial Group. Consultative bodies have been set up to share such information as investment strategies, performance analysis, and measures to respond to changes in the market environment. Investment performance is measured against benchmarks, and monitoring and simulations are carried out for preemptive risk management.



\* SAA (Strategic Asset Allocation) refers to annual plans while TAA (Tactical Asset Allocation) refers to monthly plans under SAA.

**Major Achievements**

**Strengthened competencies**

We continue to upgrade investment processes to strengthen related capabilities.



**Increased returns**

We are reinforcing competencies and diversifying asset portfolios to increase returns on managed assets.

- (Return vs. 2017 benchmark) NH Financial Group 15bp↑ (NH Life Insurance 10bp↑, NH Property & Casualty Insurance 72bp↑)
- (Return vs. 2014 portfolio) Reduced weighting in domestic bonds, increased weighting in overseas and alternative investments → return improved by 23bp

## Action Plans

### Performance evaluation

We will boost the asset allocation function by including its effect in subsidiary performance reviews.

- Standard for evaluating subsidiaries' investment returns: add 'asset allocation portfolio return' as an evaluation item on top of return vs. benchmark
- Analyze investment impact vs. asset allocation to check on execution and provide feedback

### Competencies

We will enhance ability to respond to changes in the financial market by expanding market issue analyses and sharing research.

- Increase the scope of participants and promote debate in investment meetings to strengthen discussions on ways to increase returns
- Analyze financial market issues such as volatility in domestic/overseas stock prices, interest rates and foreign exchange rates, and examine countermeasures

### Infrastructure

We will upgrade the performance analysis system and TAA platform.

- Performance analysis system: refine analysis tools, incorporate 2018 evaluation standards, examine analysis system/validity related to IFRS9 adoption for banks
- TAA platform: devise and adopt improvements to the existing TAA process such as improving quantitative/qualitative analysis scoring

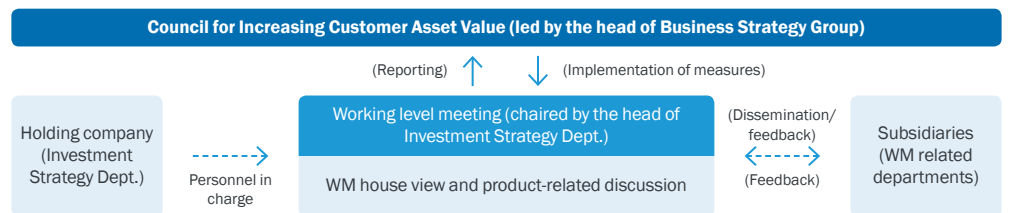
## Wealth Management (WM)

We are laying the foundation for NH Financial Group's WM business by building and improving the product process.

## Major Achievements

### WM framework

We set up the framework for the WM business with the creation of a consultative body for increasing customer asset value.



### NH Financial Group's initial WM house view

NH Financial Group's WM house view sets the customers' risk appetite as the benchmark target, devises a systematic product strategy in order to recommend a corresponding product portfolio, and supports management of customers' assets based on reasonable grounds.

## Action Plans

### Refine and promote use of NH WM House View

- Refine the house view on quarterly basis through greater participation of subsidiaries' research and investment professionals
- Increase use of house view and disseminate it to sales branches via publications, training and promotions

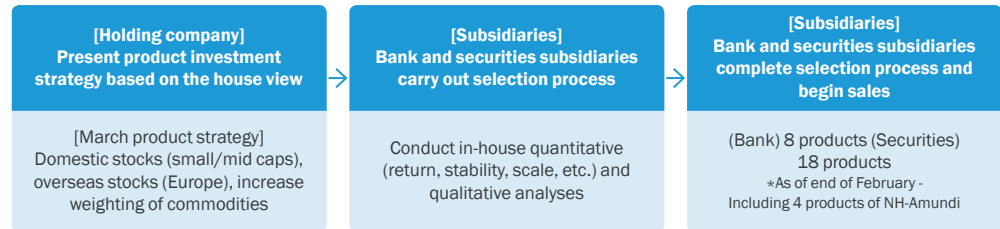
Differentiate  
NH Financial Group WM

As opposed to product recommendations of competitors, NH Financial Group presents the WM house view as the detailed basis for product selections, thereby also providing customers with a 'discerning eye to read the financial market.'

**Select and promote sales of promising products**

- Subsidiaries make monthly selections of promising products (funds) based on the house view presented by the holding company

<Process for product selection>



- Strengthen WM synergy evaluation of the bank and securities subsidiaries to promote sales of selected products: include sales performance and profits in subsidiary performance reviews

**Boost joint product development & marketing**

- Boost joint product development and marketing through greater cooperation among subsidiaries (bank-securities-asset management subsidiaries)

Details	
Joint product development and support	- Utilize subsidiaries' competencies for joint product development through the securities arm's QV Portfolio - Develop CIB-linked products (alternative funds, etc.) in connection with IB deals of the securities and bank subsidiaries
Joint marketing	- Create Group-wide joint (bank/securities) marketing expert team and define its role - Come up with ideas through regular exchange of marketing personnel among affiliates - Hold joint seminars on investing or marketing environment issues at regular intervals

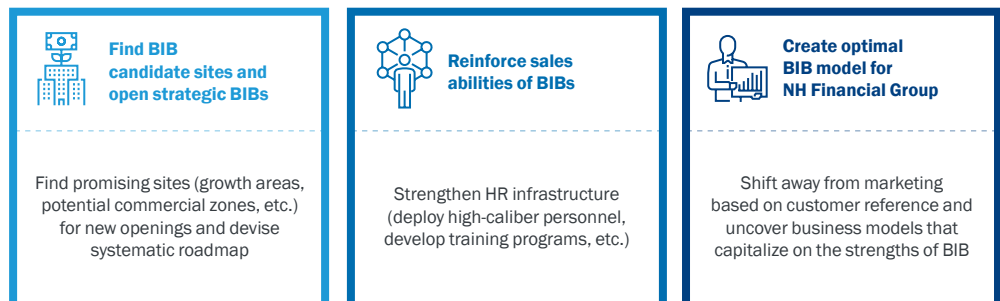
**Improve subsidiary product selection & follow-up system**

- Find ways to improve and upgrade subsidiaries' WM product-related framework by setting up a product TFT (holding company/bank/securities)

	Product selection	Follow-up management
Details	- Determine standards for product selection based on the house view → Refine and incorporate subsidiaries' selection process - Produce manual related to promising products, etc.	- Compare pros and cons of subsidiaries' follow-up systems and adopt ones that are superior → Apply the securities subsidiary's fund rating scheme and return care program at the bank subsidiary

**Refine NH Financial PLUS Center**

Following the Financial Services Commission's regulatory reform that enables joint use of sales space and joint consulting service, there are totally 13 branch-in-branches (BIB) as of the end of 2017 (11 bank-securities BIBs, 2 bank-securities-life insurance BIBs). BIB creates synergy by combining the sales points of subsidiaries of different financial segments (bank-securities-insurance).





## FOCUS ON

### NH FINANCIAL GROUP CIB

NH Financial Group is striving to attain income of KRW 1 trillion and expanding into global markets through corporate investment banking (CIB), a major domain for Group-wide synergy generation. Since the CIB Council was launched in 2016, we have built up a strong track record by carrying out landmark deals. To date, we have successfully completed a wide range of deals such as M&A, infrastructure and real estate financing based on cooperation among affiliates

Thanks to NH Investment & Securities' competence as lead manager combined with the financial resources of NH financial affiliates and the NACF's Mutual Finance, we arranged acquisition financing for Daesung Industrial Gases (KRW 1 trillion) and Hanon System (KRW 2.1 trillion). We also pursued overseas infrastructure deals including a biomass power plant project in the U.K. (USD 310 million) and a Cricket Valley power plant project in the U.S. (USD 210 million).

#### 2017 Landmark Deals

	Deal	Lead Manager	Deal Value
Infrastructure	Goseong Hai Thermal Power Plant	NH Investment & Securities	KRW 410 billion
Real estate	Dunchon Jugong Housing Redevelopment Project	NH Bank	KRW 700 billion
M&A	Daesung Industrial Gases acquisition financing	NH Bank	KRW 1.1 trillion
	Hanon System acquisition financing	NH Investment & Securities	KRW 2.1 trillion
Overseas investment	Biomass power plant, U.K.	NH-Amundi Asset Management	KRW 340 billion
	Corpus Christi LNG export terminal, U.S.	NH Investment & Securities NH Capital	KRW 33 billion

NH-Amundi Asset Management, one of the pillars of CIB, is developing its alternative investment capabilities at a fast pace. At the heart are three alternative investment funds (acquisition financing: KRW 1 trillion, real estate: KRW 200 billion, infrastructure: KRW 300 billion) invested in by affiliates and external organizations. Just two years after entering the alternative investment market, NH-Amundi recorded AUM of KRW 2 trillion.

In addition to domestic projects, NH Financial Group recently has been pursuing diversification of overseas investments in conjunction with global asset managers. We have been working to bolster global CIB operations through partnerships with Brookfield Asset Management, Macquarie Group, and Amundi.

Going forward, NH Financial Group plans to diversify its investment scope to also include private equity. We intend to select competent global PE firms that have a solid track record in corporate investments in Asia to manage assets and to secure deal sourcing opportunities and exchange knowhow. We will increase Group-wide synergies and seek new income sources by combining the pan-NACF financial resources, the IB network of our industry-leading securities subsidiary, and the competencies of our asset management arm.



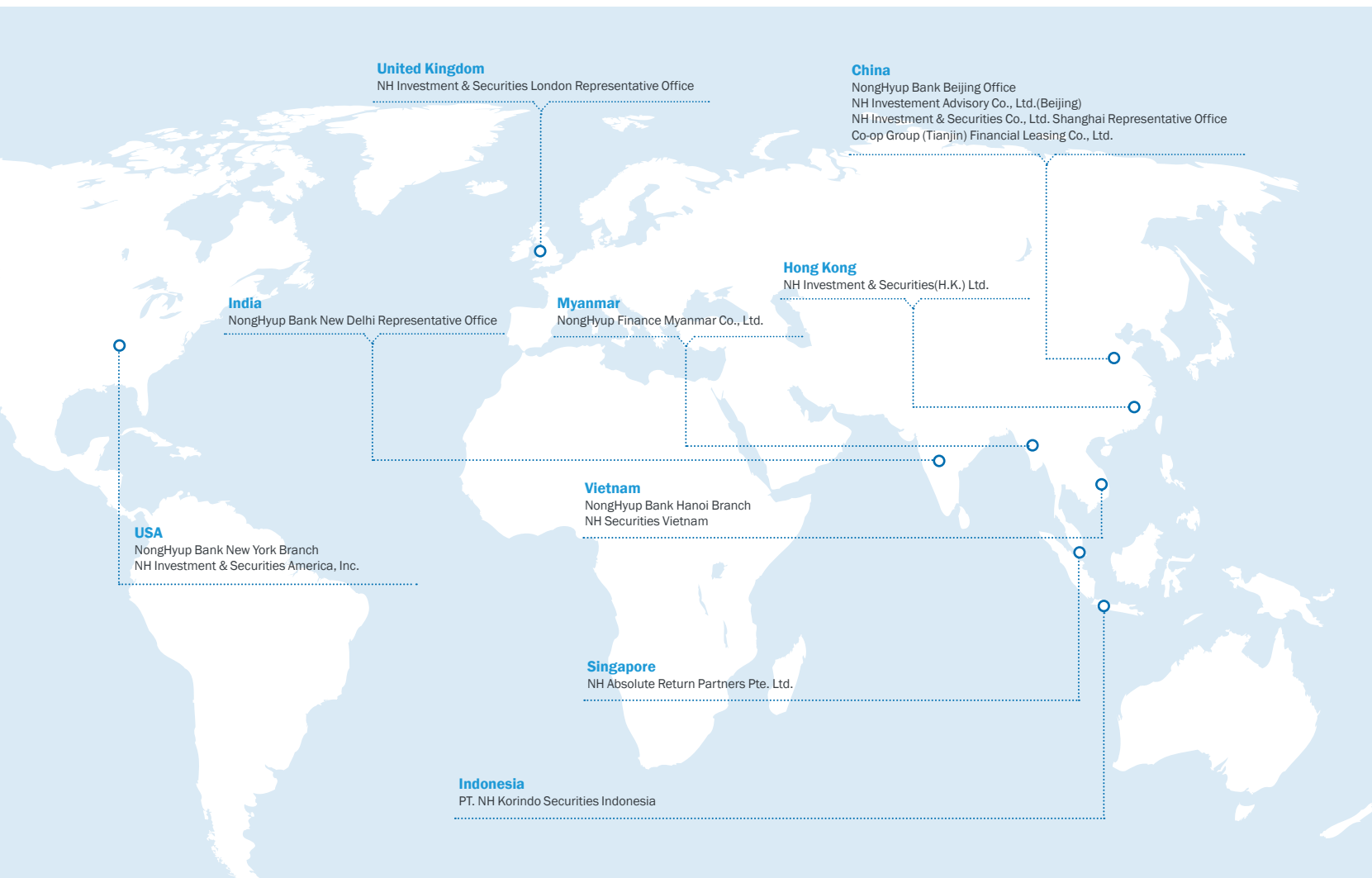
## FOCUS ON

### GLOBAL EXPANSION

The domestic financial market is undergoing a slowdown due to low interest rates and low growth while competition in the financial industry is intensifying. This, in turn, is weakening the profit base. To overcome these hurdles, major financial service providers are expanding into overseas markets. As one of Korea's leading financial groups, NHFG is actively pursuing expansion into overseas markets by securing new profit sources for future growth, providing comprehensive financial services to domestic customers using a global network, improving efficiency of asset management by building a global portfolio with the Group assets, and creating synergies in the local market through NHFG-specific capabilities.

#### Performance

NH Financial Group operates 14 overseas offices in nine countries across Asia, Europe and North America. In China, we made equity investment in Co-Op Group (Tianjin) International Leasing Co., Ltd. and started a joint business with the China Co-Op Group. In 2016, we made inroads into Southeast and Southwest Asia by establishing a corporation in Myanmar and a branch office in Hanoi, Vietnam. We also plan to complete the transition of the New Delhi office into a branch in 2018.



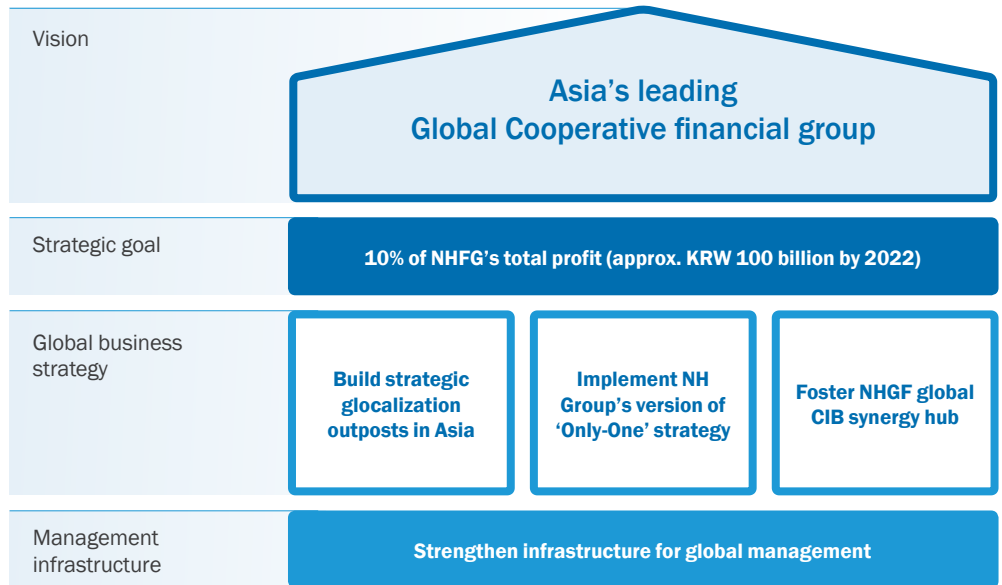
### Future Goals

NHFG's goal is to raise the proportion of the group's global business to 10% from the current 3% by 2022 in line with our vision to become "Asia's leading global cooperative financial group." In 2017, we drew up a mid- to long-term global strategy and action plan designed to boost capabilities and pursue systematic implementation of global businesses.

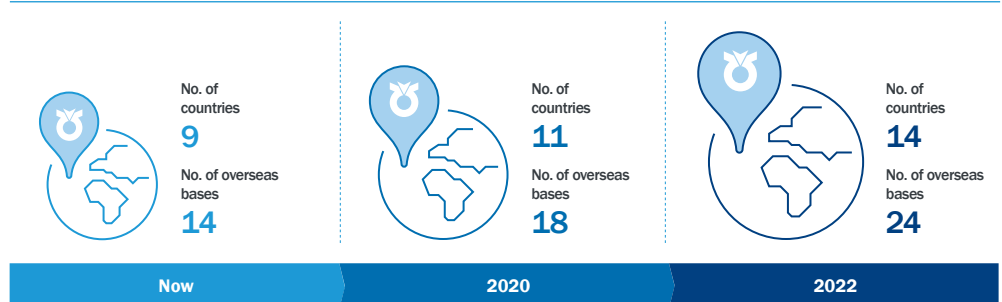
### Strategy

To achieve our global vision and goals, our top priority will be continuing with strategic expansion of overseas outposts to complete an 'Asian financial belt' linking China, Southeast Asia and Southwest Asia. In Southeast Asia where demand for agricultural financing is high, we plan to tap into local markets through Only-One Strategy, the NHFG-specific approach to creating business opportunities through joint market entry of banking and economic segments. In more advanced markets like Hong Kong and New York, our plan is to use the existing overseas outposts to build a global IB hub in which NHFG affiliates (NH Bank, NH Life Insurance, NH Investment & Securities, etc.) as well as Mutual Finance take part in strengthening overseas asset management and global IB business capabilities.

#### NHFG Global Business 'Vision House'



#### Global Network Expansion Plans



# BUSINESS OVERVIEW

At NH Financial Group,  
we believe our customers' needs are first and foremost.  
Whenever and wherever you need specialized financial services,  
our Group is there for you at every moment of your financial life.







2017 한국소비자만족지수 1위  
KOREA SATISFACTION CONSUMER INDEX

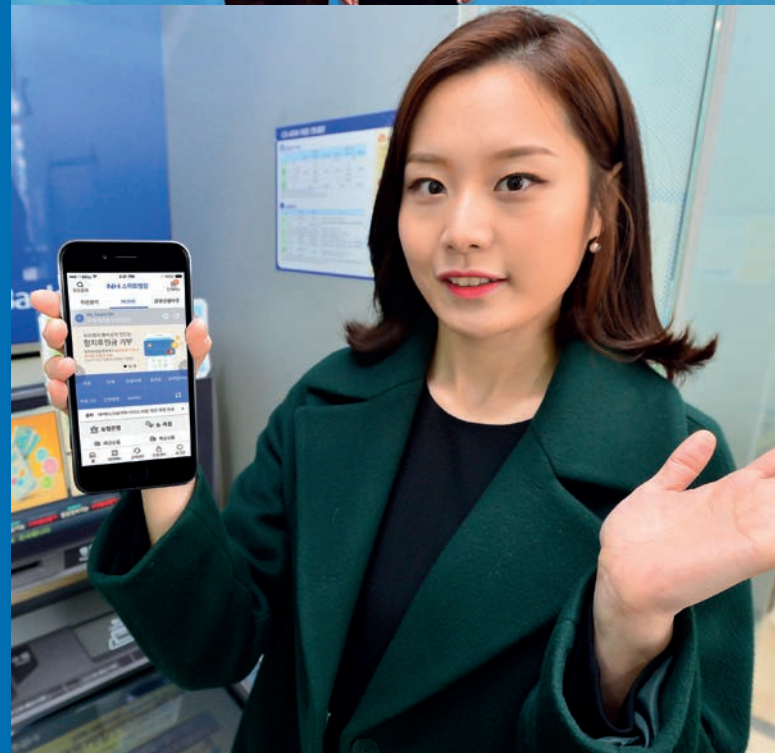
ESS 주관: 한국미디어마케팅 한국소비자만족지수1위 운영사무국 후원: 전자신문 지마켓

# NONGHYUP BANK

NH Bank was founded solely with private domestic funds and since establishment it has channeled its efforts into microcredit support, economic progress in local communities, agricultural/rural welfare development, and customer service improvements.

The bank seeks to expand welfare in agricultural/rural areas and contribute to the development of the national economy based on a nationwide network that extends over urban, rural, and remote regions. Through stable profit creation, it obtains sustainable growth engines, grows alongside the economy of the local communities, and faithfully carries out its role as a bank specializing in public finance and microfinance.

NH Bank's most recent goal is to make the leap to become a world-class cooperative bank that leads smart finance.



## VISION

**No. 1 people's bank,  
beloved by all**

NongHyup is there for you at every moment of your financial life,  
leading the way to a more fulfilling future.

**Beloved Bank**

Beloved and trusted by customers,  
employees, and the public

**First-class Bank**

First in customer service,  
financial soundness, and social  
contribution

**Korea's No. 1 Bank**

Respected by the nation,  
sharing true value with the nation

## FINANCIAL HIGHLIGHTS (CONSOLIDATED)

(unit: KRW 100 million, %)

		FY2017	FY2016
Key indicators	Total assets	2,673,332	2,508,373
	(Trust accounts)	314,829	328,459
	Total liabilities	2,526,818	2,367,543
	Total equity	146,514	140,830
	Net income	6,521	1,111
Profitability	Net income before agricultural assistance expenses	8,715	3,503
	RoA	0.25	0.05
	RoE	4.52	0.79
	RoA before agricultural assistance expenses	0.34	0.14
	RoE before agricultural assistance expenses	6.05	2.49
Capital adequacy	Total capital ratio	14.72	14.62
	Common equity tier 1 ratio	11.60	11.32
	Tier 1 ratio	11.92	11.64
Asset quality	Substandard and below ratio	1.03	1.36
	NPL ratio	0.95	1.23
	NPL coverage ratio	78.55	56.45
NIM (including NH Card)		1.77	1.73
NIM (excluding NH Card)		1.53	1.49

CEO  
LEE DAE-HOON

## CEO MESSAGE

Dear NH Bank Customers,

NH Bank was founded wholly with private domestic capital, and we now possess the largest network of branches in Korea. We specialize in managing the holdings of national and local government organizations, and have been the No. 1 bank for social responsibility for six years running. As one of the main affiliates of NH Financial Group alongside NH Life Insurance and NH Investment & Securities, the bank is focused on increasing the value of customers' assets and becoming the bank of choice for all Koreans through customer-focused management.

In particular, we use the bank's profits to finance agricultural/rural initiatives and also propagate the fundamental values of farming, leading the way in efforts to raise farmers' household income level to KRW 50 million.

This year marks the seventh anniversary of NH Bank's establishment, and we find ourselves in challenging times, domestically and globally. Interest rate hikes in the United States, economic stagnation in developing countries, and the advent of the fourth industrial revolution make competing in the financial market more difficult than ever. Moreover, NH Bank is tasked with the role of profit center for all of NongHyup while ensuring the bank's survival. Yet we will find new opportunities amidst such demands and use our reserve of energy to expand our profit base. We will also realize our goal of becoming Asia's top cooperative bank by implementing NongHyup's original values; fulfilling our role as the NH profit center through an expanded business foundation; growing together with our customers, the people of Korea; and creating new growth engines to pioneer the future of finance.

Thank you.



## AT A GLANCE

### MAKING THE LEAP INTO A LEADING BANK

NH Bank's net income passed its annual target of KRW 570.0 billion to reach KRW 650.0 billion, representing a YoY increase of KRW 540.00 billion and the bank's highest ever amount since it separated from NACF in 2012. Previously, NH Bank had already raised the annual target from KRW 475.0 billion to KRW 570.0 billion after reaching the initial goal earlier than expected.

Such results were possible because the whole bank united to strengthen NongHyup's unique competitiveness in areas like retail finance after boldly writing off losses from the shipping and shipbuilding industries. Another factor in our favor was that an upturn in the real estate economy led to overall higher earnings for domestic banks.

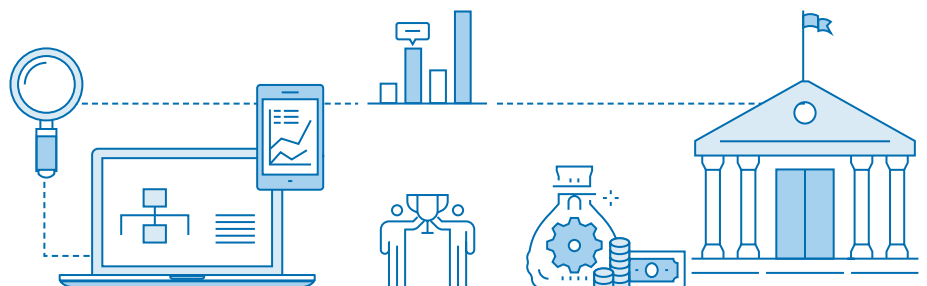
The specific background for the improved performance can be found in our strengths in retail, agricultural, and public finance. NH Bank's household loan balance rose from KRW 86.6 trillion last year to KRW 94.5 trillion this year, and the growth of KRW 7,485.6 billion was the largest increase recorded by a domestic commercial bank last year. At the root of strengthened retail financing was our solid sales network, which is the largest among commercial banks. As of the end of 2017, we have a total of 1,155 sales branches nationwide. Inasmuch as our goal is to support farmers, we are growing as a powerhouse in retail and agricultural financing. Among the five major commercial banks, we have the most deposits placed by local governments. By managing these funds, which are in the range of trillions of KRW, we not only earn commission income but also have the opportunity to attract local government employees as customers, which is why the local government deposits are seen as the bank's most reliable profit source.

NH Bank is living up to the goal we have emphasized of being a 'healthy and strong bank.' Our asset quality indicators were sound, with an NPL ratio of 1.03% and delinquency ratio of 0.47%.

For 2018, we have established our target net income at KRW 780.0 billion, a 25% increase from last year. In order to make the leap into a leading bank, we will pursue customer-centered management, respond to the digital age, and realize a healthy bank. This will enable us to reach our goal for 2020 of becoming one of the top 3 domestic banks producing a stable net income of over KRW 1 trillion.

As the first in the banking industry to build a foundation for open API and the first in the country to adopt an AI consulting system, we act as pioneers in digital finance. Moreover, we are working to innovate existing services, discover new businesses, promote agricultural fintech, and expand specialized services exclusive to NH Bank by applying fourth industrial revolution technology like big data, blockchain, cloud, etc. Our plan is to become a 'first mover' leading the other banks forward in the digital finance market.

Through these myriad efforts, we will remain faithful to the original purpose of NongHyup and reach our target net income to play a pioneering role in raising farmer' household income levels to KRW 50 million.



## OVERVIEW

Although NH Bank began the last year in a business environment made more difficult by shipping and marine industry restructuring, we were quickly able to normalize operations thanks to the concerted efforts of all employees. We reinforced our financial soundness by promoting a culture of preemptive risk management. Based on stable growth of loans and deposits, NH Bank reached its profit target for the first time since its launch.

**Profit/Loss**

In 2017, NH Bank's gross income was KRW 4,822.6 billion, SG&A expenses were KRW 2,797.4 billion, and net income was KRW 651.3 billion (net income before agricultural assistance expenses: KRW 870.7 billion). ROA was 0.25% (ROA before agricultural assistance expenses: 0.33%) and ROE was 4.52% (ROE before agricultural assistance expenses: 5.98%).

(Unit: KRW billion)

	2017
Gross income	4,822.6
SG&A expenses	2,797.4
Provision for credit loss	844.6
Operating income	1,180.6
Other gains/losses	△ 328.9
Income before income tax expenses	851.7
Net income	651.3

\* Agricultural assistance expenses: Expenses imposed on NH Bank by NACF in order to secure finances necessary to carry out assistance and extension projects for NACF members, such as promoting local distribution. The expense rate is 2.45% of the average gross income of the three preceding years.

The net interest margin (NIM) rose 0.04% from the previous year to 1.77% as the result of factors like lower market interest rates.

(Unit: %)

	4Q16	1Q17	2Q17	3Q17	4Q17
NIM <sup>Note)</sup>	1.73	1.73	1.76	1.77	1.77

Note) Debit card merchant fees excluded

**Business Volume**

In 2017, NH Bank's total assets increased by KRW 14.8 trillion or 5.3% YoY to reach KRW 294.9 trillion. Total deposits increased by KRW 12.8 trillion or 6% YoY to KRW 225.5 trillion while total loans increased by KRW 7.4 trillion or 3.7% YoY to KRW 206.1 trillion.

(Unit: KRW trillion, %)

	2017	2016	Change	%YoY
Total assets <sup>note)</sup>	294.9	280.1	14.8	5.3
Total deposits	225.5	212.7	12.8	6
Total loans	206.1	198.7	7.4	3.7

Note) Bank accounts (KRW 263.4 trillion) + Trust accounts (KRW 32.7 trillion) - Mutual transactions (KRW 1.2 trillion)

**Asset Quality**

The substandard and below ratio fell 0.33% YoY to 1.03%, and the delinquency ratio based on total loans fell 0.12% YoY to 0.47%.

(Unit: KRW billion, %, %p)

	2017	2016	Change
Total loans	206,114.6	198,721.1	7,393.5
Substandard and below loans	2,117.1	2,693.4	576.3
Substandard and below ratio	1.03	1.36	△0.33
NPL	1,952.7	2,443.5	490.8
NPL ratio	0.95	1.23	△0.28
Coverage ratio	78.55	56.93	21.62
Delinquency ratio based on total loans	0.47	0.59	△0.12

## AWARDS



**FEB. 2017** “Financial Supervisory Service”,  
Award of excellence in the ‘1 company - 1 school  
financial education’ program

**MAR. 2017** “Seoul Economic Daily”,  
2017 Korea Best Banker, grand prize

**APR. 2017** “Seoul Economic Daily”,  
Fortune 2017 Trusted Brands Awards, grand prize

**MAY. 2017** “Korean Management Association”,  
Selected as ‘excellent call center’ seven years  
running

**JUL. 2017** “Korea Economic Daily”,  
2017 Corporate Social Responsibility Awards,  
grand prize

**JUL. 2017** “Korea Federation of Banks”,  
2016 CSR Reports, ranked 1st in banking

**SEP. 2017** “Fortune Korea”,  
2017 Korean Leader Awards, grand prize

**OCT. 2017** Launched cloud branch, a  
cloud-based money management service  
(first in the financial industry)

**OCT. 2017** Began opening of foreign currency  
savings/installment savings accounts via tablet  
branch (first in the financial industry)

## REVIEW OF OPERATION



### DIGITAL BANKING

#### Digital Strategy

Digital strategies focused on developing bank-wide capabilities to help NH Bank solidify its position as a frontrunner in digital banking. We were the first in the industry to realize an open API ‘NH Fintech Open Platform 2.0 Strategy.’ Our progress has already spurred not only other banks but also the financial industry with a common open banking platform. Through NH Fintech Open Platform, fintech companies have access to over 95 open APIs and transactions have increased 850% compared to a year earlier.

Last year also saw NH Bank assert itself as a first mover in the fintech market. We created the NH Cloud Branch, significant for being the first case fourth industrial revolution technologies were internalized in bank services. We also introduced the industry’s first fintech based intelligent tax service, NH Smart Bill.

We laid the groundwork to meet the demands of the fourth industrial revolution. This includes a newly established response organization, an agreement with Seoul National University’s Big Data Research Institute, and a new professional

training course. By applying diverse fourth industrial revolution technologies, we will actively pursue digital transformation to bring innovation to the existing operations and services.

We will use big data, blockchain, API, cloud and other core technologies to discover and expand new business models. We will expand market-friendly customized APIs to solidify NH Bank's standing as a pioneer in the market while simultaneously increasing the bank's lead over the competition. We will also strengthen cooperation with other industries, such as fintech companies, to discover convergence models that incorporate related industries and platforms.

#### Smart Banking Department

In 2017, NH Bank's e-banking customers (smart/internet users) reached 11.28 million. We had 6.59 million smart banking customers, representing a YoY net increase of 740,000 (12.5%). The non-face-to-face product sales balance linked to smart/internet banking increased by KRW 697.1 billion to KRW 5,115.5 billion. Thus, e-banking became the main channel for the majority of e-banking transactions through organic cooperation with the Smart Banking Center, the bank's non-face-to-face consulting service.

We also succeeded in providing customer-focused digital banking services through the 'e-banking upgrade project.' We launched a simplified authentication system using a 6-digit PIN, offered larger font sizes, and introduced other new services tailored for customers of all ages. New authentication services using PIN and biometrics were applied to simplify the 6-step transaction process into 4 steps. The change saved users the inconvenience of the old certificate based system and enhanced usability.

Along with simplified authentication, the bank's fraud detection system (FDS) prevented 341 cases of electronic banking accidents amounting to KRW 2.1 billion in 2017. Regular monitoring and continued analyses by transaction type resulted in a 42% YoY reduction in amount of e-banking accidents, which in turn saved the bank KRW 260 million in related annual insurance fee.

We will continue to upgrade our e-banking services and analyze the latest banking trends to improve non-face-to-face channel platforms and build a foundation for revenue generation. In terms of service, the bank will adopt a new authentication service incorporating fourth industrial revolution technologies and participate once again in the Korea Federation of Banks' efforts to build an integrated blockchain system for the banking industry to link blockchain authentication to e-banking services. AI and other new technologies will also be added to the mobile app so our banking services can set new trends in digital Banking.

We plan to offer customers comprehensive e-banking services through a single smart banking app that integrates the multiple apps with different functions for improved accessibility from a single point of contact.

#### AllOne Bank Business

AllOne Bank, NongHyup's representative mobile banking app offering a variety of benefits and conveniences, attracted 1 million customers in its first year with an active user rate of 76.7%. The release of AllOne Bank 2.0 in 2017 advanced the financial product market by offering increased convenience and expanded services. The app had the added effect of a more competitive non-face-to-face channel and a balance of KRW 5.2 trillion from product sales.

The goal for 2018 is to launch AllOne Bank 3.0 with AI based services and a platform that identifies more strongly with the holding company. The app will feature the unique advantages of NongHyup and aim to attract 2.5 million subscribers. As the financial product market continues to develop, we will also expand our non-face-to-face product lineup, improve the relevant processes, and strengthen marketing capabilities by integrating non-face-to-face marketing and customer services.

#### No. of e-finance customers



11.28 million

#### No. of NH smart banking customers



6.59 million

#### Non-face-to-face product sales balance



KRW 5,115.5 billion



## RETAIL BANKING

In retail banking, NH Bank is working hard to strengthen its support system for branches and to develop employees' capabilities in customer-focused marketing so that it is equipped to provide on-site response to the various retail marketing issues that occur in a rapidly changing financial environment.

Retail banking fulfilled its role as a stable source of funding, with the average balance of core deposits increasing by KRW 3.8 trillion. Household loans contributed to improving NH Bank's profitability as the balance grew by KRW 7.5 trillion thanks to extended sales of high margin products (jeonse (housing key money deposits), credit loans).

We also targeted primary transaction accounts, and was the top ranked bank when it came to the share of high margin core deposits among retail deposits. We expanded financial education for youths to promote a free semester system and emphasized a customer-focused marketing mindset among employees to facilitate mutual growth of the bank and its customers.

In 2018, we will continue pursuing balanced growth in the retail banking segment through the steady growth of retail deposits and household loans and by increasing our share of the National Housing Fund.

## PENSION WM

The newly formed Pension WM Department developed and marketed a variety of products designed to improve customers' returns, including funds, bancassurance and retirement pensions. Meanwhile, the bank's training programs promoted the development of WM experts. In funds, we proceeded to focus on strengthening the mid- to long-term profit base by promoting monthly installment style bancassurance. In retirement pensions, we carried out company-wide 'all-in' marketing as more subscribers qualified for individual retirement pensions. As a result, commission income reached KRW 167.4 billion.

In 2018, we will make fund recommendation based on the holding company's WM house view to raise customers' investment returns and collaborate on marketing the funds with branches whilst improving the follow-up process. With the introduction of a WM consulting center to the All 100 Platinum Team, we will begin conducting comprehensive wealth management, portfolio, and real estate consulting services to boost the value of VVIP customers' assets. We will also carry out marketing in cooperation with the Seoul 50 Plus Foundation in order to invigorate retirement finance. In the retirement pension sector, we will ensure a stable business foundation by increasing the accrued amount in registered accounts, pursuing new retirement pensions, and strengthening the returns on retirement pension products.

Retail core deposits  
(average balance)



KRW **36,820.0** billion

Household loan balance



KRW **94,049.4** billion

## NH CARD CIC

NH Card faced a difficult business environment characterized by a decrease in the number of visiting customers, fewer branches in the Seoul metropolitan area compared to other banks, and weakening concentration of the card industry. Nonetheless, we successfully brought in 1.21 million new credit card holders on the strength of on-site marketing and growth in the non-face-to-face channels.

We strengthened digital capabilities by forming a digital TF and two additional teams. We also upgraded the mobile app card Allone Pay for improved customer convenience, payment functions and supplementary services, and added the industry's first ATM withdrawal service to the card app. Furthermore, we released a total of 17 new products to fortify the product lineup which had been a major weakness. New products include six which were developed through strategic collaboration with Interpark, Bodyfriend, Dongbu Insurance, Amore Pacific, etc.

In 2017, NH Card usage came to KRW 89.0 trillion, representing a 10.4% increase and 11.2% market share that put NH Card in fourth place in the industry. Despite tough conditions such as the extended application to small-size merchant stores, NH Card realized its greatest ever gains in both gross revenue and pre-tax profit, enabling it to act as NH Bank's most effective profit center.

In 2018, NH Card's management goal is 'leaping into the top 3 card companies with marketing innovations and stronger profitability.' To this end, we will establish and focus all capabilities on thirteen core projects under four main strategies: marking innovations, higher profitability, foundation for future growth, and realization of NongHyup's philosophy.

## CORPORATE BANKING DEPARTMENT

In 2017, NH Bank promoted mutual growth with companies, the focal point of economic activities, with corporate loans that amounted to KRW 10.76 trillion for major corporations, KRW 50.55 trillion for SMEs, and KRW 27.58 trillion for small business owners. Long-term, we improved the corporate finance portfolio and established a healthy foundation for growth. In particular, capital funding for SMEs exceeded our initial target of KRW 2.3 trillion by KRW 2.82 trillion. We also strived to fulfill our social responsibility as a bank by financing SMEs and small business owners with insufficient security capacity in cooperation with Korea Credit Guarantee Fund (KODIT) and regional credit guarantee foundations.

Sales headquarters in each region established relationship manager (RM) systems to support on-site SME financing. In the Seoul metropolitan area, we worked to promote understanding of farming communities by encouraging urban-rural interactions, such as through customer appreciation events where we invited our corporate customers.

We also attracted 7,200 new corporate customers and 24,888 new SOHO customers to be selected '2017 Best in Corporate Finance' by Seoul Economic Daily.

In 2018, our pursuits will be directed at 'strengthening corporate finance capabilities and expanding the foundation for continued growth.' Based on a strategy of qualitative improvement, profit creation, and stronger marketing support, we will strive to fulfill our role in corporate finance by realizing win-win growth with SMEs and practicing socially responsible finance.

### Total card transaction volume



KRW **89.0** million

### Market share



**11.2%**

## AGRICULTURAL & FOOD FINANCE

We support farmers and agri-food companies through agricultural policy financing on behalf of the government. We are also making a greater effort to provide financial guidance through agri-finance consulting that aims to improve quality of farmers' lives and help agricultural companies succeed.

In 2017, NongHyup newly provided KRW 7,159.8 billion in agricultural policy financing (loan balance: KRW 18,766.2 billion). In particular, KRW 2,667.5 billion in new funding was granted for the comprehensive support of agricultural companies' farming activities. KRW 581.5 billion in new loans were granted to livestock farms for feed purchases and other expenditures.

We expanded loan financing for agri-food companies in other areas as well, including the production of agro and livestock items and food manufacturing and distribution companies. As a result, the loan balance increased by KRW 1,662.8 billion from the end of 2016 to KRW 19,318.8 billion. In addition, we established a KRW 20 billion PEF to finance SMEs in the agricultural sector and made new investments worth KRW 3 billion in 2017.

Last year also saw the release of Smart Farm Loan, a new loan product that promotes the widespread adoption of 'smart farm' practices incorporating ICT into farming facilities. The fund is part of our effort to raise farmers' household incomes and strengthen their competitiveness. We provided KRW 39.7 billion in such loans at a low 1% interest rate, not only for new 'smart farm' related construction and purchases at technologically advanced farms but also for renovations and working capital.

The goal for 2018 is to provide KRW 6.4 trillion in new agricultural policy loans and post KRW 1.3 trillion in net increase of loan balance for agri-food companies. To reach the goals, we will establish a new Young Farmers Smart Farm Loan to stimulate the agricultural/rural economy; carry out traveling agri-finance education programs; pursue institutional improvements to agricultural policy funds in response to changes in the agricultural

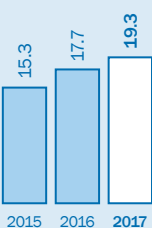
environment; strengthen capabilities to offer better financial guidance to farms receiving financing; develop venture consulting to expand agri-food company consulting services; and consistently increase investment volume through concentrated efforts to discover investment opportunities.

## PUBLIC SECTOR BANKING DEPARTMENT

Due to our professional expertise and stability in public finance, we have more deposits placed by local governments than any other bank in Korea. The Blue House, National Assembly, Government Complex, and most of the local governments make their deposits with NH Bank, which also acts as the primary transaction bank for government institutions. As the only Korean bank stationed in Government Complex buildings, we provide financial services to government employees in addition to managing funds for various ministries and public institutions.

In 2017, we redoubled efforts to reach profit targets through business strategies and marketing activities customized for ministries, local governments, public institutions, and other public finance customers. We will further diversify profit sources by managing local government deposits, managing money for institutional customers, marketing to public and institutional employees, extending loans in cooperation with local governments, and supporting public finance branches. In such ways, we will strive to achieve qualitative growth and reinstate public finance to its original prominence.

Loans to agri-food companies (balance)  
(unit: KRW trillion)



19.3

## INTERNATIONAL BANKING DEPT.

Foreign currency business volume in 2017 reached KRW 68.1 billion as the result of our focus on profitability and localized marketing. In particular, exchanges/remittance transactions increased 115.4% YoY through summer/winter promotions, marketing to grow strategic businesses, and seasonally opportune marketing. The Western Union's non-face-to-face automatic remittance service and a new NH-AGRI account-free remittance service, strengthened our foreign remittance competitiveness. The foreign exchange infrastructure was upgraded with the addition of a new foreign exchange help-desk, improved foreign exchange services by channel, and the creation of a new foreign exchange BPR system. Services became more convenient, especially with the expansion of agriculture and livestock related foreign remittance offices and the establishment of an image transmission system.

Corporate executives and bank employees participated in five Foreign Exchange Academies hosted by the sales divisions. There were also systematic programs to build expertise in foreign exchange operations, including professional education for Certified Foreign Exchange Specialists (CFES), on-the-job training, and 'master of foreign exchange' contest, which have produced some 250 employees with Certificates for Documentary Credit Specialists (CDCS) and some 3,000 CFESs.

The global financial market is expected to become more volatile and uncertain in 2018, but we will strengthen and continue to grow our foreign exchange business. To this end, we plan to first, strengthen strategic marketing to stimulate the foreign exchange business; second, build a foundation for continued growth by pursuing new businesses and services; and third, strengthen support by extending customized training and on-site support.

## TRUSTS

The trust business achieved significantly noteworthy growth by focusing capabilities on continuing to offer various customized products, expanding business volume, and improving profitability.

The total AUM balance in 2017 was KRW 22,883.4 billion, which represents a KRW 2,274.8 billion (-9.0%) decrease from the end of 2016 but a KRW 683.1 billion (2.4%) increase based on the average balance. In particular, focusing on ELTs brought in KRW 2,734.9 billion in new ELT sales for a 57.7% growth. On the strength of this and on the basis of balanced growth in all business areas, income from trusts reached KRW 56.5 billion for a YoY increase of KRW 16.1 billion (39.8%).

We launched the NH ALL-100 Plan Leaving Love Trust to satisfy customers' diverse needs and improve product competitiveness, allowing us to prepare for an aging population and the enforcement of trust related laws. With the release of a remodeled version of a customized special money-in-trust, we are also making every effort to diversify sales methods and provide customers with stable and high returns

In 2018, we will further solidify NH Bank's standing with regards to core competencies. We will nurture certified investment managers and real estate trust managers to strengthen asset management capabilities. We will secure certified derivatives investment advisors at sales branches to improve sales capabilities and eliminate incomplete sales. In doing so, we will continue fostering trust specialists to offer professionalized and systematic comprehensive asset management services as well as exclusive products that meet customer needs.

Total foreign exchange  
transaction volume



USD **68.1** billion

Foreign exchange and  
remittance volume



**115.4%**



## INVESTMENT FINANCE

Our investment finance business faithfully fulfilled its role as a key source of profit with 2017 operating revenue of KRW 178.6 billion. The amount includes fees for arranging and advising on housing association projects, fees for arranging financing for M&A acquisition and infrastructure projects, and dividend income on securities.

In order to diversify our asset portfolio in real estate and securitization, we actively pursued securitization of receivables of companies with high credit ratings, thus establishing the groundwork for continued transactions. We also expanded the portfolio by shifting away from real estate PF centered on residential projects in favor of logistics projects, purchase of physical assets, and projects that also include operation of facilities for income streams.

Fees from a total of 38 financing arrangements created KRW 28 billion in fees. Although the launch of mega investment banks led to intense competition between financial institutions, our investment finance's market recognition advanced to a higher level thanks to successful arrangements for large-scale real estate, infrastructure and M&A deals, including the Dunchon Jugong Housing Redevelopment Project, Anyang Deokhyun Housing Redevelopment Project, Seobu Naeruk (Inland) Expressway, and Coway acquisition financing.

External factors like growing protectionism in the United States and rising global interest rates are adding to the uncertainty in 2018. Nonetheless, we will continue to grow by selecting projects with stability and profitability, such as the renewal of standard PF loan agreements and secured loans with Korea Housing & Urban Guarantee Corporation (HUG) redevelopment guarantees centered in Seoul and the metropolitan area. Our plan is to build a foundation for sustainable growth in investment finance through mezzanine investments, securitization of credit card receivables, and continued discovery of new growth engines like fuel cells.

## RISK MANAGEMENT

We have a Risk Management Department that oversees the systematic management of all major risks that may arise during the bank's business activities. This includes identifying, measuring, monitoring, controlling, and reporting on said risks. The department plays a key role in enhancing the bank's health and stability for sustainable growth. It provides impact analysis pertaining to regulatory capital, internal capital, and liquidity ratio to the department in charge of devising business plans, so that these plans take risks into consideration. The department sets annual risk limits to ensure capital adequacy and capital efficiency and based on those limits, manages capital adequacy. Risk management also entails conducting impact analyses for different crisis scenarios and implementing prepared countermeasures in a crisis.

Thanks to multifaceted and professional risk management, NH Bank obtained the second grade (good) rating in the Pillar II risk assessment, one above our previous rating. This means that the supervisory authorities inspected the bank's overall risk levels and concluded that our risk management capabilities had advanced to the next level. The achievement is the result of instituting a new framework for preemptive risk management that features a checklist for predicting risks, dashboard for managing risk limits, accurate understanding of assets, and an early warning system to catch signs of delinquency in advance.

Instability in the financial market and real economy should persist in 2018. Tighter supervisory regulations and more intense competition between banks are also expected. Our goal this year is to 'build a foundation for sustainable growth through enhanced risk management.' To that end, we will closely monitor key risk factors through the risk management system, which has been enhanced in response to potential risk factors. We will also lay the groundwork for systematic risk management in preparation for changes in the financial environment and supervisory regulations.

Financing arrangement



38 deals,  
KRW 28.0 billion

## CONSUMER PROTECTION

In order to protect the customers' rights, we introduce and revise practices that reflect our customers' opinions and constantly strive to earn our customers' trust. In 2017, we analyzed services for financially vulnerable customers, based on which we adopted Voice Eye, a voice activated bar code to make financial transactions easier for visually impaired customers. We sought to reinforce our customers' rights in numerous other ways as well. We protected their assets through various financial fraud prevention activities and prevented customer damages to the tune of KRW 11.9 billion last year. Employees received customer satisfaction training to improve the quality of service, enabling us to practice our warm-hearted brand of finance. We identified and carried out five key tasks intended to help us prevent or respond quickly to complaints from customers.

As the business environment changes, we will instigate reforms to help a consumer-focused culture take root. Stronger management and improved processes will allow us to eliminate incomplete sales and achieve complete sales. Disability awareness training for all employees will restore their protective attitude toward financially vulnerable customers and pave the way to greater customer satisfaction. We will minimize damages from financial fraud by paying closer attention to customers' activities. For example, we adopted a Q&A system that involves asking customers to confirm deposits. We will also endeavor to raise employees' awareness of complaint prevention using statistics and analyses so we can avoid the reoccurrence of similar cases. We will modify and strengthen various other financial consumer protection practices to instill the importance of consumer protection within NH Bank.

## GLOBAL BUSINESS

The Global Business Department is the control tower for global expansion strategy, management and sustenance. In addition to opening new branches overseas, we expand our global network by establishing or acquiring local subsidiaries.

NH Bank possesses a global network that spans across five countries comprising five branches, two representative offices, and one wholly-owned local subsidiary. We also have our employees stationed in two other countries.

With the initiation of the 2015 New Global Business Strategy, NH Bank has endeavored not only in opening new branches, but also in finding diverse entry strategies such as acquiring or establishing local subsidiaries and making equity investments. In 2017, we started operating our Hanoi Branch and NongHyup Finance Myanmar, which specializes in microfinance.

NongHyup Finance Myanmar acquired a license more quickly than any other local subsidiary of a foreign financial institution operating in the country. During 2017, it successfully opened seven new branches and the number of customers exceeded 20,000.

In addition, the Hanoi Branch is quickly expanding the scope of transactions available to Korean companies in Vietnam. Hanoi Branch is building a multifaceted business foundation with efforts that include operating surplus asset management in cooperation with local financial institutions as well as developing services like NH-AGRI account-free remittance and the Vietnamese version of All One Bank.

As a second mover in the global stage, we are using our unique capabilities and strengths to differentiate our business. We established the Southeast Asia Agri-Finance Super Grid Strategy, a specialized business model for overseas expansion. We will combine our core competency in agri-finance, which resolved the problem of chronic high interest loans for farmers, with our pragmatic knowhow, which includes driving Korea's agricultural/rural progress with agricultural financing, and creating 'production/distribution/sales' system. Using these capabilities, we will form



partnerships with the government and private companies, develop various joint initiatives, and ultimately plant another NongHyup/agricultural cooperative in countries where we have a foothold.

NH Bank will focus on stabilizing business in overseas branches and expanding the local customer base through organic cooperation between departments in charge of internal control, credit review, marketing, and CSR activities. We will implement and evaluate the Local Experts System, NH Global MBA Program, online/group job training, etc. as a way of fostering talented employees with theoretical and practical capabilities in order to drive our global expansion forward.

We also continue to keep an eye on widening our network into potential growth areas. In the first half of the year, we will complete acquisition of a microfinance institution in Cambodia and begin operations. As an agricultural country without secondary industries,

Cambodia has a markedly low usage rate for formal financial systems, making the country a promising market for utilizing NH Bank's agri-finance capabilities. Meanwhile, opening a branch in India within the year is next in the pipeline. The India branch will work closely with local cooperatives to create synergy not only in finance but also with NongHyup Agribusiness Group.

Lastly, we will discover and develop diverse new business models to strengthen our base in overseas locations and secure new profit sources. We will thoroughly review the conditions and feasibility for each country before selecting the optimal business model. We will then find ways to team up with the local government, related agencies, and other business partners that inspire public confidence. Our purpose is not to simply seek out short-term businesses but to establish NH Bank as a long-term partner in the host country's economic progress.

#### Global Network



5 Countries

#### No. of Business sites



11

#### No. of Employees



163

#### Global Network

(Feb. 2018)

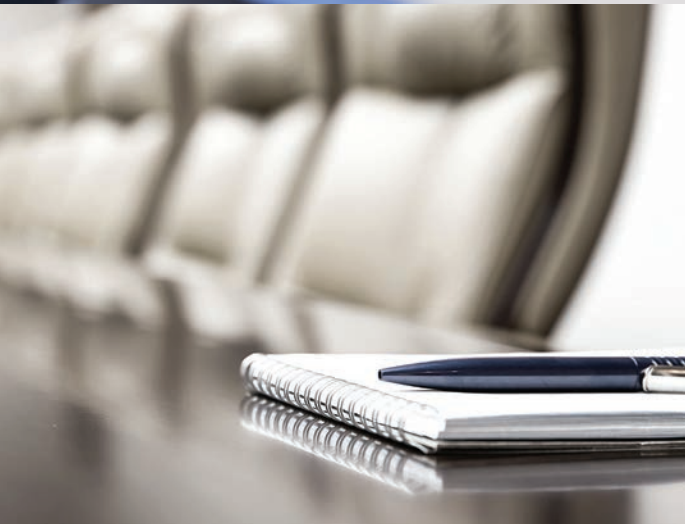
	United States	Vietnam	Myanmar	China	India
Type	New York Branch	Hanoi Branch	Local Subsidiary	Beijing Office	New Delhi Office
Entry Date	August 2013	December 2016	December 2016	September 2013	June 2016
No. of Business Sites	1	1	7	1	1
Main Business Model	Wholesale financing, import/export financing	Wholesale and retail financing, remittance relay	Micro Finance	Preparation for establishment of sales entity	Preparations for the establishment of branches
No. of Employees	17	18	120	5	3



# NH LIFE INSURANCE

NH Life Insurance embarked on a new journey as a private insurer on March 3, 2012 with 50 years of experience in the insurance industry, over 3 million customers, and a 5,700 strong nationwide sales network. Based on years of customer experience in mutual-aid projects and a sales network that reaches every corner of the country, we are committed to providing Koreans with insurance services and peace of mind.

Our comprehensive and inclusive services offer financial stability and reliable plans for old age to all Koreans, and we help bring real profits to farmers and management stability to farms in our capacity as a financial company that cares about people. As we continue to grow, we pledge to stand by our customers and think from their perspective to create a virtuous cycle of value that benefits our customers, company, and society.



## VISION



**NH Life Insurance,  
No. 1 in Customer Care and Appreciation**

No. 1 insurance company, reliable facilitator  
helping customers prepare for the future with the best services.



**Focus on  
Customers**

- Impressing customers with caring service
- Ethics & compliance in customer service



**Performance-  
Driven Action**

- Motivated to be the best
- Professional self-development



**Pursuit of  
Innovation**

- Open-minded, creative thinking
- Challenging spirit seeking change



**Mutual  
Trust**

- Mutual respect through communication and cooperation
- Honesty and integrity based on sense of responsibility

## FINANCIAL HIGHLIGHTS (CONSOLIDATED)

(unit: KRW 100 million, %)

		FY2017	FY2016
BS	Total assets	637,022	617,570
	Total liabilities	598,354	579,341
	Total equity	38,668	38,229
IS	Operating income	1,716	2,108
	Pre-tax income	1,122	2,015
	Net income	854	1,545
	Net income before agricultural assistance expenses	1,253	1,781
Business volume (Cumulative)	Invested assets	612,881	599,169
	Premium income	81,380	94,850
	Initial premium	13,362	24,309
Major ratios	RBC ratio	217.92	186.46
	New business ratio	14.28	17.20
	Expense ratio	7.35	6.66
	Invested assets/total assets ratio	96.21	97.11
	Investment yield	3.16	3.32

CEO  
SEO KI-BONG

## CEO MESSAGE

When NH Life Insurance was launched in March 2012 as an insurer serving all Koreans, the company already had over half a century of experience in mutual-aid projects. As an insurer with a cooperative-based foundation, we create a virtuous cycle of value for our customers, company, and society.

NH Life Insurance was founded with wholly domestic funds and has achieved stable growth despite the challenges of the business environment at home and abroad. We look after and grow our customers' valuable assets using our risk management expertise and asset management capabilities. Moreover, we were the first insurance company to adopt a cap on loan interest rates and offer microfinancing. We also provide favorable policy insurance products for farmers and are actively engaged in fulfilling our corporate social responsibility through initiatives like our traveling medical care for agricultural/rural areas.

Going forward, we will make every effort so our customers can rely on us for helpful products and fast, convenient insurance services. We also vow to continue growing into an insurance company that contributes to the social good.

I ask for your steadfast support and interest as we take a new leap forward.

Thank you.

## AT A GLANCE

### SHIFT TO RISK-FOCUSED MANAGEMENT

NH Life Insurance subdivides management measures by risk in order to maintain the RBC ratio, which represents the financial soundness of insurance companies, at appropriate levels. We revised the guaranteed minimum interest rate in January 2017 to accommodate the trend of low interest rates and set different credit exposure limits depending on the department. Previously, death benefits in savings-type insurance meant the total sum of accumulated savings and death benefits, but we have clarified the definition of death benefits to reduce risks.

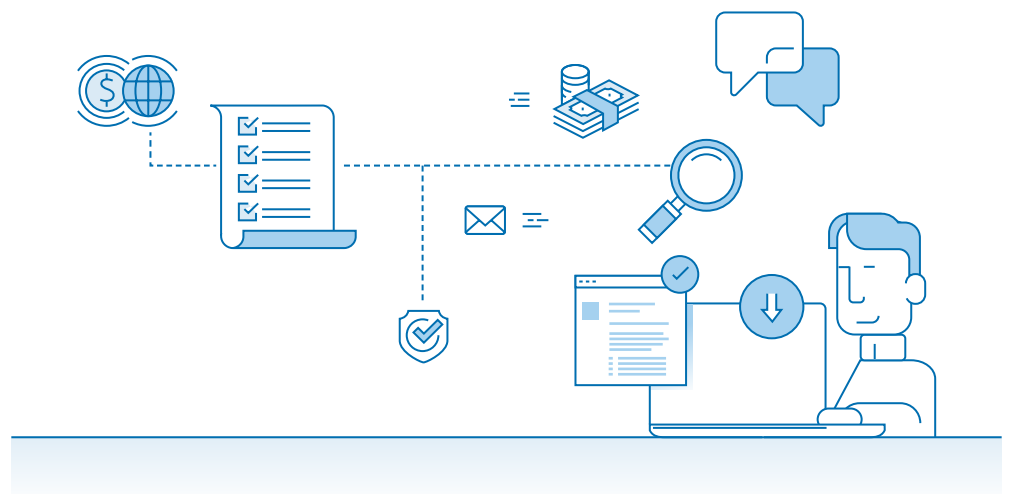
We are also establishing a preemptive response system in preparation for the implementation of IFRS17. In April 2017, we sought capital expansion by issuing KRW 500 billion worth of unsecured subordinated bonds and we are conducting financial impact analyses through our IFRS preparation team. We set up a permanent monitoring system capable of responding immediately to changes in investment conditions, and also are working to expand the scope of periodic monitoring and diversify inspection items

### IMPROVING PROFITABILITY AND BUILDING A LONG-TERM PROFIT BASE

With the goal of structural improvement, NH Life Insurance concentrated on promoting protection-type policies and expanded the supply of such products (products with new concepts, mid to low price products with living benefits, etc.). We released whole life insurance with low cancellation refunds, cancer insurance with insurance fee refunds, and three other new products that stood apart from existing products. We also upgraded our profit structure based on mortality margins for a more stable profit base and are managing risks at each step, from product development to insurance payment.

We are also looking to establish a long-term profit foundation by diversifying invested assets. In addition to efforts to raise operating income through the development of new investment products, we are exploring multiple avenues to find new overseas investment vehicles with guaranteed stability. We are also building a sustainable profit base by extending our investment in hybrid bonds, option embedded bonds, and other contingent convertible bonds.

What's more, we are raising investment profits by increasing the weighting of alternative assets and loans. We plan to stimulate personal lending by systematically improving and publicizing insurance policy loans. We are also improving profitability by expanding non-face-to-face channels, strengthening marketing activities, and more.



## OVERVIEW

As uncertainty and low growth trends continue to affect the business environment in Korea and worldwide, we have secured competitiveness for stable profit generation by pursuing key tasks. These include the establishment of a sound foundation for profit creation, competitiveness in asset management, structural reform of business infrastructure, and stronger basis for future competitiveness.

Consequently, the sales share of protection-type insurance reached 50% for the first time since our inception, while premium income came to KRW 8 trillion and total assets to KRW 63.7 trillion. We

sought to improve earning power by growing underwriting profits through strengthening the product lineup and marketing of protection-type plans. We also adopted separate management processes for each level of the value chain to increase gains from mortality margins.

We obtained exclusive rights for the first time after releasing Agri-love NH Guarantee Insurance in June 2017. We obtained our second exclusive rights with the release of Happier NH Premium Pension Insurance in November, securing a competitive product lineup in the process.

## AWARDS



**MAY. 2017** Selected as 'excellent call center,' Korea Management Association's Korean Service Quality Index (KSQI)

**OCT. 2017** CSR Innovation Award, the 22nd Korea Herald Business Insurance Awards

**NOV. 2017** Data Quality Award, 2017 K-Data Awards (Existing DB - group section)

**DEC. 2017** Life Insurer of the Year, 2017 Mael Business Newspaper Korean Financial Awards (Seo Ki-bong, CEO)

## REVIEW OF OPERATION

### CPC STRATEGY

We formulated a mid-term CPC strategy to pursue growth centered on profitability and efficiency. In order to achieve balanced growth of agricultural/livestock cooperatives and new channels, we used our end-of-sales management system to increase efficiency and productivity. This included monitoring of policy persistency rates and supporting the development of sales employees' core competencies. To increase sales personnel's interest in and marketing capabilities for protection-type insurance, we continually reinforced our product lineup with new offerings and supported early promotion of the new

products. We also carried out on-site training and customized education programs. We also built a sales system based on customer-focused services through efforts that included launching NH Customer Happiness Service and expanding FA services. We launched online insurance to nurture future growth drivers using fintech and diversified customer service channels through the All One Bank platform.





Our mid- to long-term CPC strategy is only the beginning. As we prepare for the changes brought on by the adoption of IFRS17 and KICS in 2018, we will expand our customer base through strategic sales focused on protection-type products and development of strategic markets and boost our sales organization's strength to pursue sustainable growth centered on profitability and efficiency.

### CUSTOMER SUPPORT

NH Life Insurance always strives to provide our 3 million customers with improved insurance transaction services and to instill a customer-focused management culture.

We engage in varied consciousness-raising activities related to customer service. Employees from our CEO and board members on down receive call center experience training, and we have an official customer happiness charter as well as projects like 'Employee Morning Greeting Campaign' and 'NH Customer Happiness Share a Plant Campaign.' Attesting to our commitment to high-quality service, insurance payments are made within three business days for 99.9% of filed claims.

We will foster an organizational culture that prioritizes customer happiness by expanding participation in CS management and build an operational foundation capable of responding to the fourth industrial revolution by adopting a smart call center. Moreover, we will work even harder to live up to standards worthy of a company

that has been honored for its excellent call center by the Korea Management Association's Korean Service Quality Index for three years running.

### PRODUCT DEVELOPMENT

Our priority is to improve profitability through more competitive products and stimulate operations at sales points.

We expanded our lineup of protection-type plans; concentrated distribution on whole life insurance and CI products, which contribute significantly to profits; and refined and intensified follow-up monitoring and profit/loss analyses. We not only developed products that earned us the company's first exclusive rights, but also increased our market share through insurance plans with payback and those with low cancellation rates, and products customized for the sales conditions of different channels.

We will continue to carry out a strategy focused on diversifying the product lineup and improving profitability. An expanded lineup will help increase sales of the lucrative protection-type insurance as we continue to supply exclusive products that reflect the unique characteristics of different channels. We also developed products based on new concepts with stronger marketing potential, improved products' functions, and offered non-price services (female-only services, diabetes care, etc.) to improve all-around competitiveness.

## AGRICULTURE/LIVESTOCK COOPERATIVES

NH Life Insurance helped agricultural/livestock cooperatives raise revenues through a series of four campaigns in 2017. By holding special monthly campaigns and encouraging employees of agricultural/livestock cooperatives to take an active interest in life insurance, we helped raise non-interest income for the cooperatives and improved our own results as well. We also provided customized training programs, marketing materials tailored for on-site needs, and forms of operational support to stimulate agricultural/livestock cooperatives' insurance business. We also increased promotional activities and expanded the registration base for Farmers' Safety and Accident Insurance as part of our drive to provide a stronger safety net for farmers.

With our goal of higher revenues and progress for agricultural/livestock cooperatives, we will continue campaigns promoting life insurance sales to stimulate the agricultural/livestock cooperatives' life insurance business, thus increasing their non-interest income, and support the sustainable growth of shared channels in a variety of ways. We will also promote Farmers' Safety and Accident Insurance more actively so we can function as farmers' safety net.

## DEVELOPMENT OF NEW CHANNELS

NH Life Insurance has an office in charge of developing new business channels. The office focused on both external and internal growth in 2017. Having recruited outside organizations in Seoul, Busan, and other major cities, it succeeded in achieving a 20% YoY growth in FC enrollment and available sales personnel. It also worked on closing branches with weak FC channels and integrating office spaces for inefficient branches in the Seoul metropolitan area.

2018 will mark 'year one' of our drive to reach short-term BEP in the new channels development office. Our ultimate goal is to establish sustainable, stable growth channels. To that end, we will raise

renewal premiums by making FC channel branches more efficient and upgrading maintenance/collection management methods. We will also strive to maintain the trend of rising loading profits of DM channels from KRW 1.6 billion in 2016 and KRW 2.7 billion in 2017.

## ALLIANCES & PARTNERSHIPS

There are two departments dedicated to alliances and partnerships: the Bancassurance Department in charge of bancassurance agencies and the Agency Marketing (AM) Department in charge of general agencies. As of the end of 2017, NH Life Insurance had a partnership with 13 bancassurance agencies and 125 general agencies. In 2017, they brought in KRW 16.5 billion in monthly initial premiums and KRW 305.0 billion in single premiums. In particular, AM channels brought in KRW 6.2 billion in monthly initial premium sales, representing a 33% YoY growth.

Our goal for 2018 is to raise the bancassurance channels' monthly initial premiums by more than 30% YoY by expanding partnerships and improving sales channels. We are also aiming for over 10% growth in the AM channels' protection-type monthly initial premiums. To do this, we will maximize the growth of small- and medium-sized general agencies and improve results nationwide so we can promote sales of protection-type policies.

## IT

Our 2017 IT strategy focused on upgrading the IT operating system to increase efficiency and reduce expenses and on strengthening efforts to prevent system failures. We successfully carried out nine IT projects, including the construction of an online insurance system.

In 2018, we will strengthen the support system to increase satisfactions at point of sales and improve the IT operating system to decrease expenses and raise efficiency. We will also focus on maintaining a stable, efficient IT infrastructure and enhancing the IT management system for higher quality IT.

Monthly initial premium for protection-type insurance



KRW 6.2 billion

## ASSET MANAGEMENT

NH Life Insurance's asset management covers securities like stocks and bonds, loans like household and corporate loans, domestic and foreign alternative investments, and more. The Asset Management Division mainly concentrates on domestic and overseas marketable securities like stocks and bonds.

As of the end of 2017, NH Life Insurance had KRW 61 trillion in invested assets, the fourth largest in the domestic life insurance industry. The Asset Management Division manages KRW 49.5 trillion or 81.3% of the total. Its asset portfolio mostly comprises bonds with the exception of approximately KRW 800 billion in domestic and foreign stocks. The bonds give us the advantage of stability, but we have recently turned our attention to increasing returns through asset diversification. The Asset Management Division performs a variety of functions to help the company reach its business goals. It sets and adjusts the target allocations of the asset portfolio for optimal results based on mid- to long-term strategic and monthly tactical allocations. It also holds monthly meetings to analyze performance results to review and find ways to improve asset management strategies.

With the forthcoming adoption of IFRS17 and other new accounting standards, the insurance industry has been compelled to make many changes. We too will prepare for new accounting standards by looking for appropriate response measures and establishing asset allocation strategies accordingly. Our plan for 2018 is to continue growing NH Life Insurance's assets to achieve our goal of advancing the investment process, strengthening professional competencies, and building a foundation for future competitiveness

## INVESTMENT FINANCE

NH Life Insurance is committed to protecting assets and increasing returns for our customers, and we are always looking for new investment markets to diversify our portfolio. We have an Investment Finance Division which is in charge of managing domestic and foreign alternative investments and loans. The division also helps NH Life Insurance look beyond traditional investment methods to expand the scope of investments to include real estate development PF, operational real estate, M&A, SOC, and more.

As of the end of 2017, the Investment Finance Division managed assets of approximately KRW 11.3 trillion comprising KRW 5.9 trillion in domestic alternative investments, KRW 4.3 trillion in loans, and KRW 1.1 trillion in foreign alternative investments. Thanks to the expanded scope of alternative assets and portfolio diversification, we are Korea's leading insurance company in alternative investment.

We expect many changes to the financial market at home and abroad in 2018, including interest rate hikes, IFRS changes, and real estate regulations. However, we are ready to respond proactively with improvements to the investment finance business process and diversification of domestic and foreign alternative investments geared toward stability and profitability.

AUM



KRW 61 trillion

Domestic alternative investments



KRW 5.9 trillion

# NH PROPERTY & CASUALTY INSURANCE

Following the reorganization of NongHyup's financial businesses, NH Property & Casualty Insurance was reborn on March 2, 2012 as a non-life insurance company to deliver greater value and happiness to clients.

Our foremost goal is to enhance the quality of lives of our customers. To this end, we will harness 50 years' of experience to realize our vision of a 'premium property & casualty insurance company committed to the happiness of customers.' In addition to devoting efforts to expand coverage for customers' health and property, and promote the development of agricultural policy insurance, we will strive to ensure, with compassionate hearts, that all customers receive the full benefits of insurance.



## VISION

### To become an insurance industry leader by realizing core values

NH Property & Casualty Insurance will embrace change and innovation to overcome limits.  
With an indomitable will and tireless efforts, we will pave a path to become the best and emerge as a premium non-life insurance company that is committed to transparent and customer-oriented management.

#### Core Value

We are amassing the skills needed to make another leap forward by executing strategic tasks that are aligned with our core value



#### Customer-first

We will act first to understand the needs of our customers and pursue customer-oriented management



#### Aiming for No.1

We will lead the industry with differentiated strategies and competitive products



#### Challenge/Change

We will proactively respond to changes in order to lead innovation



#### Performance-oriented

We will prioritize creative thinking and reasonable operations to realize maximum results



#### Transparency

We will encourage communication and harmony to foster an open corporate culture

## FINANCIAL HIGHLIGHTS

(unit: KRW 100 million, %)

		FY2017	FY2016
BS	Total assets	94,280	82,555
	Total liabilities	87,611	76,277
	Total equity	6,669	6,278
IS	Operating income	369	481
	Pre-tax income	349	463
	Net income	265	353
	Net income before agricultural assistance expenses	275	364
Business volume (Cumulative)	Invested assets	82,183	73,124
	Direct premiums written	31,429	29,710
	Initial premium	10,565	10,059
Major ratios	RBC ratio	190.59	188.81
	Loss ratio	91.09	90.09
	Expense ratio	15.84	15.77
	Invested assets/total assets ratio	87.17	88.58
	Investment yield	3.01	3.17



# NH PROPERTY & CASUALTY INSURANCE

CEO  
OH BYEONG-GWAN



## CEO MESSAGE

NH Property & Insurance was relaunched in March 2012 as a non-life insurance company after serving the agricultural community for 50 years as a mutual aid society. We reinforced our insurance capacities to deliver more benefits to customers.

Our signature brand 'Hearim' which means 'consideration', encompasses our vision of 'prioritizing customers' needs and doing our utmost from the customers' point of view.' This vision has continued to guide us as we realize customer-oriented management that places the greatest importance on increasing customers' value.

We are actively engaged in government-offered policy insurances including those to cover crop and livestock disasters, farming equipment and natural disasters. We also fulfill our social responsibility with various volunteering activities for isolated neighbors within our communities, in addition to carrying out campaigns such as 'One Company, One Village,' 'Building Another Town, promoting livestock safety checks, and preventing farming equipment accidents and fires at farms and low-income homes.

Our customer-oriented management has also been recognized with the awarding of the highest grade in the Financial Supervisory Services' rating of consumer complaints, as well as CCM (Consumer-Center Management) certification by the Korea Fair Trade Commission. Notably, we also received an A- rating from A.M. Best, a global credit rating organization with a focus on the insurance industry.

Having begun as a company built on a cooperative that stresses the importance of mutual aid, NH Property & Casualty Insurance is committed to continue serving farmers and customers by providing them with improved products and services, and to grow alongside customers by practicing sound management practices.

I ask for your continued interest and support as we ready for the next leap forward.

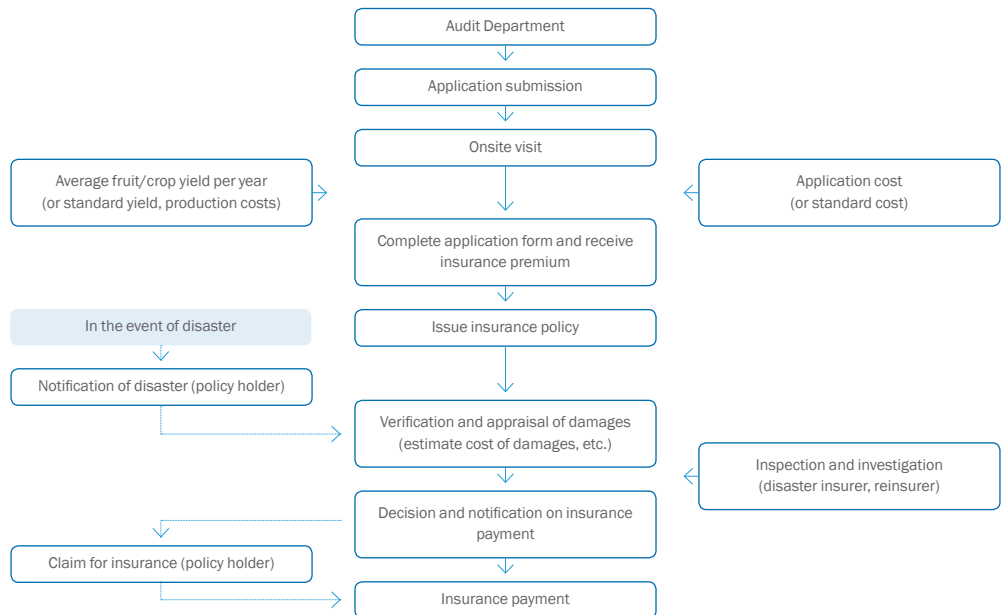
Thank you.

## AT A GLANCE

## CROP DISASTER INSURANCE

Crop disaster insurance products offer protection against damages from natural disasters, blight, harmful insects, birds, mammals, and fire which can all occur when growing crop. We began with crop disaster insurance for apples and pears in 2001, expanding the range of crops each year. In 2018, the insurance is available for 57 items and it has become an important safety net in farm management. The primary authority, Ministry of Agriculture, Food and Rural Affairs, oversees the operations and budget related to crop disaster insurance. Its affiliate Agricultural Policy Insurance & Finance Services is responsible for inspections and management, while NH Property & Casualty Insurance is in charge of product development and sales. Crop disaster insurance is only available at NH Property & Casualty Insurance and no other domestic insurance company.

## &lt;Crop Disaster Insurance Procedure&gt;

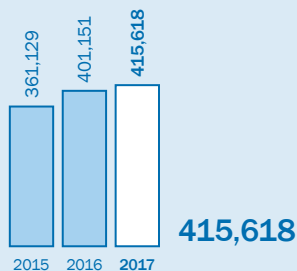


The crop insurance accounts for over 10% of the total direct premiums written since 2016, and it is now taking root as an important area of business for us. In 2017, of the 196,000 farms with crop disaster insurance policies, some 28,000 farms struck by natural disasters received KRW 287.3 billion in insurance payments, giving them a foothold on recovery. The current penetration rate of 30.1% is more than twice the 13.7% rate in 2012 and represents a rapid rise even compared to the 44% rate in Japan which adopted crop disaster insurance in 1943. By item, the rates are particularly high for apples (62.4%) and pears (70.8%).

At NH Property & Casualty Insurance, we are continuing our efforts to lead the market. We are expanding related organizations and professional human resources to grow and expand crop disaster insurance, imposing a cap on premiums, offering discounts for accident-free farms, expanding items that can be included, and otherwise listening to the voices coming from the farms as well as improving the way crop disaster insurance is operated.

## Direct Premiums Written for Crop Insurance by Year

(unit: KRW million)



## OVERVIEW

### OVERVIEW

NH Property & Insurance set four strategic management directions for 2017: building a foundation for win-win development with agricultural and livestock cooperatives; pursuing sustainable growth through greater profitability; incorporating advanced management systems; and improving the capability to provide actual benefits for farmers. To this end, we managed assets with effective asset allocation and flexible response to market conditions, continued expansion of new channels such as GA channels to secure greater profitability, and improved insurance operations by shifting more toward protection-type products.

We received an 'A-' rating from A.M. Best in 2017 for the third consecutive year and maintained the same rating as major general insurers. To expand into new sales channels, we opened online and mobile direct malls, which respectively received the Web Standard Innovation Award and Smart App Award from Web Award Korea. In January 2017, we launched Disaster Liability Insurance, a compulsory insurance following the Framework

Act on Disaster and Safety Management. The new product resulted in KRW 2.7 billion in revenues and No.1 market share. The penetration rate for crop disaster insurance reached a new high of 30% in terms of area covered due to an increase in insurance for rice and horticultural facilities. We also newly installed a Crop Disaster Insurance Council to gather opinions from stakeholders such as farming/livestock cooperatives and farmers. Their opinions were reflected in product development and going forward, will provide a valuable resource in our continued efforts to improve actual benefits for farmers and stabilize farming income.

## AWARDS



**JAN. 2017** 2017 edaily Korea  
Financial Industry Awards (General Insurance  
Association of Korea Chairman's Award)

**JUN. 2017** 2017 Seoul Economic Daily  
Insurance Awards (Product Sector)

**OCT. 2017** 22<sup>nd</sup> Herald Business  
News Insurance Awards  
(Product Development Innovation)

**DEC. 2017** 2017 Smart App Awards,  
Insurance Sector

**DEC. 2017** 2017 Web Award Korea,  
Web Standard Innovation Award  
(Korea Internet & Security Agency  
President Award)

**DEC. 2017** 2017 Great Place to Work Korea  
Awards (Mutual Prosperity)



## REVIEW OF OPERATION

### ASSET MANAGEMENT

We implemented methodical operations through an internal consultative body in 2017. We proactively responded to systematic changes by taking steps to advance the asset management process and constructed a preemptive portfolio. Asset duration was gradually expanded in preparation for mark-to-market valuation of liabilities with the introduction of IFRS17. We also readied countermeasures for mark-to-market valuation of loan assets related to the adoption of K-ICS (K-Insurance Capital Standard), a new solvency standard.

In 2018, we plan to form a portfolio centered on relatively high-margin assets to fortify our mid-to long-term earnings, and to improve the mid-to long-term profitability of our existing assets through strategic rebalancing.

### MARKETING STRATEGY

Following the adoption of a sales strategy focused on long-term protection-type insurance to improve profitability, such products accounted for 75.9% of the monthly initial premium equivalent, up 16.4%p YoY.

In 2018, we plan to continue to focus on increasing sales of protection-type insurance by developing and distributing related products and improving our sales capabilities. Additionally, with growing importance placed on the 4th industrial revolution and fintech, we created a team dedicated to dealing with their impact on the market environment. This will enable us to secure additional growth momentum by taking advantage of fintech and big data.

### AGRICULTURAL AND LIVESTOCK COOPERATIVES

Sales of long-term protection-type insurance plans rose 11.7% YoY in 2017 largely driven by our agricultural and livestock cooperative channels. This was especially notable when compared to the average 1.7% growth rate in protection-type products posted by the non-life insurance industry. The 13-month retention rate for agricultural and livestock cooperative channels stood at 85.8%, which was 9.2%p higher than the industry average of 72.4%. Furthermore, our risk loss ratio for the same channels was 66.9%, significantly lower than the industry average of 83.2%.

In 2018, we plan to reinforce sales activities to increase competitiveness in the agricultural and livestock cooperative channels, increase bancassurance sales coverage area by pursuing new alliances with other banks, and expand our sales foundation by actively responding to mobile bancassurance.

### INSTITUTIONAL BUSINESS

We ventured into new markets in 2017 through financial group CIB and commercial bank SOC consultative bodies, and by competing in efforts to win contracts from public corporations. Based on these efforts, we achieved a 9.1% growth YoY.

We plan to concentrate on delving into new markets in 2018, such as those related to new and renewable energy, 4th industrial revolution and residual value insurance. We will also increase synergy-generating projects linked to NH Financial Group.

Portion of monthly initial premium equivalent



75.9%

Long-term protection-type insurance sales growth



11.7%



# NH INVESTMENT & SECURITIES

NH Investment & Securities was launched on December 31, 2014 through the merger between Woori Securities and NH NongHyup Securities. Since then we have consistently been striving to establish a customer-oriented, sustainable growth model. We revealed a comprehensive vision and quickly stabilized our organization through the integration of the two entities and established an advanced corporate culture. Following the merger, NH Investment & Securities has been playing a central role in the growth and development of Korea's capital market and is leading the domestic securities industry. With unrivalled competitiveness in all business areas, we are providing customers with creative financial services and are readying for a new leap forward by generating synergy with NH Financial Group.

NH Investment & Securities will maintain a sustainable growth model that is centered on customers and maintain competitiveness in dealing with institutional clients to further solidify our standing as Korea's premier securities firm.

## VISION



Vision

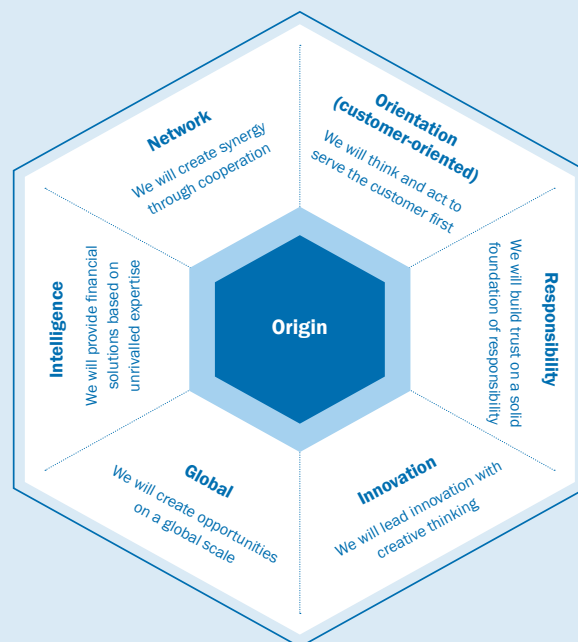
We are aiming for beyond No.1:  
**Beyond the First**

Creating new history in the capital market:  
**New History**

Korea's representative financial investment company:  
**We are NHIS**



Key Values



## FINANCIAL HIGHLIGHTS (CONSOLIDATED)

(unit: KRW 100 million, %)

		FY2017	FY2016
BS	Total assets	438,927	429,706
	Total liabilities	390,565	383,218
	Total equity	48,362	46,488
	Controlling interest	42,306	46,388
IS	Operating income	4,592	3,019
	Pre-tax income	4,425	3,020
	Net income	3,496	2,362
	Net income before agricultural assistance expenses	3,642	2,482
Profitability	ROE	7.4	5.1
	Operating margin	38.7	33.4
	SG&A/NOR ratio	59.8	70.1
	Earnings per share (KRW, common stock)	1,242	839
	Operating Income per employee (KRW million)	163	106
	Dividend yield (% , common stock)	3.6	4.0



CEO  
JEONG YOUNG-CHAE



## CEO MESSAGE

To our esteemed shareholders and customers,

NH Investment & Securities posted record high results in 2017 as a result of having concentrated on developing a balanced business portfolio.

We will not rest on our laurels however and will effectively respond to the fast-changing financial market paradigm. We will continue to do our best to increase value for customers and fulfill our roles as a responsible financial investment company.

First, we will draw upon our unrivaled expertise to emerge as a strong 'platform player' that connects customers to optimal solutions that meet all their financial needs in a rapidly growing capital market.

Second, we will pursue customer-oriented management that focuses on increasing value for customers based on long-term partnerships.

Third, we will respect and nurture human resources as our most valuable asset to build an organization of high-caliber talent.

Last, we will make every effort to fulfill our social responsibility, to serve the public interest and contribute to making the world a better and happier place.

We will assume a wider perspective and look further ahead as we pursue innovation to sustain growth and serve the public interest. We ask you for your continued support and encouragement as we move forward on the road of change to reinvent NH Investment & Securities into the foremost platform player in the capital market.

Thank you.

## AT A GLANCE

### DIGITAL FINANCIAL PRODUCTS & SERVICES

NH Investment & Securities is going beyond leadership in financial investment to become a major player in financial digital innovation. To this end we provide industry-leading products and services. Based on detailed big data analysis, we strive to ramp up our competitiveness in products and services, and realize our principle of providing financial solutions that offer real value to our customers.

#### Mobile savings app NAMUH C

With a growing number of customers familiar with the mobile environment, mobile banking channels and platforms are increasingly becoming important. To respond to these changes and reflect our differentiated strategy, we launched a new investment and banking service called 'NAMUH C' geared toward the mass and young generation.

NAMUH C promotes healthy financial habits through cutting down on daily expenditures and putting away money like a mobile piggy bank. It also provides an easy environment for anyone to start making investments. NAMUH C was awarded the UX/UI Innovation Award at the Smart App Awards 2017 organized by the Korea Internet Professional Association.

#### Opening of Portfolio Market

'Portfolio Market' provides users with algorithm-based portfolios according to investment targets and methods. It offers customized investment strategies based on an individual's investment preferences. The entire investment process, from analysis to trading, can be carried out online (MTS and homepage).

Along with Portfolio Market, we developed the 'QV Global Robo Advisory Account' that is based on global ETF asset allocation algorithms. Robo-advisors help users who want to directly invest in overseas markets but encounter difficulties in choosing investment targets.

With the launch of the advisory product and Portfolio Market, NH Investment & Securities is solidifying its position as a leader in digital wealth management.

#### Bio (Palm Vein) Certification Service

Customers usually have to carry ID and take various steps to prove their identity before accessing financial services. To eliminate such inconveniences and streamline the process, we introduced the industry's first bio-certification system at branches nationwide using only palm veins in January of 2017.

The service enables customers to simply place their palms on a special vein reader at the counter to make money withdrawals and deposits, along with stock and financial product transactions, all without a physical ID card. The storage and management of palm vein data is shared with the Korea Financial Telecommunications & Clearings Institute to safeguard against the exposure and loss of personal data. Approximately 47% of customers with accounts use the bio-certification service. We plan to expand the service to eventually cover all operations at branch offices.



## OVERVIEW

Net operating revenue in FY17 grew by 31.3% YoY to KRW 1,185.3 billion, propped up by robust performance in all business divisions. For a detailed breakdown, please refer to the Net Operating Revenue Portfolio diagram. The boost in revenue drove up labor costs, resulting in an increase of 12.1% YoY in SG&A expenses to KRW 709.2 billion. However, stronger growth in net operating revenue led to operating income of KRW 459.2 billion, up 52.1% YoY, and net income of KRW 349.6 billion, up 48.0% YoY.

Return on equity (ROE) improved by 2.3%p YoY to 7.4%. The dividend yield dropped by 0.4%p YoY to 3.6%. Due to the stock market rallies at home and abroad and the increase in market trading value,

brokerage commissions went up 1.9% YoY to KRW 288.7 billion. Financial product sales commissions grew 7.1% YoY to KRW 64.4 billion while investment banking (underwriting, M&A advisory) commissions rose by 15.6% YoY to KRW 110.3 billion.

Other commissions decreased 3.6% YoY to KRW 105.1 billion. Trading income and related interest income surged 101.7% YoY to KRW 525.0 billion thanks to improved operating conditions in Korea and abroad. Interest income related to loans increased 3.6% YoY to KRW 94.2 billion as the stock market boom lifted investor sentiment.

## AWARDS



**JAN. 2017** 2016 2H Hankyung Business, Best Research Securities Firm - 2nd Place,

**JAN. 2017** 2016 &Award, Digital Media/Digital Contents Category – Grand Prix Award

**JAN. 2017** 2017 thebell League Table Awards - Best Equity House (Best House\_ECM)

**FEB. 2017** The 8th Korea IB Awards – ECM

**FEB. 2017** 2017 Maekyung Securities Awards – First Prize, Securities Firms

**FEB. 2017** 2017 Add Happiness CSR Awards – Health and Welfare Minister Prize in the CSR category

**FEB. 2017** 2017 Korea Wealth Management Awards - Fund Distributor of the Year

**FEB. 2017** The 8th Asia Fund Awards – Best Distributor

**MAR. 2017** 2016 2H Best Government Bond Dealer Awards – Best Securities Firm

**JUL. 2017** 2017 1H Best Securities Firm/Analyst Awards – Top Prize, Best Securities Firm

**AUG. 2017** 2017 Best Securities Firm Awards – Overall No. 1

**AUG. 2017** 2017 Consumer Brand Awards – First Prize, Mobile Division

**SEP. 2017** 2017 Global Financial Awards – Korea Financial Investment Association Chairman Award

**OCT. 2017** 2017 thebell Risk Manager Awards – Grand Prize

**OCT. 2017** The 7th Asia Mobile Trading System Awards – First Prize, MTS

**DEC. 2017** The 22nd Consumer's Day Ceremony – KFTC Chairperson Commendation

**DEC. 2017** 2017 Consumer Star Brand Awards – Wealth Management Services

**DEC. 2017** 2017 Aju Business Daily Financial Securities Awards – Overall First Prize, Securities Firm

**DEC. 2017** Asia Capital Investment Awards – Grand Prize, IB

**DEC. 2017** The 7th Market Leader of the Year Awards – Top Prize, Wealth Management

## REVIEW OF OPERATION



### WEALTH MANAGEMENT

Due to continued efforts to strengthen fundamentals centered on asset management, the WM Division recorded net operating revenue of KRW 462.6 billion and ordinary income of KRW 92.0 billion in 2017. Retail financial assets amounted to KRW 162 trillion and the number of clients with more than KRW 100 million in financial assets stood at 87,383.

The division seized the No.1 spot in overseas bond brokerage by expanding the retail investor base for overseas bonds. We will continue to uncover promising overseas bonds (Mexican, Russian, Brazilian bonds) and prominent global funds to provide customers with a wide range of investment products and opportunities to enjoy additional returns.

The QV Portfolio, which reflects our asset allocation capability, is ranked first in terms of both the return on ISA (Individual Savings Account) and managed assets. Backed by superior asset allocation strategy, the QV Portfolio offers diverse products including wrap accounts, trusts and funds and has recorded sales exceeding KRW 230.0 billion.

The WM Division's efforts at managing customer assets have won external recognition. NH Investment & Securities received the top honor in the 2017 fund distributor survey sponsored by the Korea Financial Investors Protection Foundation and was named the "fund distributor of the year" at the 2018 Korea Wealth Management Awards.

The WM Division is creating a digital wealth management service model. The mobile platform NAMUH, launched to strengthen our footing in the non-face-to-face channel, staged the industry's first ever event offering life-long exemption of commissions for new customers. This led to the opening of about 140,000 non-face-to-face accounts and inflow of roughly KRW 2.1 trillion in client assets.

For increased cooperation in the non-face-to-face channel, we signed an agreement with KBank for brokerage account openings. We are leading the way in digital wealth management. We were the first in the securities sector to adopt mobile OTP, thereby enabling financial transactions from anywhere and at any time.

The WM Division will constantly think about what our customers want and strive to deliver innovative financial solutions. We will continue to develop diverse products and superior portfolio services in order to offer customers tailored solutions meeting all of their investment needs. Harnessing its exceptional wealth management capabilities, NH Investment & Securities will do its best to assure customers that their needs are the top priority.

### INVESTMENT BANKING

In addition to upholding a strong presence in traditional investment banking, the IB Division continued to demonstrate its competitive edge in

WM Division net operating revenue



KRW 462.6 billion

WM Division ordinary income



KRW 92.0 billion

other areas including M&A, acquisition financing, structured finance and real estate financing. Having focused on landmark deals, NH Investment & Securities ranked second in lead managing for initial public offerings (IPO) and underwriting for domestic bonds [excluding asset-backed securities (ABS) and financial bonds (FB)] in the 2017 investment banking league table.

The IB Division has built up a unique business model for serving corporate clients. Rather than simply carrying out short-term deals, the division also proposes long-term business strategies and solutions. In the debt capital market, we secured a market share of 19.8% in domestic bond underwriting (excluding ABS and FB) and ranked second in 2017.

In the equity capital market, we were involved in landmark deals including Netmarble's IPO and Hyundai Heavy Industries' rights offering. As manager of the Netmarble IPO, regarded as the biggest deal in the first half of 2017, we were the first in the industry to introduce spreads for institutional investors.

Our market share based on IPOs was 15.1% in 2017. We regained investors' confidence by posting the highest 3-year average share price increase of companies that went public (58.5%). We were also involved in large-scale rights offerings by Hyundai Heavy Industries, Hyundai Electric and Hyundai Construction Equipment, among others. Based on underwriting/arranging rights offerings, we secured a market share of 42.3% to seize the No.1 spot. Moreover, we also pursued mergers of listed SPACs (Special Purpose Acquisition Company) such as NetGames.

In step with the increase in corporate governance reform, we successfully advised on the Hyundai Heavy Industries' transformation into a holding company and Lotte Group's transition to a holding company via merger of listed affiliates. We also advised on numerous M&A deals of the major business group affiliates including the sale of Hanjin Shipping's new port facilities, the acquisition of SK Siltron, and the sale of SK Hass. Accordingly, NH Investment & Securities ranked

first in corporate M&A financial advisory in the 2017 league table with a market share of 53.6%.

We also made strides in structured finance and real estate financing. We participated in major deals such as the Hannam-dong foreigners' apartment and Namdaemun office development projects and was named preferred bidder for the Yeouido MBC site development project. We expanded our business scope to securitization in which the underlying assets are receivables for urban redevelopment projects and public companies' refund guarantees on land cost payment. Overseas, our track record extended to an office property in Boston, the Sony Tower in Tokyo, CVEC power plant in New York, a natural gas power plant in New Jersey, and aircraft financing for Qatar Airways.

In 2018, the IB Division will further hone its ability to provide total solutions throughout the corporate life cycle as a mega investment bank and build a global business platform. to respond to changes in the market. We will practice rigorous risk management to uphold our position as a capital market leader trusted by clients.

## INSTITUTIONAL CLIENT

The IC Division integrates asset management, solutions and marketing aimed at institutional clients with the goal of delivering the best financial solutions. Thanks to its emphasis on creating a stable business model, the division posted net operating revenue of KRW 130.0 billion and ordinary income of KRW 77.8 billion.

We provide some 300 products and solutions to institutional investors. These include derivatives such as ELS (Equity Linked Securities) and DLS (Derivatives Linked Securities), funds, hedge funds, alternative investment funds, trusts, wrap accounts and RPs (Repurchase Agreement). We have developed derivatives with various underlying assets including commodities and foreign currencies to satisfy diversifying investor needs and expanded supply of ELS with safety guards to meet demand for mid-risk/mid-return products. Moreover, we are expanding our hedge flow business (FX swap, hedges for asset managers/



trust companies, CDS, structured swap, etc.) as major clients increasingly invest in overseas and alternative assets.

The IC Division will continuously upgrade the business portfolio to offer products and solutions optimized for diverse client needs. We will also continue to strengthen relationships with institutional investors and serve them as their ideal financial partner.

## TRADING

By in-depth market analysis and effective risk management, the Trading Division posted net operating revenue of KRW 102.5 billion in 2017. Bearing in mind prolonged low growth of the Korean economy, the division is expanding the weight of overseas assets in its asset portfolio. Such diversification efforts are bearing fruit, with the division generating KRW 38.9 billion of net operating revenue from overseas assets.

Regarding equities, the division employs a wide range of investment strategies including event-driven, quant/system trading, mezzanine, directional equity, and equity long/short strategies. The multi-asset and multi-strategy approach is the basis for stable income generation regardless of market conditions.

Bond trading produced sound results despite an unfavorable market environment, including the interest rate up-cycle and heightened interest rate volatility in the second half of 2017.

We are extending our geographical reach, investing in regions including the U.S., Japan, Europe and China. Along with thorough sector-by-sector analysis and risk management, we have increased exposure to overseas stocks, bonds and mezzanine assets. Based on comprehensive market analysis, we are boosting investment in bonds of emerging countries with good growth prospects. With flexible portfolio rebalancing based on momentum, we pursue both stability and high returns.

The Trading Division will further increase exposure to overseas assets and diversify investment strategies and scope in pursuit of higher returns. To build and maintain our reputation as a premier trading house, we will work to attract high-caliber talent and sharpen the capabilities of our incumbent asset managers, who play a vital role in the division's success.

## EQUITY SALES

The Equity Sales Division produced healthy results from stock brokerage in 2017 as it maintained firm trust of institutional clients. In particular, it demonstrated remarkable growth in outbound global stock operations.

The division has been reinforcing strategic relationships with institutional investors in order to bolster its market footing. In 2017, it captured 6.68% of the domestic wholesale stock brokerage market and generated net operating revenue of KRW 38.9 billion and ordinary income of KRW 10.6 billion. In outbound global stocks, we were the only domestic securities company to be chosen as overseas stock broker by the National Pension Service for four consecutive terms (half-year terms from second half of 2016 to second half of 2018). In addition to traditional brokerage, we actively ventured into new areas such as global REITs and overseas bond ETFs and secured the lead in global stock brokerage.

The Equity Sales Division is also sharpening its competencies in derivatives by expanding ETF LP coverage and ETF-linked services. We are expanding our base of overseas institutional clients through linkage with investment banking activities such as IPOs and block deals.

We will further enhance our market presence in traditional brokerage and explore new business models to deliver optimal solutions that meet the diversifying needs of institutional investors.

Trading Division net operating revenue



KRW **102.5** billion

Trading Division overseas revenue



KRW **38.9** billion



# NH-AMUNDI ASSET MANAGEMENT

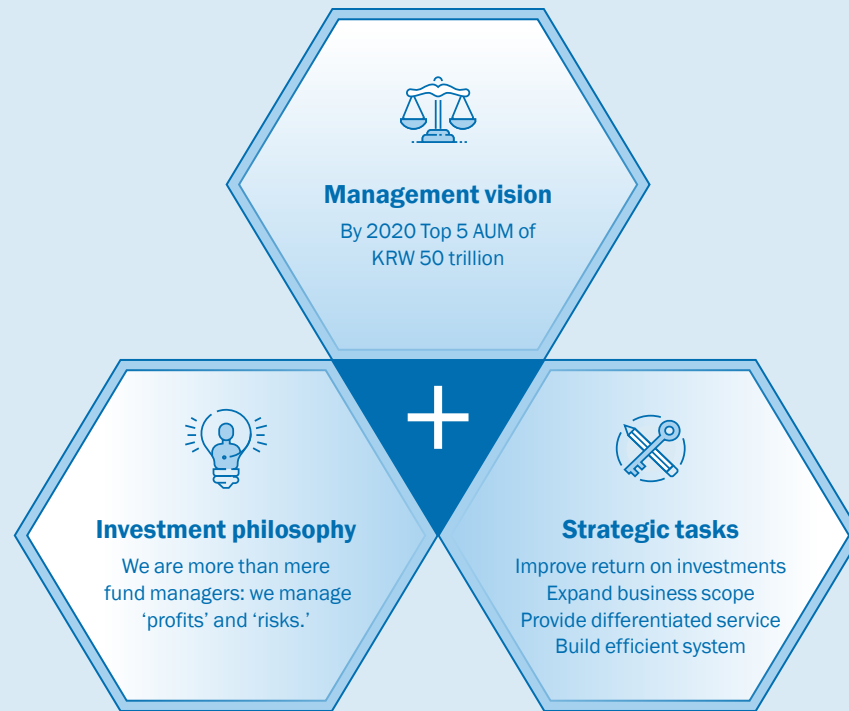
NH-Amundi Asset Management was founded in January 2003 as a joint venture between NH Financial Group and Amundi, the largest asset management company in France. Drawing upon the extensive knowhow of the two partners, the company provides clients with optimal investment services and performance.

A portfolio management system based on a stringent investment process, a multi-stage and constant risk management, and top caliber talent to operate all these systems, comprise the core capabilities of NH-Amundi and form the foundation of our ability to increase client assets and manage their investment risks.

We will strive to do our utmost to meet the investment goals of our customers with transparent and prudent practices, and thereby assume an important role in advancing asset management.



## VISION



## FINANCIAL HIGHLIGHTS

(unit: KRW 100 million, %)

		FY2017	FY2016
BS	Total assets	1,044	1,038
	Total liabilities	78	68
	Total equity	966	970
IS	Operating revenue	412	386
	Operating expense	235	197
	Operating income	177	189
	Pre-tax income	175	187
	Net income	135	145
	Net income before agricultural assistance expenses	136	146
Major ratio	Capital ratio	92.50	93.40



CEO  
PARK KYU-HEE



## CEO MESSAGE

The combined brand value of NH and Amundi, one of the world's top 10 asset management firms, speaks for itself.

NH-Amundi Asset Management has solidified its position as the leading asset manager in Korea due to the synergy created by Korea's representative financial group, NH Financial Group, and the global network of Amundi.

Our goal is to faithfully fulfill our role as a prudent and expert manager of customers' assets. Rather than simply launching numerous products and aiming for the highest returns, we believe a stable and sustainable management philosophy within a defined risk scope to best answer our client's investment needs.

We promise to be the ideal partner for successful investments.

## AWARDS



**FEB. 2017** 2017 Maeil Business Newspaper Securities Awards, 'Best Korean Equity Fund'

**MAR. 2017** 2017 Morningstar Awards, 'Best Korea Small/Mid Cap Fund'

**OCT. 2017** 2017 Maekyung Economy, 'Best CIO'

**NOV. 2017** 2017 Seoul Economic Daily Korea Securities Awards, 'Top Domestic Fund'

**NOV. 2017** 2017 Herald Business, 'Best Domestic Fund – High-Dividend Stock, Small Cap Stock Categories'

**DEC. 2017** 2017 MoneyToday Korea Fund Awards, 'Innovative Fund of the Year – Global Subordinated Bond'

## REVIEW OF OPERATION

NH-Amundi Asset Management continued with diverse efforts to maximize client returns in 2017.

We built an investment process based on research and model portfolios, and incorporated Amundi's comprehensive asset management framework (Alto+) to secure a system of global standards.

The Alternative Investment Division pooled KRW 2.8 trillion within two years of its creation and KRW 1.9 trillion of the sum has been invested. It has ventured into diverse areas including acquisition, real estate and corporate financing. For overseas investments, we carried out an organizational reshuffle that included the hiring of new recruits and expanded our AUM by more than KRW 3 trillion over the previous year. We newly

installed an overseas bond team and are currently expanding our scope to direct management of overseas stocks and launch of Amundi products. Additionally, we are consistently expanding our AUM by launching new products through channels other than those related to NH Financial Group.

NH-Amundi Asset Management will continue to pursue stable, long-term investments, construct a more conservative product portfolio, strengthen marketing competitiveness, and boost synergies among affiliates, as we strive to achieve co-prosperity with clients, the wider NH family, and shareholders.

Alternative investment commitments



KRW 2.8 trillion





# NH CAPITAL

Since becoming a part of NongHyup in July 2008, NH Capital has been providing comprehensive financial services from installment loans to housing mortgage loans, personal credit loans, corporate and real estate financing, and investment loans including new technology project financing. We are focusing our resources on creating sustainable new growth engines by entering the lease financing market and strengthening our operational framework through reinforced risk control and ethical management.

We plan to pursue businesses that will create synergies among affiliates and offer various products that will raise farming households' income level to KRW 50 million and lead to advances in the farming industry. Through such efforts, we are committed to realizing our vision of becoming a global lending expert that fulfills the value of agricultural cooperatives.

## VISION

GLOBAL LOAN EXPERTS FULFILLING THE VALUE OF  
AGRICULTURAL COOPERATIVE

Who are the owners of NH Capital - **Farmers**  
 What is the identity of NH Capital - **Cooperative**  
 What is the future of NH Capital - **Global leading professional loan financing company**

**Trusted finance**

Admired by farmers,  
trusted by customers

**Challenging future**

Spearheading digital finance,  
pursuing the global market

**Caring in action**

Taking the initiative in  
caring for others

## FINANCIAL HIGHLIGHTS

(unit: KRW 100 million, %)

		FY2017	FY2016
BS	Total assets	41,252	31,497
	Total liabilities	36,740	28,225
	Total equity	4,512	3,272
IS	Operating revenue	2,802	2,476
	Operating expense	2,317	2,086
	Operating income	485	390
	Pre-tax income	475	387
	Net income	353	300
	Net income before agricultural assistance expenses	358	305
	Adjusted capital ratio	11.72	11.53
Major ratios	Substandard and below ratio	1.95	1.76
	Leverage (times)	9.28	9.82

CEO  
GO TAE-SOON

## CEO MESSAGE

Ten years have passed since NH Capital became a member of the NH family offering installment, lease, corporate and household loans. Today, we have grown into a leading capital company with assets worth KRW 4 trillion. We owe this accomplishment to our employees who gave their all amid the rapidly changing financial landscape and our customers who gave their utmost encouragement.

Not resting on our laurels, NH Capital will continue to pursue change and innovation until we become a global leading professional loan financing company. With customer satisfaction as our highest priority, we will provide top quality financial services utilizing our expertise and the country's largest network at NH Financial Group.

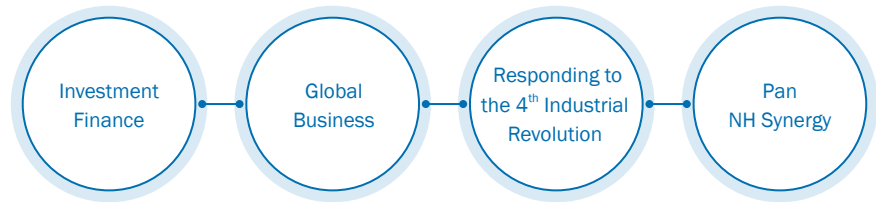
Moreover, we will continue to develop products that will better serve the needs of the underprivileged and fulfill our ethical obligation to protect financial consumers.



## AT A GLANCE

### FUTURE BUSINESS

In order to continue to create future value as a highly rated specialized lender, NH Capital is constantly innovating to provide better services amidst a rapidly changing financial environment.



## REVIEW OF OPERATION

NH Capital's financing services are divided into four major categories: installment financing, new technology project financing, facilities lease (lease financing), and other general loans. In the beginning of our operation, we focused on general loans such as corporate and household loans before diversifying our product portfolio to include auto, personal and lease financing.

We have been effectively leveraging powerful NH brand equity to reinforce our product competitiveness and expand sales channels.

Our differentiated business strategies helped us establish a strong market position and in 2017 we succeeded in posting record profits. Procurement of safe assets and sale of non-performing loans resulted in operating assets of KRW 4.795 trillion and net income of KRW 35.3 billion, up 32.0% and 17.6%, respectively, from the end of 2016. Specifically, expanding safe assets and proactively disposing of NPLs enabled us to maintain our asset quality indicators in the 1% range: 1.79% in delinquency ratio and 1.91% in NPL ratio.

We also stepped up efforts to enter the global market by increasing the synergy of our business operations by capitalizing on the power of the NH brand and making aggressive overseas investment.

In 2018, NH Capital will refocus on the three pillars of our management philosophy: back to basics, voluntary and creative organizational culture, and speedy execution. Armed with these core values we will concentrate our resources on the following: help farming households attain income of KRW 50 million, raise our credit rating, maximize organizational capability to allow employees to develop a strong sense of ownership and make their own decisions, pursue businesses related to change and innovation such as the fourth industrial revolution and fintech, expand auto financial assets, and solidify our position as global loan finance experts.

#### Operating assets



KRW **4** trillion

#### Net income



KRW **35.3** billion

#### Substandard and below ratio



**1.91%**



# NH SAVINGS BANK

Since becoming a NH Financial Group affiliate in June 2014, NH Savings Bank has been offering top notch financial services for the masses and SMEs. In accordance with the Mutual Savings Banks Act, we focus primarily on lending and depository operations such as extending standard loans and receiving time and periodical deposits. By offering financial products that cater to the needs of our customers, we are committed to maintaining sound credit order and reviving the economy.

Going forward, NH Savings Bank will strive to practice fair, ethical and transparent management and tighten risk management policies as we continue to build trust and credibility with our customers.



## VISION

**Customer trust**

Conduct sustained consumer protection activities with financial consumers at the heart

**Transparent management**

Carry out fair and transparent management with a focus on the basics

**Mutual cooperation**

Pursue mutual growth based on synergies with cooperative members

**Sound company**

Reinforce integrity with rigorous risk management

## FINANCIAL HIGHLIGHTS

(unit: KRW 100 million, %)

		FY2017	FY2016
BS (based on IFRS)	Total assets	12,166	9,137
	Total liabilities	10,728	7,797
	Total equity	1,438	1,340
IS (based on IFRS)	Operating revenue	644	594
	Operating expense	540	463
	Operating income	104	132
Major ratios	Pre-tax income	103	132
	Net income	96	132
	Net income before agricultural assistance expenses	98	133
	Capital adequacy ratio	16.59	18.90
	Substandard and below ratio	4.04	7.53
	NPL coverage ratio	123.63	89.88



CEO  
CHOI SANG-ROK



## CEO MESSAGE

Ever since becoming an affiliate of NH Financial Group, we at the NH Savings Bank have been doing our utmost to provide best possible financial services to the masses and to SMEs.

By offering products tailored to the specific needs of our customers, we contributed to restoring order in the hiring process and to revitalizing local economies.

Our parent company, NH Financial Group, represents the 'pride of Korea's financing' as the nation's sole financial institution entirely founded upon domestic private funds. We will build on the credibility of NH Financial Group and work with other cooperative members to attain our vision of becoming the leading savings bank trusted by customers. We ask for continued interest and support from our customers and wish them health and happiness.

Thank you.

## AT A GLANCE

### LAUNCH OF NH TOGETHER LOAN

To diversify our loan portfolio by discovering niche corporate loan products and strengthen sales cooperation with NH Bank, NH Savings Banks launched a real estate mortgage loan product called NH Together Loan in July 2017.

With the loan, NH Savings Bank offers additional credit to customers who cannot get bank approval for the full amount of mortgage they need. It helps produce group-wide synergy by encouraging those financial consumers become a long-term customer of NH. Since launching the product, we have been aggressively promoting the loan through bank branch visits and presentations. We also set up an RM Operational Department that exclusively handles the product.

To create more synergies, we have been expanding sales channels for the NH Together Loan to include agriculture and livestock cooperatives. Due to the product's short history, the loan balance was just KRW 4.9 billion at the end of 2017. Our annual target amount for 2018 is KRW 25 billion.

## REVIEW OF OPERATION

In 2017, NH Savings Bank focused on profitability and asset quality. As a result, we posted net income of KRW 9.5 billion, which surpassed our 2017 business target by KRW 1.5 billion. Our focus on expanding healthy loans drove substantial growth. As of end of 2017, the loan balance stood at KRW 1.0869 trillion, up KRW 275.3 billion from the same period of the previous year (KRW 811.6 billion). That represents a net increase of 34%. We also increased extension of 'Haetsal Loan', our key microcredit product. This led to KRW 2.241 billion in the balance as of end of 2017, an increase of KRW 60.2 billion from the end of 2016 (KRW 163.9 billion).

Profitability-focused management helped us achieve volume growth and improve asset quality. Buoyed by active bad debt recovery and stringent management of past due loans, we maintained the NPL ratio and delinquency ratio at 4.04% and 3.04%, respectively.

For the year 2018, tougher asset quality classification standards for savings banks means higher coverage ratio requirements, so we will have to focus more on asset quality. Moreover, increased efforts, such as diversification of loan portfolio and expansion of corporate lending will

be required to attain our 2018 goals as financial authorities will continue to tighten regulations on household loans. As such, NH Savings Bank will concentrate on securing business momentum, improving asset quality, revitalizing financing for the masses and strengthening organizational competencies under the slogan 'generating stable profits through expansion of healthy loans.'

Our plan is to expand corporate loans by pursuing secured and healthy SOHO loans to increase low risk, high profit assets. Also, we will strengthen collaboration with NH Bank and expand synergy across NH Financial Group affiliates with offerings such as NH Together Loan. Our key products Haetsal and Saiddol II Loans will be extended to solidify our brand as a microcredit provider. We also plan to better assist the masses by developing medium rate loan products.

We will give our employees a sales edge by strengthening performance-based assessment system and expanding mandatory training. Through such efforts we hope to build stable revenue streams amid a volatile financial environment that will empower us to achieve our goals.

#### Loan balance



KRW **1.9** trillion

#### Haetsal loan balance



KRW **2,224.1** billion

#### Delinquency ratio



**3.04%**



# NH FUTURES

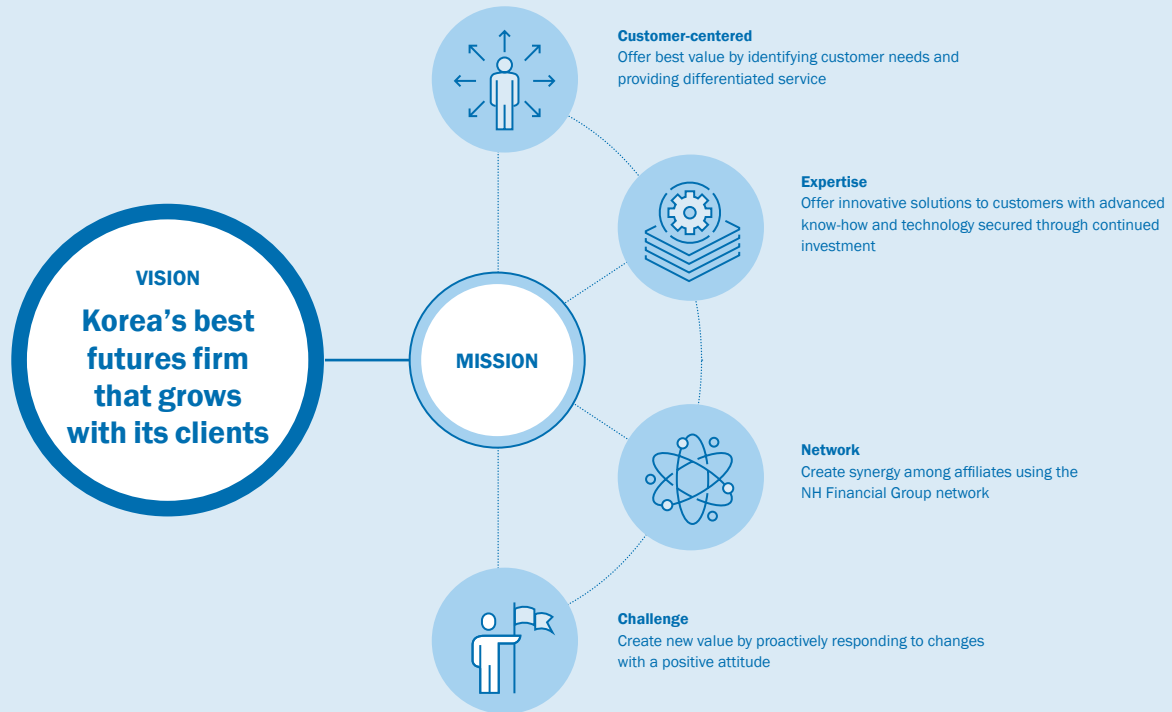
Since its inception in July 1992, NH Futures solidified its position as Korea's leading futures firm as it pioneered the country's derivatives sector as a member of NH Financial Group.

By securing highly-trained professionals and cutting-edge systems, we were able to build a global network that is available around the clock. The network which links the domestic and overseas futures markets has enabled us to cater to diverse investment needs of our clients. We have also established industry-leading IT systems including HTS that ensures stable transactions.

In a rapidly changing market, NH Futures will go beyond being Korea's top futures firm in both qualitative and quantitative aspects and continue our drive forward to become a global leader.



## VISION



## FINANCIAL HIGHLIGHTS

(unit: KRW 100 million, %)

		FY2017	FY2016
BS	Total assets	6,745	7,601
	Total liabilities	5,666	6,453
	Total equity	1,079	1,148
IS	Operating revenue	337	343
	Operating income	68	70
	Pre-tax income	65	66
	Net income	52	55
	Net income before agricultural assistance expenses	54	57
Financial soundness	NCR	627.50%	698.30%



CEO  
LEE SEONG-GWEON



## CEO MESSAGE

NH Futures has been playing a major role in developing Korea's futures market since its establishment in July 1992. Armed with top talent and state-of-the-art system, we offer a solid global network linking domestic and overseas futures markets around the clock. Through innovation and advances, we were able to secure industry leading edge for foreigners' derivative trading at the Korea Exchange.

We anticipate big changes for the Korean financial market. Amid volatile market conditions, everyone here at NH Futures will work tirelessly to embrace these changes and turn them into opportunities to improve our quantitative and qualitative aspects as we prepare to emerge as a global leading futures firm.

Thank you.



## REVIEW OF OPERATION

In 2017, NH Futures maintained its strong market share and ranked top 5 in operating results among 45 member firms of Korea's derivatives market.

Despite the protracted domestic market slump, we made qualitative improvements by making diverse IT investments to establish a stable trading environment and enhance equipment systems for faster performance. Quality customer services such as training sessions and investment analysis reports are offered as well. Harnessing non-face-to-face channels and synergy with NH affiliate branches, our continued efforts attract new clients.

For sustainable growth, NH Futures is pursuing stronger retail and foreign customer bases.

The Domestic Marketing Division focuses on expanding the retail customer base through such efforts as revamping MTS, expanding VIP rooms, actively discovering investors engaging in system trading, and holding forex-related seminars. In particular, our MTS is an advanced system that was developed in line with growing mobile transactions. Offering industry-leading order placement function and convenience, it will help boost profits for clients.

The Global Marketing Division also makes continuous investment to improve IT system and increase specialists. This is to gain a competitive edge in providing DMA (Direct Market Access) service to foreign investors (investment banks, hedge funds, market makers).

In line with expansion of Korea Exchange's data center in Busan (Koscom, Busan IDC co-location), we are currently providing the best DMA environment in the industry by building cutting-edge systems (PTP server, low latency FEP) and carrying out system upgrades (server, firewall, switch, etc.) to support DMA.

Our goal for 2018 is to lead as a top-tier firm in the derivatives market. As such, we will work to lay a foundation for sustainable growth with the following as our core values: securing future

growth engines (strengthening retail and foreign customer base), reinforcing competitiveness of key businesses (institutional clients and foreign product brokerage), establishing efficiency/performance-driven organizational culture (enhancing operational processes) and promoting the NH Financial Group DMA.

For stronger in-bound business for foreign clients, we will create an advanced DMA service environment with faster order system and better customer service.

Meanwhile, MTS as a portion of retail clients' transactions have grown substantially to near 40% in 2017, up from 9.3% in 2013. In tune with this trend, we are in the process of overhauling MTS to offer best in class order media. Starting from the latter half of 2018, clients will be able to enjoy one-stop services from client information registration to orders using improved and expanded MTS.

Our continued focus on IT system analysis and facility improvement will lead to faster order placement and improved transaction execution rates, thereby helping clients increase profits. We will also support clients to enter the different products such as index, currency, interest rate, stocks, and other new markets such as KRX300 and KOSDAQ150.

Moreover, in index block trading where we maintain top market share (securities firms and futures firms combined), we will continue our growth by utilizing the network we cultivated with overseas key investment banks/brokers, domestic securities firms and bank clients. To increase market share in fast growing single-stock futures, we plan to develop differentiated services such as offering real time spot prices, the only futures firm to do so, and providing English reports on single-stock futures.

# SOCIAL CONTRIBUTION

At every moment, NH Financial Group is seeking new ways to make the most of corporate social responsibility. We are confident that with time, our programs will mature and grow in their method, scope and value.







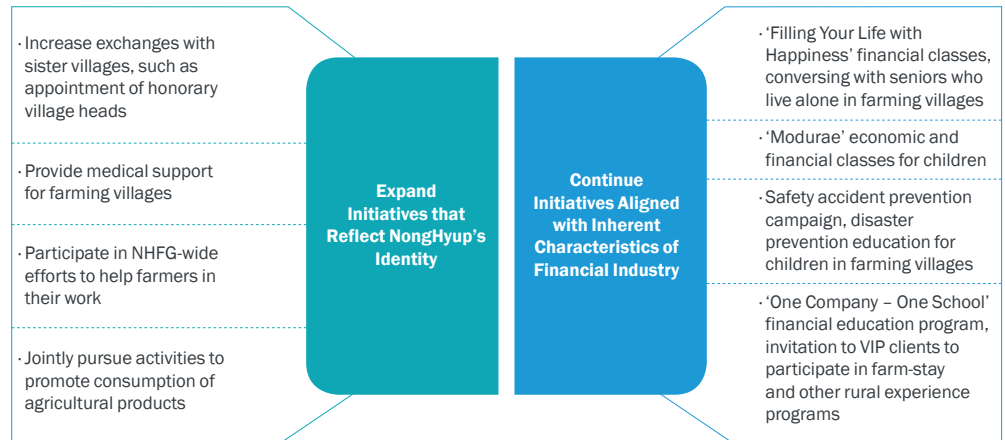
As Korea's leading social contributor, we at NH Financial Group are actively carrying out various social contribution activities that respond to the needs of the times and are based on our fundamental philosophy, 'customers and employees sharing and filling happiness via finance.'

We are committed to giving back to society and regard social contribution as our *raison d'être*. This is closely tied to the fact that we are the only financial institution that shares the entirety of its profits with customers, farmers, and local communities.

At every moment, we are thinking of new ways to fulfill our corporate social responsibility, and with each passing day, our philanthropic endeavors will continue to evolve in execution, scope and value.

## SOCIAL CONTRIBUTION AREAS OF NH FINANCIAL GROUP

NH Financial Group's social contribution activities are largely categorized into two domains: 'Initiatives that Reflect NongHyup's Identity' and 'Initiatives Aligned with Inherent Characteristics of Financial Industry.'



### Initiatives that Reflect NongHyup's Identity - working for farmers and farming communities

NH Financial Group carries out various activities for the benefit of farmers and farming communities. They not only reflect our NongHyup roots but secure the continuity of our social contribution activities. Major programs include 'Building Another Town', 'Helping Farming Communities', 'Visiting Medical Services for Farming Communities', 'Helping Farming Communities During Planting and Harvesting Seasons', 'Sharing Agricultural Product Packages', 'Supporting Foreign Farm Workers', 'Supporting Multicultural Farming Families', and 'Supporting Emergency Relief Efforts for National Disasters'.

In keeping with NongHyup's raison d'être of contributing to the balanced development of the country's life industries and regional communities such as farms and rural villages, NH Financial Group will continue to extend assistance to the many isolated groups in our society, as befitting Korea's representative social contribution financial company.

### Initiatives Aligned with Inherent Characteristics of Financial Industry - bringing finance and social contribution together

To ensure the continuity and sincerity of our social contribution activities, NH Financial Group selects social-giving initiatives that are also connected to our business, such as those related to banking, insurance and credit operations.

We provide customized financial education to children/youths as well as the elderly through our free financial education program called 'Filling Your Life with Happiness' financial classes, 'One Company - One School' financial education, and 'Modurae' economic and financial classes for children. The activities also take advantage of our employees' talents, exemplified by our consultants engaging in regular conversations with senior citizens who live by themselves in farming villages.

Other programs include the sale of public good products and formation of public funds so that our customers can also partake directly or indirectly in social contribution activities. In this way, we are promoting greater interest and participation in social issues. The sale of financial products and consultation counters exclusive to low-income customers and small to mid-sized enterprises are designed to increase the convenience of financially-marginalized classes. We will continue to expand socially responsible management through various activities that link finance and social contribution.

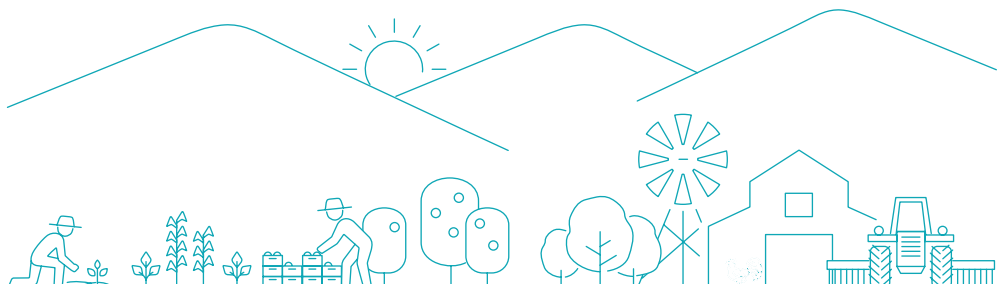


## MAJOR SOCIAL CONTRIBUTION ACTIVITIES

As a financial company driven by the basic principle to promote public interest through the execution of various policy finance and return the majority of profits to communities, the employees of seven companies belonging to the NH Financial Group have been actively carrying out social contribution programs to benefit farms, farmers, rural communities and customers.

Not content with one-time events, we have devoted our efforts to programs that reflect the unique characteristics of NongHyup and the finance industry, to promote the continuity and sincerity of related activities.

In 2017, NH Financial Group employees put in a combined 180,670 hours of volunteer time and ranked first among financial companies for social contribution activities for the fifth consecutive year since 2011. The following are the major social contribution programs undertaken by NH Financial Group and its major subsidiaries.





### Support for Agriculture and Farming Communities

Through the programs 'Helping Farming Communities During Planting and Harvesting Seasons' and 'Building Another Town', we are promoting mutual prosperity between urban and rural communities to deliver a higher quality of life for all.

In particular, 'Building Another Town' includes the appointment of a corporate CEO or head of an organization to become the honorary head of a rural community. By doing so, the employees of the company or organization automatically become honorary citizens and form another 'town.' This injects renewed energy and vigor into farming communities that have aging populations. The initiative is being carried out nationwide to create a new model of urban and rural cooperation.

All NH Financial Group affiliates also participate in a broad range of related programs such as helping farmers during busy seasons, making and sharing kimchi, spending holidays at farming villages, promoting consumption of agricultural goods through direct transactions, and assisting villages in accomplishing long-cherished projects.

### Giving Back to Local Communities

NH Financial Group allocated some of its business profits to support farmers, farming villages, local communities and under-privileged classes. The money goes to fund various public projects including scholarships, promoting farming villages' welfare, supporting multicultural families, raising interest in farms, carrying out 'Love Our Farming Village' campaign, and operating the NongHyup Welfare Foundation. By giving back to and re-investing in local communities, we are contributing to the balanced economic development of rural areas and the entire country.

In addition to such indirect financial assistance, NH Financial Group employees extend their own time to volunteer in the communities in which they work. Across the country, they independently form volunteer groups to cater to the needs of local communities. Their per capita volunteer hours amounted to 10.3 hours in 2017.



### Health/Medical Service Support

With the assistance of NH Life Insurance, NH Financial Group has been promoting the medical welfare of local communities and the under-privileged by offering free medical visiting services to farming villages whose medical needs are often underserved.

We also jointly work with Seoul National University Hospital to visit medically-marginalized farming villages, provide them with medical services, and deliver first-aid kits and medication. We donated KRW 1 billion in 2017 toward the program which provided 130 services to approximately 60,000 individuals with medical benefits.

### Talent Development (Education Donation)

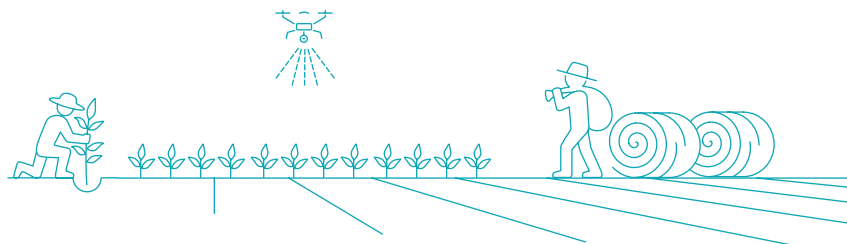
We are proud to contribute to nurturing individuals in local communities and across the country through scholarship programs and talent donation by our employees.

The scholarship program is designed to alleviate the financial burden of education for farmers and under-privileged youths, as well as nurture their competencies. To this end, we provided 43 recipients with KRW 140 million in 2017. Our employees also donate their talents through the 'Filling Your Life with Happiness' financial classes and 'Modurae' economic and financial classes for children. The programs reach out to people in various corners of society, from the general public to North Korean defectors, multicultural families and under-privileged youths. The classes are aimed at improving financial literacy to help them realize their dreams, and to promote the formation of a sound culture of financial consumption.

### Support for Seniors

With the rapidly aging society and growing numbers of senior citizens, NH Financial Group is keeping a close eye on welfare for the elderly.

For those seniors living by themselves in farming villages or elderly national patriots and veterans, loneliness can often be a major issue. We make weekly phone calls to check in with them, to inform them of ways on how to protect themselves from financial fraud, as well as to let them know of emergency phone numbers. The service of providing conversational partners to senior residents of farming communities was started in 2008 and is unique to NH Financial Group. Over 2017, our employees served as caring neighbors to 1,662 seniors.





### Development and Investment of Public Funds (Realizing Value with Customers)

NH Financial Group operates a program of investing a portion of the profits generated from the sale of public products into public funds. In this way, we offer NongHyup customers an easy and meaningful way of joining in and expanding the culture of giving. The sale of various financial products, donation of credit card points and small loan financing are part of NH Financial Group's social-giving initiatives that are linked to our inherent role as a financial institution.

Products such as 'Double Your Love for Your Hometown' savings account, 'Love Our Law' bankbook, 'Cousin' bankbook, and 'Make Korea Happy' bankbook allow customers to reserve more than 0.1% of their deposits on average per year to support the development of local communities and under-privileged classes. In 2017, KRW 1.408 billion was donated in this way.

Users of 'Love Our Farming Village' credit card can donate 0.1% of their purchases to the One Company-One Village campaign. In all, there are 19 credit cards including the 'Dokdo Keeper' card that support public endeavors which provided KRW 835 million in funds over 2017.

### Other Initiatives

In addition to these continued and systematic initiatives, NH Financial Group is always ready to extend a helping hand to those in need through an array of activities.

We provide meals, books and basic necessities to impoverished neighborhoods, children's welfare centers and senior homes, along with regular donations to various organizations working for the public good.

The culture of sharing has taken root across all NH Financial Group affiliates, going beyond mere donations to employees willingly creating groups within their division or headquarters to actively take part in volunteering programs. Our employees have thus embraced and taken the lead in driving our social contribution activities.



# MANAGEMENT'S DISCUSSION & **ANALYSIS**



## Overview

Uncertainty significantly increased over the global economy in 2017 amidst trade protectionism and foreign exchange risk stemming from U.S. interest rate hikes. The domestic economy was shadowed by corporate restructuring and mounting household debts.

Despite the uncertainties, NH Financial Group surpassed its profit targets thanks to the concerted efforts of the entire Group.

Assets increased by 5.9% to KRW 388.7 trillion, while total assets including trusts and assets under management (AUM)(\*) amounted to KRW 490.6 trillion. Shareholders' equity stood at KRW 21.1 trillion.

(\*) AUM: Customer accounts managed in accordance with the requirements of the entrustors via funds, trusts and other defined contracts

For the fiscal year 2017, NH Financial Group posted net income of KRW 859.8 billion. Net income before agricultural assistance expenses (KRW 362.8 billion) levied by the National Agricultural Cooperative Foundation (NACF) was KRW 1,127.2 billion.

The total capital ratio stood at 13.47%, the common equity tier 1 ratio at 10.49%, and the tier 1 ratio at 11.49%.

The ratio of substandard and below loans was 1.05%, improving by 0.33%p YoY. The NPL coverage ratio was 79.71%, an improvement of 20.43%p compared to a year earlier.

## Highlights

(unit: KRW 100 million, %, %p)

	2017	2016	YoY	%
<b>Profitability</b>				
Operating income	17,165	7,508	9,657	128.6
Net income	10,525	4,266	6,259	146.7
Net income attributable to controlling interests	8,598	3,210	5,388	167.9
Net income attributable to controlling interests before agricultural assistance expenses	11,272	6,051	5,221	86.3
RoA	0.28	0.12	0.16	
RoE	5.87	2.43	3.44	
RoA before agricultural assistance expenses	0.35	0.20	0.15	
RoE before agricultural assistance expenses	7.41	4.09	3.32	
<b>Business volume (KRW trillion)</b>				
Total assets	388.7	366.9	21.8	5.9
Total assets including AUM	490.6	464.4	26.2	5.6
Capital	21.1	20.4	0.7	3.4
Attributable to controlling interests	18.2	17.5	0.7	4.0
<b>Business size</b>				
Loan assets	236.1	221.2	14.9	6.7
Deposit liabilities	209.3	196.5	12.8	6.5
<b>Capital adequacy</b>				
Total Capital Ratio	13.47	13.49	(0.02)	
Common equity tier 1 ratio	10.49	10.02	0.47	
Tier 1 ratio	11.49	11.24	0.25	
<b>Asset quality</b>				
Substandard and below ratio	1.05	1.38	(0.33)	
NPL Coverage Ratio	79.71	59.28	20.43	

\* Agricultural assistance expenses: Expenses levied on NH Bank and other subsidiaries by the NACF, in accordance with Article 159 Section 2 of the Agricultural Cooperative Act, for the stable procurement of funds necessary to carry out projects to support members and member cooperatives such as promoting agricultural product processing centers (the same hereafter).

## Operating Performance

Net income in 2017 amounted to KRW 859.8 billion (or KRW 1,127.2 billion before agricultural assistance expenses of KRW 362.9 billion), representing growth of 167.9% YoY.

The strong growth is attributed to efforts to clean up bad loans and overhaul of the loan review process in 2016, growth of both interest income and commission income, and reduction in write-off of loans.

## Consolidated Income Statement

	(unit: KRW 100 million)			
	2017	2016	YoY	%
Gross operating income (a=b+c)	66,492	61,286	5,206	8.5
Interest income (b)	71,949	67,297	4,652	6.9
Non-interest income (c)	(5,457)	(6,011)	554	(9.2)
Provision for credit loss (d)	9,439	16,780	(7,341)	(43.7)
Operating income before SG&A expenses (e=a-d)	57,054	44,506	12,548	28.2
SG&A expenses (f)	39,889	36,998	2,891	7.8
Operating income (g=e-f)	17,165	7,508	9,657	128.6
Agricultural assistance expenses (h)	3,629	3,834	(205)	(5.3)
Other non-operating income (i)	(96)	1,691	(1,787)	(105.7)
Income before income taxes (j=g-h+i)	13,440	5,365	8,075	150.5
Income tax expenses (k)	2,915	1,099	1,816	165.2
Consolidated net income (m=j-k+l)	10,525	4,266	6,259	146.7
Net income attributable to controlling interests	8,598	3,210	5,388	167.9
Net income attributable to non-controlling interests	1,927	1,056	871	82.5
Net income before agricultural assistance expenses(attributable to controlling interests)	11,272	6,051	5,221	86.3

Interest income rose by 6.9% YoY to KRW 7,194.9 billion on the back of steady growth in KRW-denominated loans.

Non-interest income went up by KRW 55.4 billion over the previous year, lifted by increased gains on securities.

Provisions for credit loss decreased by 43.7% YoY to KRW 943.9 billion. Of note, significant provisions were set aside in 2016 due to bad loans of the shipbuilding and shipping industries.

SG&A expenses increased 7.8% YoY to KRW 3,988.9 billion.

Operating income came in at KRW 1,716.5 billion, up by KRW 965.7 billion (128.6%) over the previous year.

Agricultural assistance expenses declined by 5.3% YoY to KRW 362.9 billion. Net income attributable to controlling interests grew 167.9% YoY to KRW 859.8 billion while net income before agricultural assistance expenses was KRW 1,127.2 billion.

NH Bank, NH Life Insurance, NH Property & Casualty Insurance and NH Investment & Securities posted net income attributable to controlling interests of KRW 652.1 billion, KRW 85.4 billion, KRW 26.5 billion and KRW 350.1 billion, respectively.

NH-Amundi Asset Management, NH Capital and NH Savings Bank respectively posted standalone net income of KRW 13.5 billion, KRW 35.3 billion and KRW 9.6 billion.

**NH Financial Group Annual Report 2017**  
Management's Discussion & Analysis

NH-Amundi Asset Management is not a consolidated subsidiary of NH Financial Group. Rather, it is a joint company subject to equity method accounting and is reflected in the equity method gains/losses.

**Income by Subsidiary**

**FY2017**

(unit: KRW 100 million)

	Bank			Non-bank				Subtotal	Adjustment	Consolidated profit/loss
	NH Bank	NH Life Insurance	NH Property & Casualty insurance	NH Investment & Securities	NH-Amundi Asset Management	NH Capital	NH Savings Bank			
Interest income	45,879	17,103	1,980	5,830	12	1,743	455	27,123	(1,053)	71,949
Commission income	5,735	(272)	(527)	5,685	368	(93)	(22)	5,139	(553)	10,321
Other operating gain/loss	(39,696)	(15,452)	(1,082)	(6,923)	(203)	(1,185)	(329)	(25,174)	(235)	(65,105)
Operating income	11,918	1,379	371	4,592	177	465	104	7,088	(1,841)	17,165
Equity method gain/loss	20	-	-	(10)	-	-	-	(10)	102	112
Other non-operating gain/loss	(3,355)	(257)	(22)	(157)	(2)	10	(1)	(429)	(53)	(3,837)
Net income before income taxes	8,583	1,122	349	4,425	175	475	103	6,649	(1,792)	13,440
Income tax expenses	2,062	268	84	929	40	122	7	1,450	(597)	2,915
<b>Net income</b>	<b>6,521</b>	<b>854</b>	<b>265</b>	<b>3,496</b>	<b>135</b>	<b>353</b>	<b>96</b>	<b>5,199</b>	<b>(1,195)</b>	<b>10,525</b>
Controlling interests	6,521	854	265	3,501	135	353	96	5,204	(3,127)	8,598
Non-controlling interests	-	-	-	(5)	-	-	-	(5)	1,932	1,927

**FY2016**

(unit: KRW 100 million)

	Bank			Non-bank				Subtotal	Adjustment	Consolidated profit/loss
	NH Bank	NH Life Insurance	NH Property & Casualty insurance	NH Investment & Securities	NH-Amundi Asset Management	NH Capital	NH Savings Bank			
Interest income	42,058	16,661	1,703	6,056	13	1,478	424	26,335	(1,096)	67,297
Commission income	5,611	(318)	(428)	5,480	355	(76)	(18)	4,995	(560)	10,046
Other operating gain/loss	(44,011)	(14,540)	(795)	(8,517)	(180)	(997)	(274)	(25,303)	(521)	(69,835)
Operating income	3,658	1,803	480	3,019	188	405	132	6,027	(2,177)	7,508
Equity method gain/loss	283	-	-	130	-	-	-	130	497	910
Other non-operating gain/loss	(2,703)	212	(17)	(129)	(1)	(18)	-	47	(397)	(3,053)
Net income before income taxes	1,238	2,015	463	3,020	187	387	132	6,204	(2,077)	5,365
Income tax expenses	127	470	110	658	42	87	-	1,367	(395)	1,099
<b>Net income</b>	<b>1,111</b>	<b>1,545</b>	<b>353</b>	<b>2,362</b>	<b>145</b>	<b>300</b>	<b>132</b>	<b>4,837</b>	<b>(1,682)</b>	<b>4,266</b>
Controlling interests	1,111	1,545	353	2,361	145	300	132	4,836	(2,737)	3,210
Non-controlling interests	-	-	-	1	-	-	-	1	1,055	1,056

Total non-interest income went up KRW 55.4 billion. Commission income increased by KRW 27.5 billion and gains on securities by KRW 2,358.3 billion, whereas gains on foreign exchange transactions/financial derivatives decreased by KRW 2,125.4 billion and income from insurance slid by KRW 98.9 billion.

NH Financial Group Annual Report 2017  
Management's Discussion & Analysis

### Non-interest Income

(unit: KRW 100 million)

	2017	2016	YoY
Commission income	10,321	10,046	275
Gain/loss on securities	21,495	(2,088)	23,583
FX transactions/financial derivatives	(15,943)	5,311	(21,254)
Insurance	(12,477)	(11,488)	(989)
Others	(8,854)	(7,792)	(1,062)
<b>Total non-interest income</b>	<b>(5,457)</b>	<b>(6,011)</b>	<b>554</b>

### SG&A Expenses

(unit: KRW 100 million)

	2017	2016	YoY	%
Employee expenses	26,100	23,266	2,834	12.2
Wages	17,912	15,521	2,391	15.4
Severance benefits	2,683	2,385	298	12.5
Layoff payments	519	558	(39)	(7.0)
Fringe benefit expenses	4,986	4,802	184	3.8
Depreciation	4,186	3,938	248	6.3
Others	9,603	9,794	(191)	(2.0)
<b>Total SG&amp;A expenses</b>	<b>39,889</b>	<b>36,998</b>	<b>2,891</b>	<b>7.8</b>

### Financial Position

As of the end of 2017, NH Financial Group's total assets stood at KRW 388.7 trillion, total liabilities at KRW 367.6 trillion, and shareholders' equity at KRW 21.1 trillion. Compared to 2016, total assets increased by KRW 21.8 trillion and shareholders' equity grew by KRW 750.4 billion.

(unit: KRW 100 million)

	2017		2016		
	Amount	As % of Total	Amount	As % of Total	
Assets	Cash & cash equivalents	137,160	3.53	143,686	3.92
	Short-term trading financial assets	312,325	8.03	325,904	8.88
	Designated financial assets at fair value through profit/loss	12,013	0.31	12,552	0.34
	Available-for-sale financial assets	428,898	11.03	365,085	9.95
	Held-to-maturity investments	467,675	12.03	452,895	12.34
	Loans & receivables	2,433,096	62.59	2,282,346	62.20
	Tangible & intangible assets	38,299	0.99	36,322	0.99
	Other assets	57,951	1.49	50,658	1.38
	<b>Total</b>	<b>3,887,417</b>	<b>100.00</b>	<b>3,669,448</b>	<b>100.00</b>
Liabilities	Deposit liabilities	2,093,280	56.94	1,964,542	56.68
	Borrowings/debentures	572,344	15.57	542,459	15.65
	Other liabilities	1,010,601	27.49	958,759	27.67
	<b>Total</b>	<b>3,676,225</b>	<b>100.00</b>	<b>3,465,760</b>	<b>100.00</b>
<b>Total shareholders' equity</b>	<b>211,192</b>	<b>-</b>	<b>203,688</b>	<b>-</b>	
<b>Liabilities &amp; total shareholders' equity</b>	<b>3,887,417</b>	<b>-</b>	<b>3,669,448</b>	<b>-</b>	

NH Financial Group Annual Report 2017  
Management's Discussion & Analysis

NH Financial Group's loan assets and deposit liabilities are shown below.

(unit: KRW 100 million)

	2017	2016	YoY	%
Loan assets	2,360,516	2,211,973	148,543	6.7
Won-denominated loan assets	2,126,930	2,008,578	118,352	5.9
(Household loans)	977,889	908,224	69,665	7.7
(Corporate loans)	1,002,240	922,137	80,103	8.7
(Public financing)	138,864	168,764	(29,900)	(17.7)
(Integrated)	7,937	9,452	(1,515)	(16.0)
Foreign currency-denominated loan assets	14,867	18,042	(3,175)	(17.6)
Credit card receivables	63,892	58,273	5,619	9.6
Other loan assets	154,827	127,080	27,747	21.8
Deductibles such as loan loss provisions	17,299	16,586	713	4.3
Net book value of loan assets	2,343,218	2,195,387	147,831	6.7

(unit: KRW 100 million)

	2017	2016	YoY	%
Deposit liabilities	2,093,280	1,964,542	128,738	6.6
Demand deposits	361,535	349,747	11,788	3.4
Time deposits	1,697,242	1,582,337	114,905	7.3
Certificates of deposit	3,738	12,551	(8,813)	(70.2)
Customer deposits for securities trading	30,765	19,907	10,858	54.5

### Capital Adequacy

On consolidated basis, NH Financial Group's risk-weighted assets stood at KRW 138.9 trillion and total shareholders' equity at KRW 18.6 trillion as of the end of 2017, translating to a total capital ratio of 13.47%, down by 0.02%p YoY. The common equity tier 1 ratio was 10.49%, up by 0.47%p YoY.

(unit: KRW 100 million, %, %p)

	2017	2016	YoY
Risk-weighted assets (a)	1,380,916	1,357,462	23,454
Total shareholders' equity (b)	185,986	183,098	2,888
Common equity tier 1 capital (c)	144,906	136,040	8,866
Tier 1 capital (d)	158,665	152,609	6,056
Total capital ratio (b/a)	13.47	13.49	(0.02)
Common equity tier 1 ratio (c/a)	10.49	10.02	0.47
Tier 1 ratio (d/a)	11.49	11.24	0.25

**NH Financial Group Annual Report 2017**  
Management's Discussion & Analysis

(Unit: %, %p)

	Indicator (%, %p)	2017	2016	YoY
NH Bank <sup>Note 1)</sup>	Total capital ratio	14.72	14.62	0.10
	Common equity tier 1 ratio	11.60	11.32	0.28
	Tier 1 ratio	11.92	11.64	0.28
NH Life Insurance	Risk-based capital ratio <sup>Note 2)</sup>	217.92	186.46	31.46
NH Property & Casualty Insurance	Risk-based capital ratio <sup>Note 2)</sup>	190.59	188.81	1.78
NH Investment & Securities	Net capital ratio	1,811.22	1,341.87	469.35
NH-Amundi Asset Management	Shareholders' equity (KRW 100 million)	966.00	970.00	(4.00)
	Minimum net operating capital (KRW 100 million)	164.90	171.50	(6.60)
NH Capital	Adjusted capital adequacy ratio	11.72	11.53	0.19
NH Savings Bank	BIS capital adequacy ratio <sup>Note 3)</sup>	16.59	18.90	(2.31)

Note 1) NH Bank's capital adequacy indicators are based on Basel III

Note 2) Risk-based capital ratio calculated using the RBC method

Note 3) NH Savings Bank's capital adequacy indicators are based on Basel I

**Profitability**

As of the end of 2017, NH Financial Group's consolidated ROA and ROE were 0.28% and 5.87%, respectively.

(unit: %)

	2017		2016	
	ROA	ROE	ROA	ROE
NH Financial Group (consolidated)	0.28	5.87	0.12	2.43
NH Bank	0.25	4.54	0.02	0.41
NH Life Insurance	0.16	2.61	0.25	3.96
NH Property & Casualty Insurance	0.29	4.05	0.45	5.46
NH Investment & Securities	0.85	7.55	0.49	4.64
NH-Amundi Asset Management	13.71	14.64	14.90	15.81
NH Capital	0.98	8.49	1.06	9.94
NH Savings Bank	0.97	6.91	1.49	10.29

**Asset Quality**

As of the end of 2017, NH Financial Group's consolidated SBL ratio stood at 1.05% and the NPL coverage ratio at 79.71%.

(unit: KRW 100 million)

	2017	2016	YoY
Total loans <sup>Note 1)</sup>	2,272,349	2,157,417	114,932
Substandard and below loans (SBL)	23,834	29,677	(5,843)
SBL ratio (%)	1.05	1.38	(0.33)
Non-performing loans (NPL)	21,886	27,035	(5,149)
NPL ratio (%)	0.96	1.25	(0.29)
NPL coverage ratio (A/B, %)	79.71	59.28	20.43
Balance of loan loss provision (A) <sup>Note 2)</sup>	18,997	17,592	1,405
SBL (B)	23,834	29,677	(5,843)

Note 1) Total loans: Including loans subject to calculation of NPL

Note 2) Balance of loan loss provision: Provision for loans subject to calculation of NPL



**NH Financial Group Annual Report 2017**  
Management's Discussion & Analysis

The SBL ratio, NPL ratio and NPL coverage ratio of the subsidiaries are shown in the following table.

(unit: %)

	2017			2016		
	SBL ratio	NPL ratio	NPL coverage ratio	SBL ratio	NPL ratio	NPL coverage ratio
NH Bank	1.03	0.95	78.55	1.36	1.23	56.93
NH Life Insurance	0.13	0.13	322.61	0.39	0.39	168.52
NH Investment & Securities	0.58	0.58	59.99	0.74	0.74	34.13
NH Capital	1.96	1.38	97.50	1.76	1.32	102.27
NH Savings Bank	4.05	3.90	123.41	7.54	7.57	89.87

# FINANCIAL STATEMENTS



## INDEPENDENT AUDITORS' REPORT

The Shareholders and Board of Directors  
NongHyup Financial Group Inc.

We have audited the accompanying consolidated financial statements of NongHyup Financial Group Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

March 9, 2018



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This audit report is effective as at March 9, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

for the years ending December 31, 2017 and 2016

(Korean won in millions)

	December 31, 2017		December 31, 2016	
<b>Assets</b>				
Cash and due from banks	₩	13,716,039	₩	14,368,555
Financial assets held-for-trading		31,232,489		32,590,420
Financial assets at fair value through profit or loss (FVTPL)		1,201,273		1,255,248
Derivative assets		2,432,355		1,741,073
Available-for-sale (AFS) financial assets		42,889,771		36,508,457
Held-to-maturity (HTM) financial assets		46,767,505		45,289,514
Loans and receivables		243,309,585		228,234,573
Investments in associates and joint ventures		242,063		253,983
Tangible assets		3,304,521		3,111,745
Investment properties		878,397		1,042,339
Intangible assets		525,379		520,465
Current income tax assets		4,161		3,881
Deferred income tax assets		641,230		450,316
Other assets		1,596,915		1,574,213
Assets classified as held for sale		15		15
<b>Total assets</b>	₩	<b>388,741,698</b>	₩	<b>366,944,797</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Deposits	₩	209,328,015	₩	196,454,158
Financial liabilities held-for-trading		962,144		655,480
Financial liabilities at fair value through profit or loss (FVTPL)		12,642,298		14,629,082
Derivative liabilities		2,196,840		3,324,395
Borrowings		27,751,286		27,917,397
Debentures		29,483,147		26,328,465
Provisions		488,332		366,492
Net defined benefit liabilities		375,614		380,932
Insurance contract liabilities		67,548,940		64,408,849
Current income tax liabilities		84,552		58,850
Deferred tax liabilities		811		68,966
Other liabilities		16,760,546		11,982,883
<b>Total liabilities</b>	₩	<b>367,622,525</b>	₩	<b>346,575,949</b>
<b>Equity</b>				
Equity attributable to equity holders of the parent		18,173,603		17,508,246
Capital stock		1,414,095		1,414,095
Other paid-in capital		14,149,916		14,149,999
Retained earnings		3,121,822		2,298,040
Accumulated other comprehensive income (loss)		(512,230)		(353,888)
Non-controlling shareholders' equity		2,945,570		2,860,602
<b>Total equity</b>		<b>21,119,173</b>		<b>20,368,848</b>
<b>Total liabilities and equity</b>	₩	<b>388,741,698</b>	₩	<b>366,944,797</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

for the years ending December 31, 2017 and 2016

(Korean won in millions, except per share amounts)

	For the years ended December 31,	
	2017	2016
<b>Net interest income</b>		
Interest income	₩ 10,312,795	₩ 9,896,020
Interest expenses	(3,117,868)	(3,166,316)
	7,194,927	6,729,704
<b>Net commission income</b>		
Commission income	1,766,827	1,659,682
Commission expenses	(734,689)	(655,041)
	1,032,138	1,004,641
<b>Gain on trading financial assets, net</b>	<b>2,481,156</b>	<b>120,933</b>
<b>Loss on financial assets at FVPTL, net</b>	<b>(792,958)</b>	<b>(845,845)</b>
<b>Gain on financial investment assets, net</b>	<b>461,301</b>	<b>516,128</b>
<b>Loss from insurance compensation, net</b>	<b>(1,247,702)</b>	<b>(1,152,163)</b>
<b>Other operating expenses, net</b>	<b>(2,479,646)</b>	<b>(244,769)</b>
<b>Operating income before credit losses and general and administrative expenses</b>	<b>6,649,216</b>	<b>6,128,629</b>
<b>Provision of allowances for losses on credit</b>	<b>(943,852)</b>	<b>(1,678,033)</b>
<b>Operating income before general administrative expenses</b>	<b>5,705,364</b>	<b>4,450,596</b>
<b>General and administrative expenses</b>		
Employee benefits	2,609,980	2,326,587
Depreciation and amortization expenses	418,600	393,797
Other general and administrative expenses	960,290	979,433
	3,988,870	3,699,817
<b>Operating income</b>	<b>1,716,494</b>	<b>750,779</b>
<b>Share of net income of associates</b>	<b>11,242</b>	<b>91,044</b>
<b>Other expenses, net</b>	<b>(383,734)</b>	<b>(305,307)</b>
<b>Income before income tax expense</b>	<b>1,344,002</b>	<b>536,516</b>
<b>Income tax expense</b>	<b>291,500</b>	<b>109,960</b>
<b>Net income</b>	<b>1,052,502</b>	<b>426,556</b>
Equity holders of the parent	859,784	320,968
Non-controlling interests	192,718	105,588

(Continued)

NH Financial Group Annual Report 2017  
Financial Statements

(Korean won in millions, except per share amounts)

	For the years ended December 31,	
	2017	2016
<b>Other comprehensive income (loss)</b>		
Items not to be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit liabilities plan	(73,449)	(112,755)
Items to be reclassified subsequently to profit or loss:		
Gain (loss) on translation of AFS financial assets	(8,156)	6,955
Loss on valuation of AFS financial assets	(71,013)	(132,667)
Gain on valuation of HTM financial assets	180	(2,426)
Gain (loss) on valuation of investments in associates	433	(7,189)
Gain (loss) on valuation of cash flow hedge	28,432	(1,873)
Gain (loss) on overseas business translation	(56,119)	14,790
	(179,692)	(235,165)
<b>Total comprehensive income</b>	₩ 872,810	₩ 191,391
Equity holders of the parent	701,443	81,315
Non-controlling interests	171,367	110,076
<b>Earnings per share</b>		
Basic earnings per share	₩ 3,040	₩ 1,135
Diluted earnings per share	₩ 3,040	₩ 1,135

NH Financial Group Annual Report 2017  
Financial Statements

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ending December 31, 2017 and 2016

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling shareholders' equity	Total
As at January 1, 2016	₩ 1,414,095	₩ 15,345,246	₩ (1,195,113)	₩ 2,157,072	₩ (114,235)	₩ 2,831,439	₩ 20,438,504
Net income for the year	-	-	-	320,968	-	105,588	426,556
Dividends	-	-	-	(180,000)	-	(65,398)	(245,398)
Remeasurements of the defined benefit plan	-	-	-	-	(112,755)	-	(112,755)
Loss on valuation of available-for-sale financial assets	-	-	-	-	(131,217)	(1,450)	(132,667)
Gain on translation of available-for-sale financial assets	-	-	-	-	6,955	-	6,955
Loss on valuation of held-to-maturity financial assets	-	-	-	-	(2,426)	-	(2,426)
Gain on overseas business translation	-	-	-	-	7,280	7,510	14,790
Loss on valuation of cash flow hedge	-	-	-	-	(692)	(1,181)	(1,873)
Loss on valuation of investments in associates	-	-	-	-	(6,798)	(391)	(7,189)
Amount of ownership changes in subsidiaries	-	-	-	-	-	1,565	1,565
Increase in paid-in capital in subsidiaries	-	-	(134)	-	-	-	(134)
Dividends on hybrid equity securities	-	-	-	-	-	(17,080)	(17,080)
As at December 31, 2016	₩ 1,414,095	₩ 15,345,246	₩ (1,195,247)	₩ 2,298,040	₩ (353,888)	₩ 2,860,602	₩ 20,368,848

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Non-controlling shareholders' equity	Total
As at January 1, 2017	₩ 1,414,095	₩ 15,345,246	₩ (1,195,247)	₩ 2,298,040	₩ (353,888)	₩ 2,860,602	₩ 20,368,848
Net income for the year	-	-	-	859,784	-	192,718	1,052,502
Dividends	-	-	-	(35,800)	-	(65,398)	(101,198)
Disposal of treasury stock	-	-	2	-	-	-	2
Remeasurements of the defined benefit plan	-	-	-	-	(70,028)	(3,421)	(73,449)
Loss on valuation of available-for-sale financial assets	-	-	-	-	(60,640)	(10,373)	(71,013)
Loss on translation of available-for-sale financial assets	-	-	-	-	(8,156)	-	(8,156)
Gain on valuation of held-to-maturity financial assets	-	-	-	-	180	-	180
Loss on overseas business translation	-	-	-	-	(29,814)	(26,305)	(56,119)
Gain on valuation of cash flow hedge	-	-	-	-	9,553	18,879	28,432
Gain or loss on valuation of investments in associates	-	-	-	-	563	(130)	433
Amount of ownership changes in subsidiaries	-	-	-	-	-	(3,876)	(3,876)
Ownership changes in subsidiaries	-	359	(200)	(202)	-	(46)	(89)
Increase in paid-in capital in subsidiaries	-	-	(244)	-	-	-	(244)
Dividends on hybrid equity securities	-	-	-	-	-	(17,080)	(17,080)
As at December 31, 2017	₩ 1,414,095	₩ 15,345,605	₩ (1,195,689)	₩ 3,121,822	₩ (512,230)	₩ 2,945,570	₩ 21,119,173

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

for the years ending December 31, 2017 and 2016

(Korean won in millions)

	For the years ended December 31,	
	2017	2016
<b>Operating activities</b>		
Income before income tax expense	₩ 1,344,002	₩ 536,516
Adjustments to reconcile net income before income tax expense to net cash flows:	(1,082,177)	964,362
Net interest income	(7,194,927)	(6,729,704)
Dividend income	(334,981)	(355,872)
Net loss (gain) of held-for-trading financial assets	(425,048)	530,390
Net loss of financial assets at FVTPL	95,160	454,478
Net gain of AFS financial assets	(189,328)	(198,406)
Net gain of HTM financial assets	(77)	(25,365)
Net loss (gain) of hedging derivatives	(334,099)	53,798
Net gain of investments in associates	(11,242)	(91,044)
Depreciation and amortization	427,147	404,119
Other gain of tangible and intangible assets	(12,378)	(38,017)
Provision of allowance for losses on credit	943,852	1,678,033
Provision of insurance contract liabilities	2,994,376	5,281,716
Net loss (gain) on foreign currency translation	1,871,504	(465,563)
Retirement expenses	268,251	238,523
Other losses	819,613	227,276
Changes in operating assets and liabilities:	(1,099,535)	(1,385,745)
Due from banks	716,017	5,608,338
Financial assets held-for-trading	2,729,809	4,013,661
Financial assets at FVTPL	(60,884)	62,738
Derivatives assets	849,652	580,697
Loans	(16,442,901)	(25,125,264)
Other assets	(331,067)	(1,070,837)
Deposits	12,544,375	15,903,982
Financial liabilities held-for-trading	(3,725,094)	(206,604)
Financial liabilities at FVTPL	3,136	2,098
Derivative liabilities	(1,391,366)	(761,645)
Net defined benefit obligation	73,537	179,255
Other liabilities	3,935,251	(572,164)
Interest receipts	9,923,217	9,938,387
Interest payments	(3,068,217)	(3,198,934)
Dividend receipts	318,075	438,790
Tax payments	(245,382)	(58,605)
<b>Net cash flows provided by operating activities</b>	<b>6,089,983</b>	<b>7,234,771</b>

(Continued)



NH Financial Group Annual Report 2017  
Financial Statements

(Korean won in millions)

	For the years ended December 31,	
	2017	2016
<b>Investing activities</b>		
Acquisition of AFS financial assets and HTM financial assets	₩ (66,818,724)	₩ (94,570,368)
Disposal of AFS financial assets and HTM financial assets	57,956,151	84,874,293
Acquisition of investment in associates	(35,891)	(49,011)
Disposal of investment in associates	47,682	107,528
Acquisition of investment properties	(5,835)	(331,349)
Disposal of investment properties	38,464	472,281
Acquisition of tangible assets	(339,092)	(334,475)
Disposal of tangible assets	55,971	23,917
Acquisition of intangible assets	(207,457)	(140,699)
Disposal of intangible assets	10,403	6,820
Increase in guarantee deposits paid	(20,336)	(16,704)
Decrease in guarantee deposits paid	25,662	14,513
Others	90,861	(40,578)
<b>Net cash flows used in investing activities</b>	<b>(9,202,141)</b>	<b>(9,983,832)</b>
<b>Financing activities</b>		
Dividends paid and dividends on hybrid equity securities	₩ (118,278)	₩ (262,478)
Net increase (decrease) in borrowings	625,919	(3,031,077)
Increase in debentures	21,042,352	14,675,265
Decrease in debentures	(18,004,560)	(6,801,562)
Others	176,451	(1,911,027)
<b>Net cash flow provided by financing activities</b>	<b>3,721,884</b>	<b>2,669,121</b>
<b>Net Increase (decrease) in cash and cash equivalents</b>	<b>609,726</b>	<b>(79,940)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>3,230,769</b>	<b>3,303,799</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(120,950)</b>	<b>6,910</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>₩ 3,719,545</b>	<b>₩ 3,230,769</b>

## INDEPENDENT AUDITORS' REPORT

The Shareholders and Group of Directors  
NongHyup Financial Company Inc.

We have audited the accompanying separate financial statements of NongHyup Financial Group Inc. (the "Company"), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the separate financial statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

March 9, 2018



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This audit report is effective as at March 9, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this report.

**SEPARATE STATEMENTS OF FINANCIAL POSITION**

for the years ending December 31, 2017 and 2016

(Korean won in millions)

	December 31, 2017		December 31, 2016	
<b>Assets</b>				
Cash and due from banks	₩	58,271	₩	143,260
Investments in subsidiaries and associates		20,733,081		20,633,081
Tangible assets		350		580
Intangible assets		6,200		6,662
Receivables		214,610		228,748
Deferred tax assets		2,638		1,986
Other assets		-		1
<b>Total assets</b>		<b>21,015,150</b>		<b>21,014,318</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Debentures		3,666,200		3,556,068
Net defined benefit liabilities		7,439		6,405
Provisions		327		329
Current income tax liabilities		77,868		-
Other financial liabilities		16,283		16,773
Other non-financial liabilities		137,094		228,653
<b>Total liabilities</b>		<b>3,905,211</b>		<b>3,808,228</b>
<b>Equity</b>				
Capital stock		1,414,095		1,414,095
Other paid-in capital		15,190,453		15,190,453
Retained earnings		507,899		604,063
Accumulated other comprehensive income (loss)		(2,508)		(2,521)
<b>Total equity</b>		<b>17,109,939</b>		<b>17,206,090</b>
<b>Total liabilities and equity</b>	₩	<b>21,015,150</b>	₩	<b>21,014,318</b>

**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**

for the years ending December 31, 2017 and 2016

(Korean won in millions, except per share amounts)

	For the years ended December 31,	
	2017	2016
<b>Net interest income</b>		
Interest income	₩ 1,151	₩ 650
Interest expenses	(105,497)	(105,545)
	(104,346)	(104,895)
<b>Net commission income</b>		
Commission income	-	-
Commission expenses	(22)	(49)
	(22)	(49)
<b>Net other operating income</b>		
Other operating income	75,088	176,315
Other operating expenses	-	-
	75,088	176,315
<b>Selling and administrative expenses</b>		
Employee benefits	18,296	17,097
Depreciation and amortization expenses	2,186	2,214
Other selling and administrative expenses	11,943	13,098
	32,425	32,409
<b>Operating income (loss)</b>	<b>(61,705)</b>	<b>38,962</b>
<b>Net non-operating income</b>		
Non-operating income	1,013	236
Non-operating expenses	(178)	(98)
	835	138
<b>Net income (loss) before income tax expense</b>	<b>(60,870)</b>	<b>39,100</b>
Income tax expense (benefit)	(506)	(252)
<b>Net income (loss)</b>	<b>(60,364)</b>	<b>39,352</b>
<b>Other comprehensive income (loss)</b>		
Items not to be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit liabilities plan	13	(1,384)
Items to be reclassified subsequently to profit or loss:		
	-	-
	13	(1,384)
<b>Total comprehensive income (loss)</b>	<b>₩ (60,351)</b>	<b>₩ 37,968</b>
<b>Earnings per share</b>		
Basic earnings (loss) per share	₩ (213)	₩ 139
Diluted earnings (loss) per share	₩ (213)	₩ 139

**SEPARATE STATEMENTS OF CHANGES IN EQUITY**

for the years ending December 31, 2017 and 2016

(Korean won in millions)

	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at January 1, 2016	₩ 1,414,095	₩ 15,190,453	₩ (1,137)	₩ 744,711	₩ 17,348,122
Dividends	-	-	-	(180,000)	(180,000)
Net income for the year	-	-	-	39,352	39,352
Remeasurements of the defined benefit plan	-	-	(1,384)	-	(1,384)
As at December 31, 2016	₩ 1,414,095	₩ 15,190,453	₩ (2,521)	₩ 604,063	₩ 17,206,090

(Korean won in millions)

	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at January 1, 2017	₩ 1,414,095	₩ 15,190,453	₩ (2,521)	₩ 604,063	₩ 17,206,090
Dividends	-	-	-	(35,800)	(35,800)
Net income for the year	-	-	-	(60,364)	(60,364)
Remeasurements of the defined benefit plan	-	-	13	-	13
As at December 31, 2017	₩ 1,414,095	₩ 15,190,453	₩ (2,508)	₩ 507,899	₩ 17,109,939

**SEPARATE STATEMENTS OF CASH FLOWS**

for the years ending December 31, 2017 and 2016

(Korean won in millions)

	For the years ended December 31,	
	2017	2016
<b>Operating activities</b>		
Income (loss) before income tax expense	₩ (60,870)	₩ 39,100
Adjustments (addition) to reconcile net income to net cash flows:	109,776	109,252
Interest expense	105,497	105,545
Retirement expense	1,949	1,485
Redundancy payments	144	-
Depreciation	337	526
Amortization of intangible assets	1,849	1,688
Rental (amortization of present value discount)	-	8
Adjustments (deduction) to reconcile net income to net cash flows:	(76,239)	(176,965)
Interest income	(1,151)	(650)
Dividend income	(75,078)	(176,310)
Reversal of provision for restoration	(10)	(5)
Changes in operating assets and liabilities:	(220)	581
Accounts receivable	(29)	-
Guarantee deposits paid	450	100
Net defined benefit obligation	(455)	165
Accrued expenses	11	174
Payables	(222)	48
Other deposits	3	21
Taxes withheld	22	73
Cash received from operating activities:	76,232	177,014
Interest receipts	1,154	704
Dividend receipts	75,078	176,310
Cash payment for operating activities	(104,938)	(105,345)
Interest payments	(104,938)	(105,235)
Tax payment	-	(110)
<b>Net cash flows provided by used in operating activities</b>	<b>(56,259)</b>	<b>43,637</b>

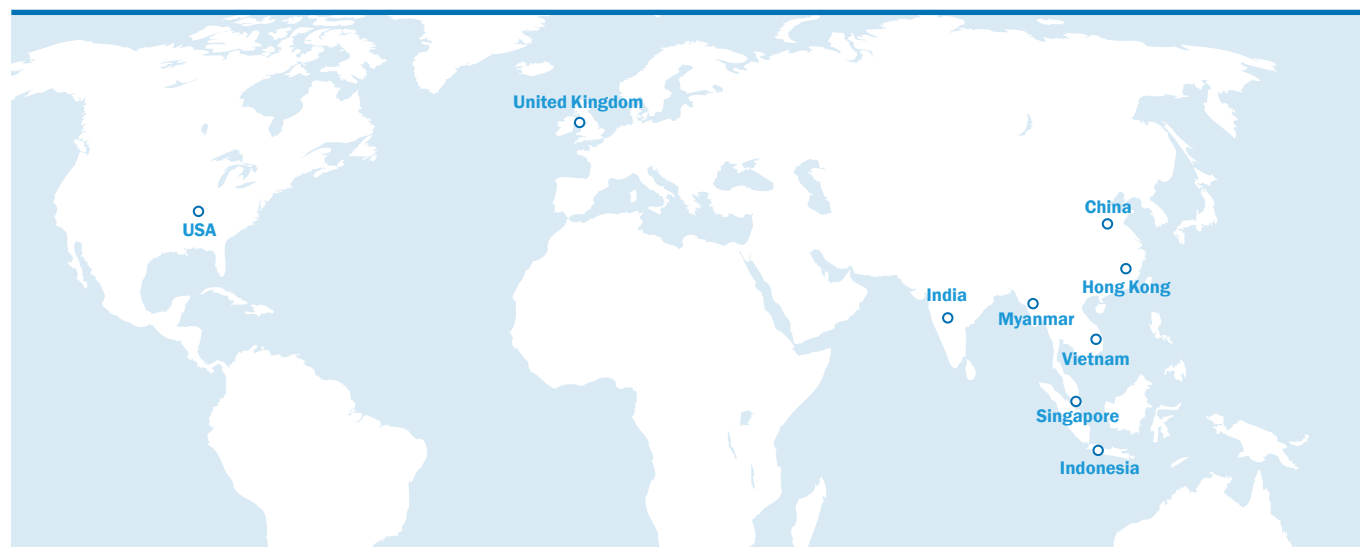
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NH Financial Group Annual Report 2017  
Financial Statements

(Korean won in millions)

	For the years ended December 31,	
	2017	2016
<b>Investing activities</b>		
Cash inflows related to investing activities	₩ -	₩ -
Cash outflows related to investing activities:	(101,494)	(50,823)
Acquisition of tangible assets	(107)	(98)
Acquisition of investments in subsidiaries	(100,000)	(50,000)
Acquisition of intangible assets	(1,387)	(725)
<b>Net cash flows used in investing activities</b>	<b>(101,494)</b>	<b>(50,823)</b>
<b>Financing activities</b>		
Cash inflows related to financing activities:	738,564	638,760
Issuance of debentures	738,564	638,760
Cash outflows related to financing activities:	(665,800)	(540,000)
Redemption of debentures	(630,000)	(360,000)
Dividends paid	(35,800)	(180,000)
<b>Net cash flows provided by financing activities</b>	<b>72,764</b>	<b>98,760</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(84,989)</b>	<b>91,574</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>143,260</b>	<b>51,686</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>₩ 58,271</b>	<b>₩ 143,260</b>

## NETWORK



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