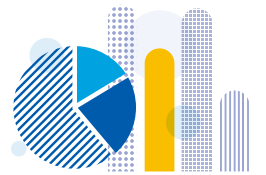


NongHyup Financial Group

Annual Report 2018



 **NongHyup Financial Group**

16, Saemunan-ro, Jung-gu, Seoul 04516, Korea
<http://www.nhfngroup.com/>

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EVERY MOMENT OF YOUR **FINANCIAL LIFE**

Laying the foundation for growth through change and reform

NongHyup Financial Group is always by your side to bring access to financial services for anyone, anywhere and to enrich every moment of your life with a happier future.

NongHyup Financial Group seeks new ideas and embraces challenge to fulfill its duties as a financial institution, roles as a member of NACF, and social responsibilities as a corporate citizen.

FINANCIAL HIGHLIGHTS

(CONSOLIDATED)

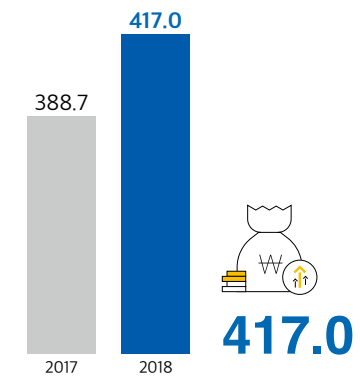
NongHyup Financial Group delivered remarkable results, with FY2018 net income surpassing the target of KRW 1 trillion. Total assets increased by 7.3% to KRW 417.0 trillion, while total assets including AUM amounted to KRW 549.3 trillion. Total shareholders' equity stood at KRW 22.4 trillion.

(unit: KRW billion, %, %p)

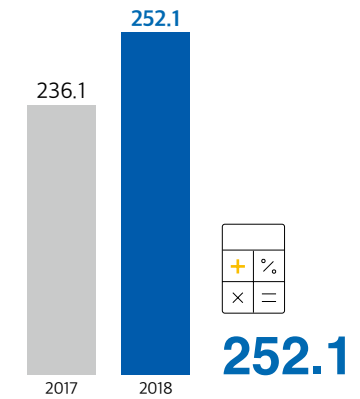
	2018	2017	YoY	%
Profitability				
Operating income	2,325.0	1,716.5	608.5	35.45%
Net income	1,404.7	1,052.5	352.2	33.46%
Net income attributable to controlling interests	1,218.9	859.8	359.1	41.76%
Net income attributable to controlling interests before agricultural assistance expenses	1,489.9	1,127.2	362.7	32.17%
RoA	0.35	0.28	0.07	
RoE	7.48	5.87	1.61	
RoA before agricultural assistance expenses	0.42	0.35	0.07	
RoE before agricultural assistance expenses	8.96	7.41	1.55	
Business volume (KRW trillion)				
Total assets	417.0	388.7	28.3	7.27%
Total assets including AUM	549.3	490.6	58.7	11.96%
Shareholders' equity	22.4	21.1	1.3	6.26%
Attributable to controlling interests	19.4	18.2	1.2	6.77%
Loan assets	252.1	236.1	16.0	6.78%
Deposit liabilities	228.9	209.3	19.6	9.35%
Capital adequacy				
Total Capital Ratio	13.86	13.47	0.39	
Common equity tier 1 ratio	11.08	10.49	0.59	
Tier 1 ratio	12.05	11.49	0.56	
Asset quality				
Substandard and below ratio	0.91	1.05	(0.14)	
NPL Coverage Ratio	97.27	79.71	17.56	

* Agricultural assistance expenses: Expenses levied on NongHyup 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).

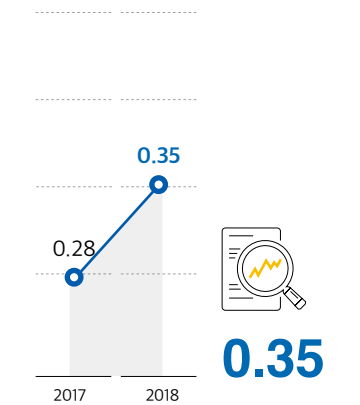
Total assets (unit: KRW trillion)



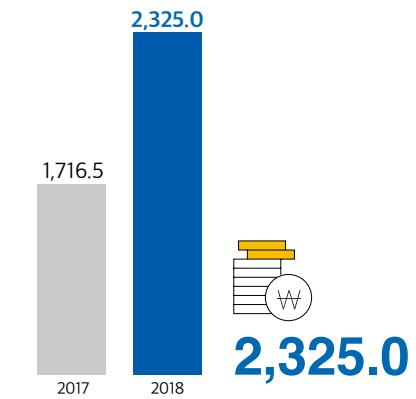
Loan assets (unit: KRW trillion)



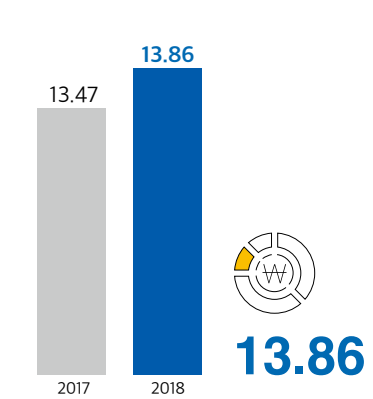
RoA (unit: %)



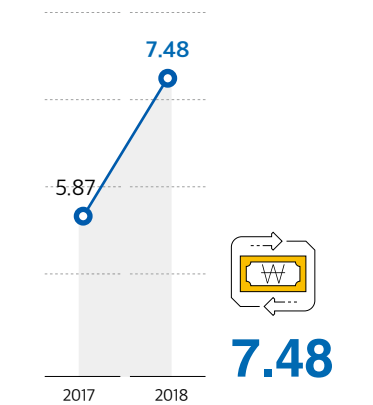
Operating income (unit: KRW billion)



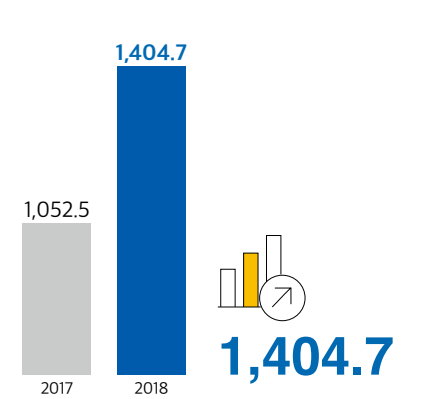
Total Capital Ratio (unit: %)



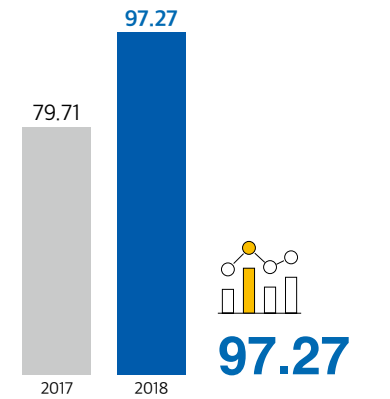
RoE (unit: %)



Net income (unit: KRW billion)



NPL Coverage Ratio (unit: %)





CEO MESSAGE

We will carve out a new future with our stakeholders by upholding the inherent role and values of NongHyup Financial Group(NHFG).

Dear shareholders and customers,

On behalf of everyone at NHFG, thank you for your continued support over the past year.

In 2018, the global economy experienced a surge in uncertainties due to factors such as the trade conflict between the US and China coupled with interest rate hikes. On the domestic front, higher interest rates dampened corporate investment, adding to restructuring woes and rising unemployment. Yet even in the face of such challenges, NHFG surpassed its target and posted net income exceeding KRW 1 trillion.

Our total assets increased by KRW 28.3 trillion to reach KRW 417.0 trillion, and total shareholders' equity stood at KRW 22.4 trillion. Net income for 2018 amounted to KRW 1,218.9 billion. When agricultural assistance expenses of KRW 385.8 billion levied by NACF are excluded, net income was KRW 1,489.9 billion.

To secure future growth drivers, we pursued new businesses such as REITs, sale of promissory notes, and car rentals. We also expanded our overseas network with the acquisition of a microfinance institution in Cambodia. In this age of the fourth industrial revolution, we made progress on our transition to a digital financial company by setting up a big data platform (NH Big Square) and adopting the industry's largest robotic process automation (RPA). We also launched the integrated 'NH members' scheme to pool Group-wide resources for greater synergies.

Guided by our strategic goal of "Laying the foundation for growth through change and reform," we will implement the following key initiatives in 2019.

First, we will optimize growth strategies and resource allocation.

We will upgrade competencies of the bank and securities arms, the Group's main profit centers, and carry out portfolio rebalancing for assets, liabilities, customers and products to pave the way for profit generation. For insurance, which operates with a long-term horizon, we will innovate the business structure to enhance mid-to-long-term corporate value. We will form closer ties with farming communities and agricultural/livestock cooperatives to boost the value of insurance and agriculture. As for the asset management, capital, savings bank and REITs subsidiaries, our goal is to promote greater synergies and strengthen our footing in consumer finance.

Second, we will ensure business sustainability through strategic efficiency.

To enhance sustainable operations of NHFG, we will maximize advantages of the holding company structure and increase Group-wide efficiency. We will also adopt a more flexible approach to human resources by considering new technologies and future businesses in step with digital trends in finance.

Third, we will reform the way we generate customer value and nurture talents.

In business lines that increase customers' wealth (WM, CIB, etc.), we will take a Group-wide approach to best grow assets and meet the clients' needs. Digital infrastructure and work procedures in face-to-face channels will be designed to provide customers with easier access and greater convenience. Furthermore, to ensure that we provide clients with the utmost value, we will nurture professionals like data scientists, relationship managers, FPs and global experts who have the expertise needed in today's world. We will do away with outdated practices to foster simplicity and speed in our corporate culture.

Fourth, we will explore new businesses and new markets to prepare for the future.

Deregulation and support for financial innovation in 2019 will include a regulatory sandbox for fintech companies, Korea's third Internet-only bank, and the easing of restrictions on non-financial companies' entry into the financial industry. We will respond proactively to such reforms and seize the opportunity to grow into a smart financial group. To this end, we will think outside the box and embrace new technologies while delivering services and value that customers can truly appreciate.



Lastly, we will fulfill our social responsibilities as a member of NACF.

We will extend support to farmers, small business owners, and SMEs in their time of need and make every effort to offer the best products and services. We are committed to consumer protection and the stable generation of economic value for NACF and member agricultural/livestock cooperatives as we grow as a sustainable financial group.

The year 2019 is expected to present ever more challenging business conditions. NHFG will lay a strong foundation for sustainable operations by adopting an approach of *sabyeondokhaeng*, meaning prudent consideration, clear judgment, and diligent execution. We ask for your continued encouragement and wish all our stakeholders much happiness and success in the year ahead.

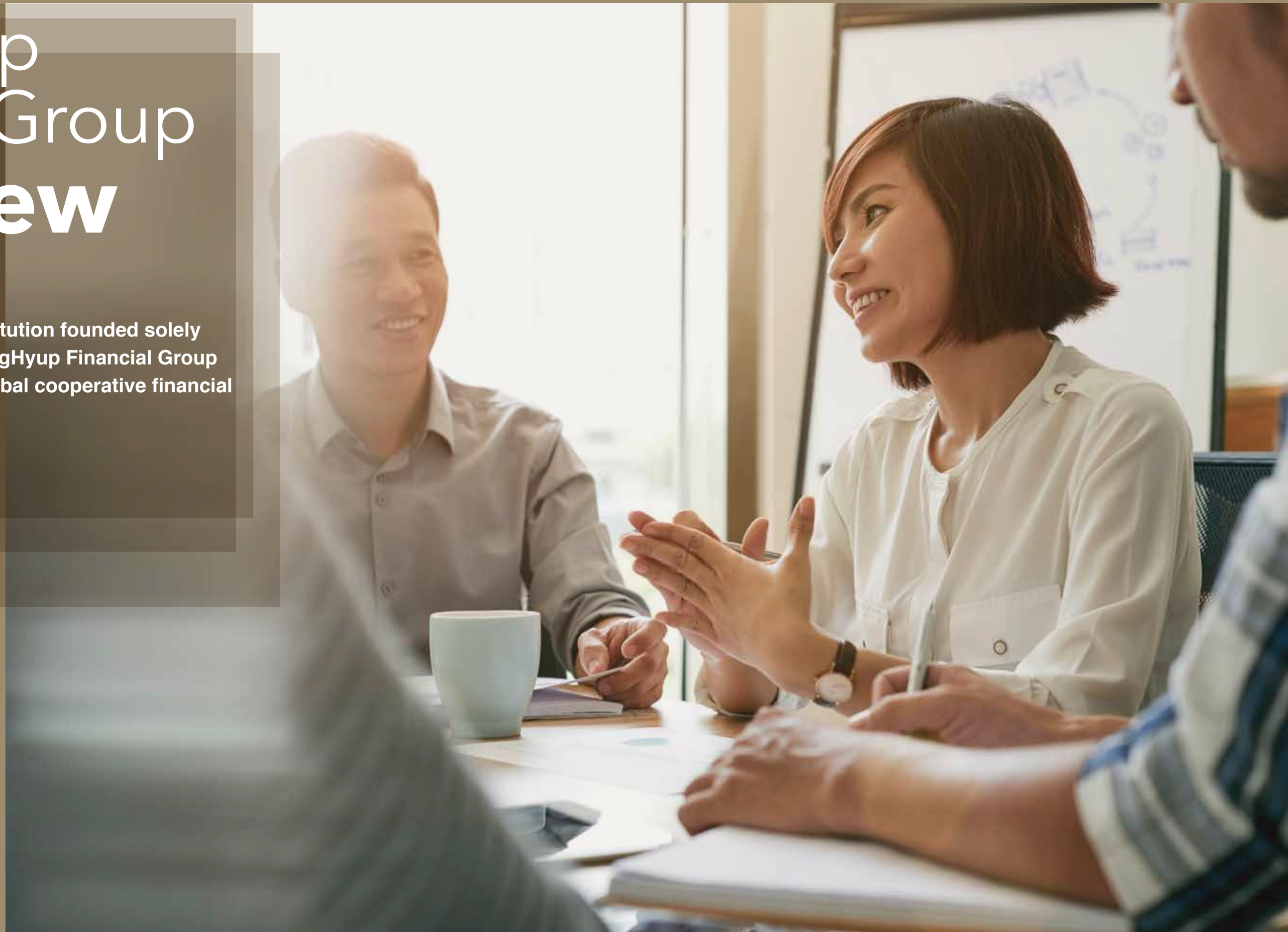
Thank you.

JS Kim.

Kim, Gwang-Soo
Chairman & CEO
NongHyup Financial Group

NongHyup Financial Group Overview

As the only Korean financial institution founded solely with private domestic funds, NongHyup Financial Group is growing into Asia's leading global cooperative financial group.



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CORPORATE PROFILE

True to our position as one of the major financial holding companies in Korea, NongHyup Financial Group strives to respond judiciously to rapid changes in the social, economic, and financial environment and provide customers with better services.

NongHyup Financial Group encompasses banking, insurance, securities, asset management, capital, savings bank and REITs management subsidiaries to offer comprehensive services.

We faithfully carry out our role of supporting farming communities while solidifying our position as Korea's leading financial group.



HISTORY



2011

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

2012

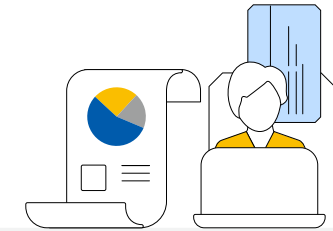
02. Spin-off plan for establishment of NHFG approved by BOD

03. Establishment of NHFG

10. Invested additional KRW 350 billion in NongHyup Life Insurance and KRW 60 billion in NongHyup Property & Casualty Insurance, 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 NongHyup Bank

06. Invested additional KRW 150 billion in NH Investment & Securities, raising equity stake to 76.09%

10. Invested additional KRW 500 billion in NongHyup Bank

12. Selected as preferred bidder for former Woori Financial Holdings' securities operations

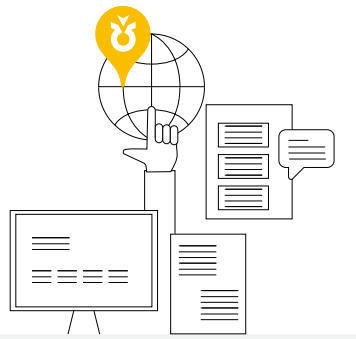
2014

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 NongHyup Life Insurance and KRW 15.7 billion in NongHyup Property & Casualty Insurance



2015

01. Sale of former Woori Aviva Life Insurance to DGB Financial Group

03. Invested additional KRW 400 billion in NongHyup Bank

08. Invested additional KRW 150 billion in NongHyup 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

2018

02. NH Capital carried out rights issue worth KRW 100 billion

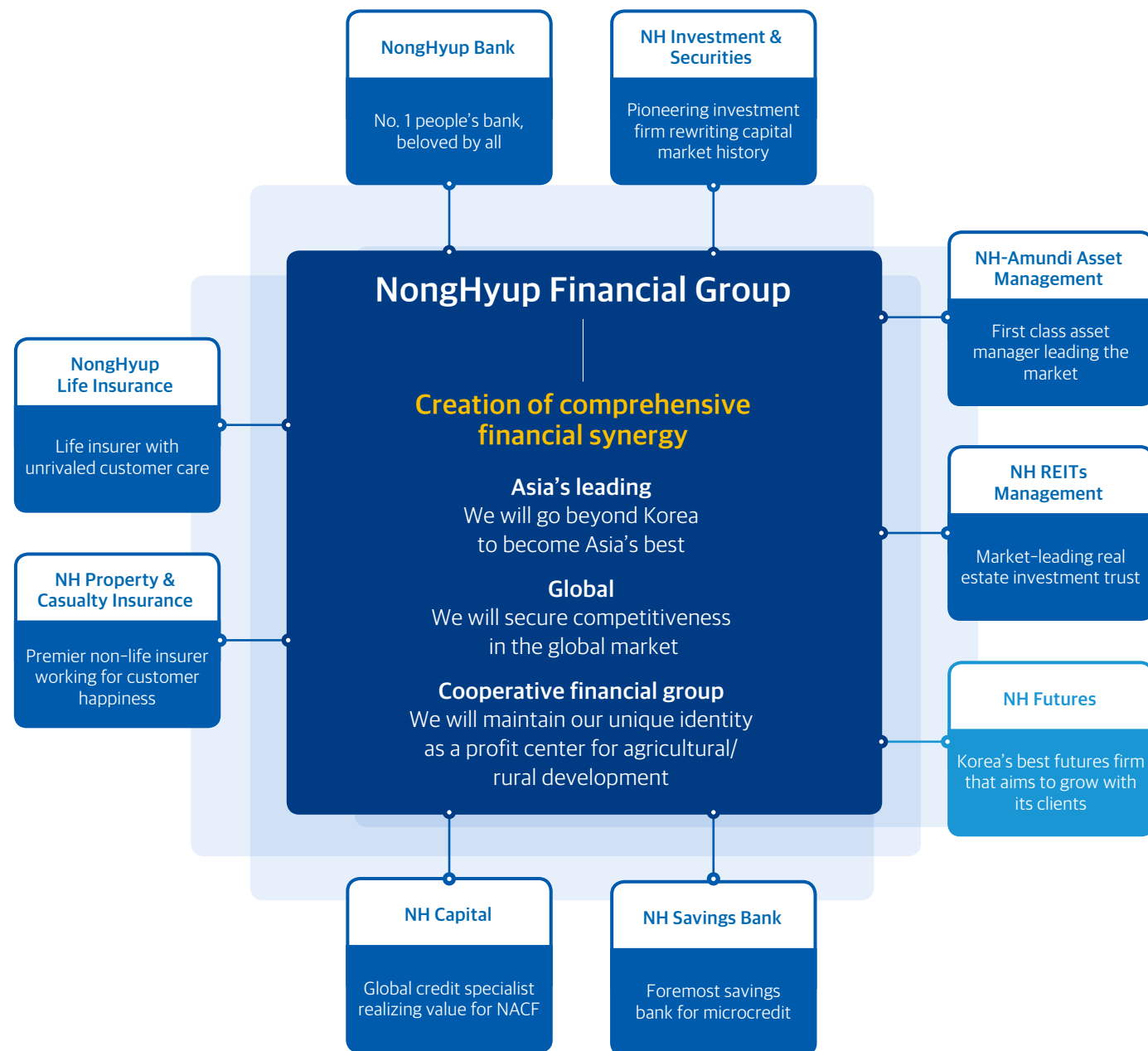
06. NongHyup Bank carried out rights issue worth KRW 200 billion

07. Established NongHyup REITs Management (100% stake)

VISION & STRATEGY

NongHyup 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.

Vision of NongHyup Financial Group

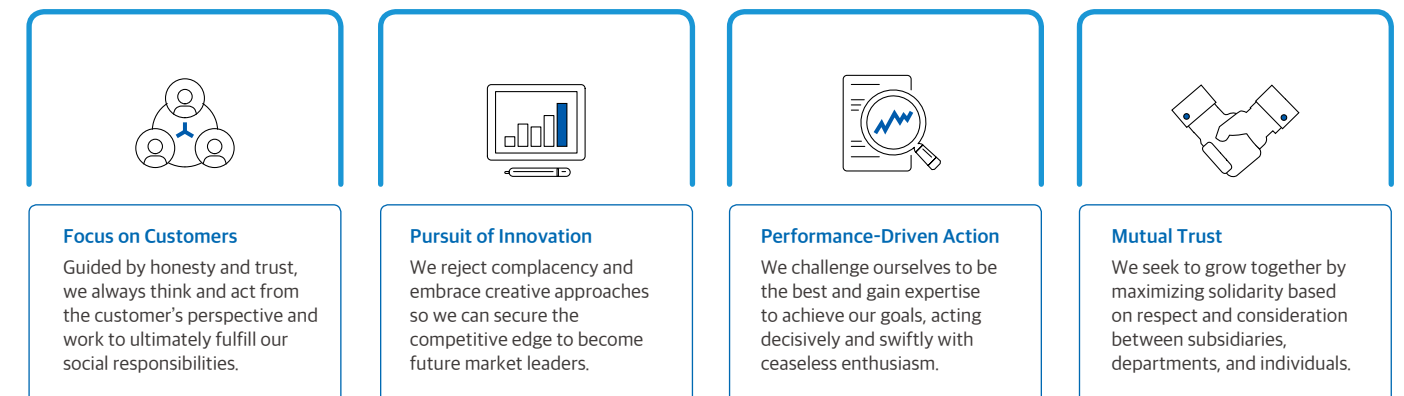


NongHyup Financial Group's Value System

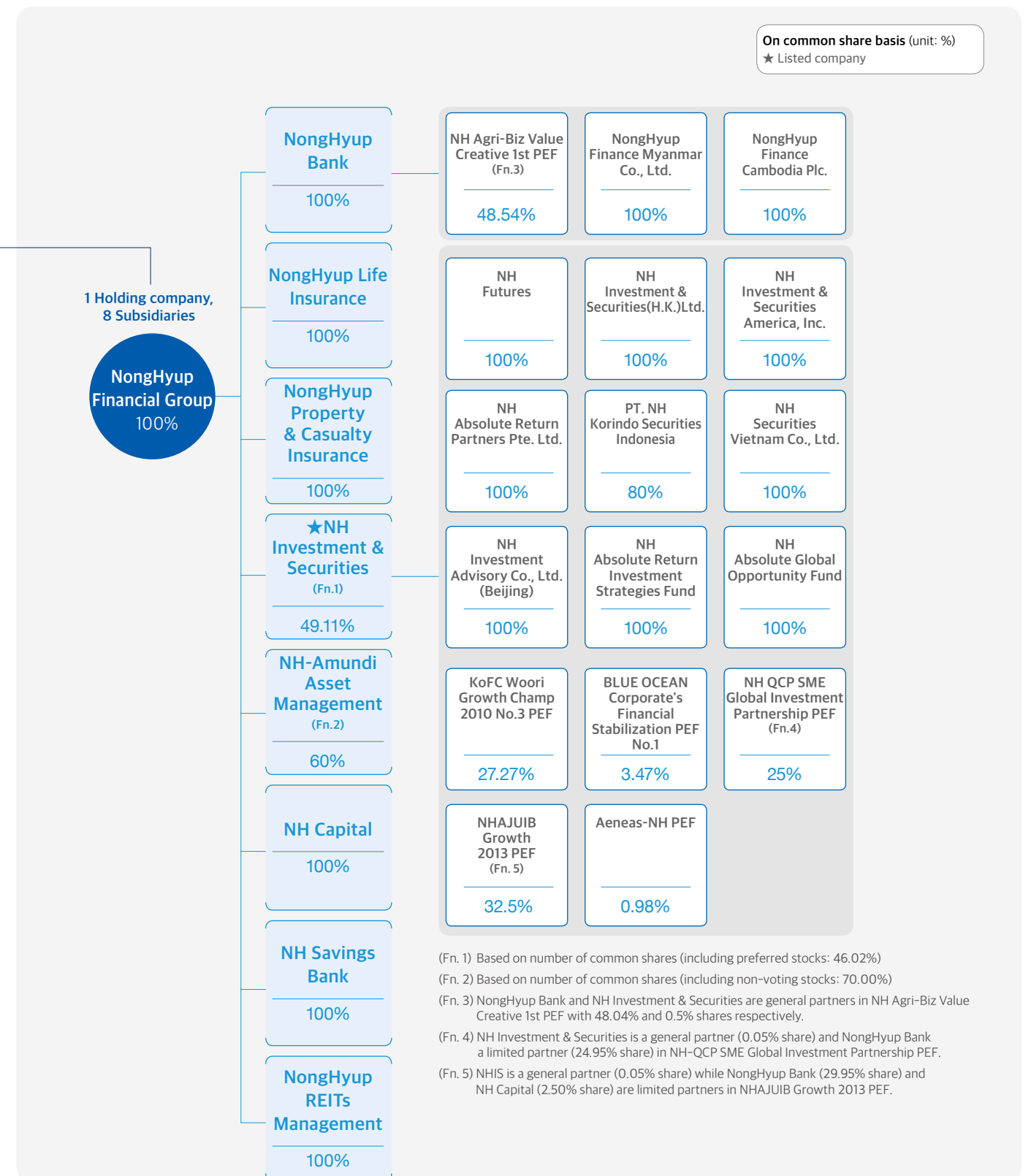
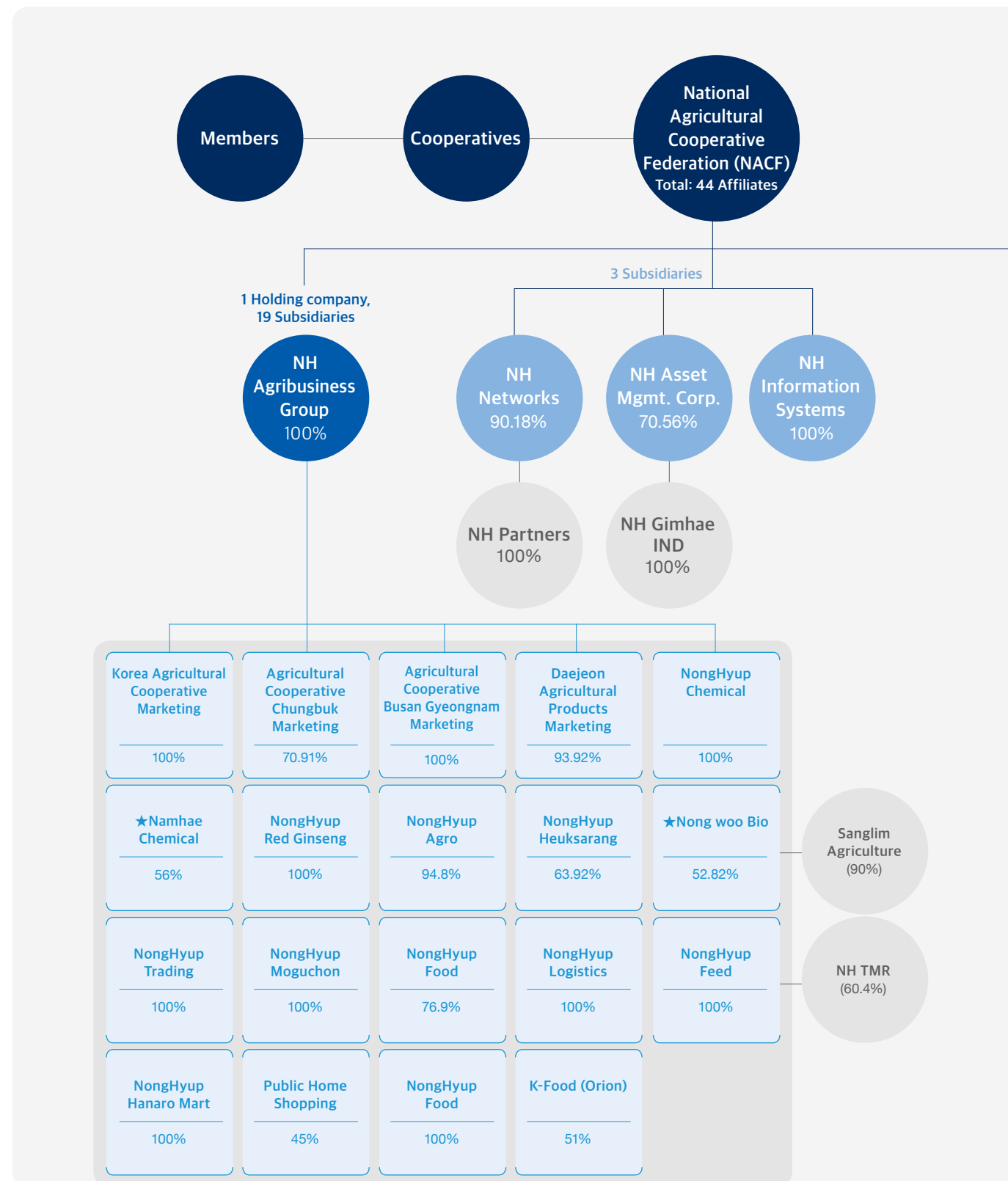


NongHyup Financial Group's Core Values

The values and beliefs shared by all NongHyup members that form NHFG's core values and set the standard for the way we think and act.



AFFILIATION AND OWNERSHIP



BOARD OF DIRECTORS

(as of December 2018)



Executives

CEO & Chairman

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, NongHyup Financial Group (current)

Inside Director

LEE, KANG-SIN

Career Experience

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

Non-standing Director

YU, NAM-YOUNG

Career Experience

- Gwangju University
- Director, National Agricultural Cooperative Federation
- 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

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)

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)



BOD Committees and Activities

EXECUTIVE NOMINATION COMMITTEE

Members

- Chair: Lee Joon-Haeng
- Inside Director: Lee Gang-Sin
- Non-standing Director: Yu 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 Gang-Sin
- 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
- Formulate and revise risk management rules
- Newly develop credit risk system subject to IRB and issues related to modifications
- Issues related to 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 committees

EVALUATION & COMPENSATION COMMITTEE

Members

- Chair: Jung Byung-Wook
- Non-standing Director: Yu Nam-Young
- Outside Directors: Lee Ki-Youn, Park Hae-Sik

Mission

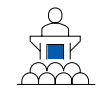
- Establish performance evaluation and remuneration system for executives and subsidiary CEOs

Mandate

- Develop performance evaluation and remuneration system for executives
- Conduct evaluations of subsidiary CEOs

BOARD OF DIRECTORS

(as of December 2018)



BOD Main Activities

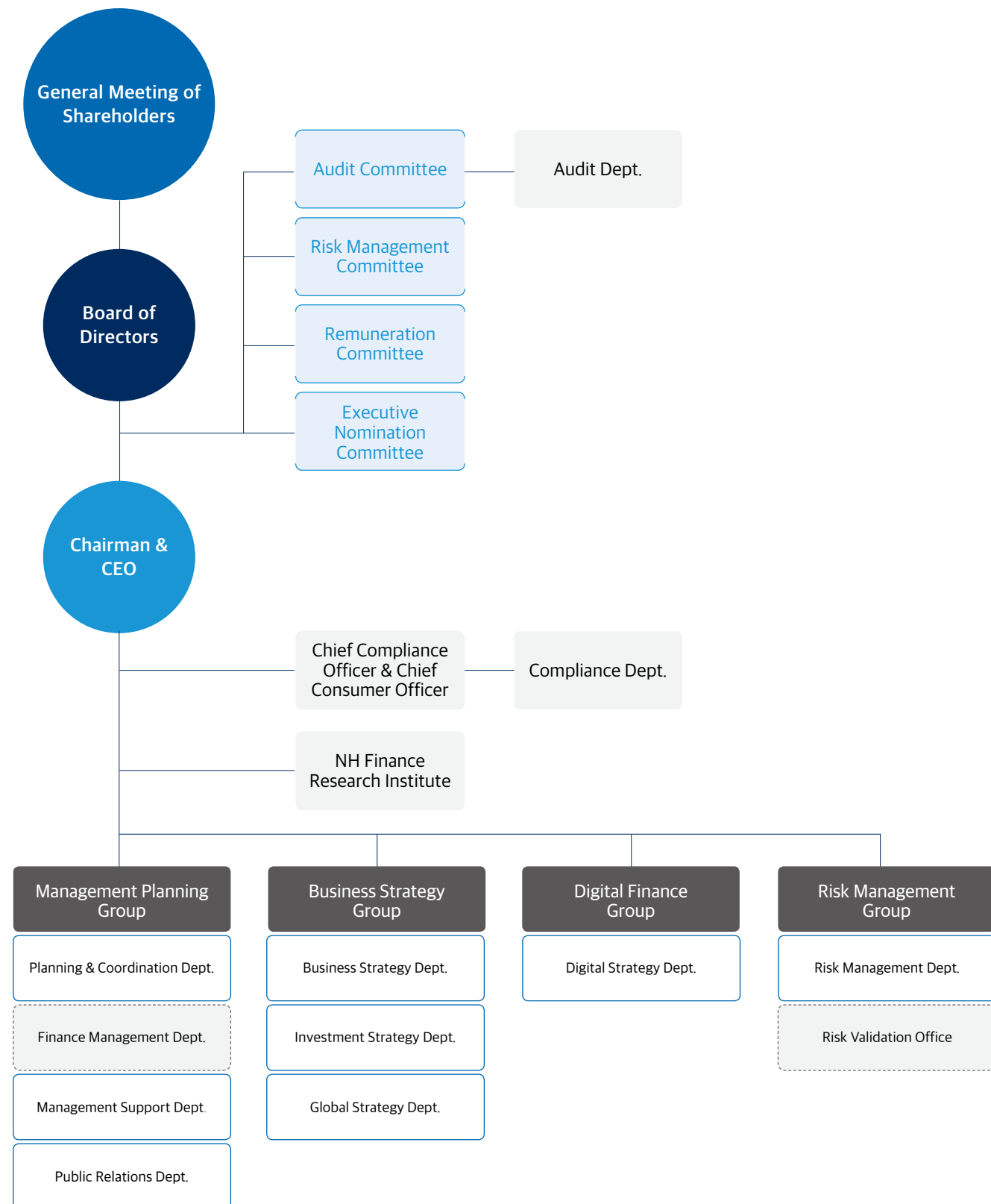
(January 1, 2018 ~ December 31, 2018)

Meeting No.	Date	Resolution	Outcome
1	Jan. 19	2018 corporate bond issuance plan (Proposal)	Approved
		BOD Committee member appointment (Proposal)	Approved
		Partial revision to regulations on the provision and use of customer information (Proposal)	Approved
		Provision and management of customer information in 2017	Accepted
		BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
2	Feb. 12	Approval of financial statements and annual report for the 2017 business year (Proposal)	Approved
		Capital investment in NH Capital (Proposal)	Approved
		2017 report on operation of the internal accounting control system	Accepted
		2017 report on inspection results regarding system/operation of the NHFG internal control system	Accepted
3	Mar. 7	2017 report on evaluations results for directors and BOD (committees)	Accepted
		Appointment of BOD chairman (Proposal)	Approved
		Partial revisions to internal standards on corporate governance (Proposal)	Approved
4	Mar. 23	Partial revisions to regulations on Executive Nomination Committee (Proposal)	Approved
		Review of CEO succession plan (Proposal)	Approved
		Status report on management of outside director candidate group	Accepted
		Establishment of NongHyup REITs Management (Proposal)	Approved
		Limit on BOD remuneration (Proposal)	Approved
		Qualification verification of director candidates, excluding outside directors (Proposal)	Approved
5	Apr. 2	Decision on convening the 2018 general shareholders' meeting and items	Approved
		Report on review of risks to NHFG stemming from entry into new business	Accepted
		2017 audit report	Accepted
6	Apr. 20	Appointment of BOD chairman (Proposal)	Approved
		Appointment of BOD committee member (Proposal)	Approved
		Nomination of BOD Steering Committee member (Proposal)	Approved
		Plan for issuance of contingent convertible bond (hybrid bond) in 2018 (Proposal)	Approved
		Decision on convening the 2018 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		Analysis of NHFG 1Q 2018 performance	Accepted
7	May. 16	BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
		Report on CEO & Chairman candidate recommendations	Accepted
		Report on selection of outside director candidates	Accepted

Meeting No.	Date	Resolution	Outcome
7	May. 16	Partial revisions to internal control regulations (Proposal)	Approved
		Shift in global interest rate policy stance and NH's response measures	Accepted
8	June. 14	Report on selection of CEO candidates for NH Savings Bank	Accepted
9	June. 22	Capital investment in NongHyup Bank (Proposal)	Approved
		NHFG's risk management direction in 2H 2018	Accepted
10	July. 20	Analysis of NHFG 1H 2018 performance	Accepted
		BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
11	Aug. 24	Enactment of regulations on money laundering prevention (Proposal)	Approved
		Analysis of management of NHFG assets and strategic direction	Accepted
12	Sept. 10	Partial revisions to Audit Committee regulations (Proposal)	Approved
13	Oct. 29	Enactment of Risk Management Committee regulations (Proposal)	Amended & Approved
		Partial revisions to risk management regulations (Proposal)	Amended & Approved
		Analysis of 3Q 2018 business performance of NHFG	Accepted
		Application for license and plan for real estate trust business	Accepted
		BOD committee meeting results	Accepted
		Status report on execution of BOD resolutions	Accepted
14	Nov. 23	2019 NHFG business plan (Proposal)	Approved
		2019 NHFG reorganization (Proposal)	Approved
		Application for license for real estate trust business at NHFG and plan to establish legal entity (Proposal)	Approved
		Partial revisions to NHFG articles of association (Proposal)	Approved
15	Dec. 10	Decision to convene 2018 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		Review of risks to NHFG from entry into real estate trust business	Accepted
		Qualification verification of director candidates, excluding outside directors (Proposal)	Approved
16	Dec. 17	Decision to convene 2018 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved
		Analysis of macro shock scenarios and response measures	Accepted
17	Dec. 27	Report on selection of CEO candidates for wholly owned subsidiary	Accepted
		Decision to convene 2018 extraordinary shareholders' meeting and items on the agenda (Proposal)	Approved

ORGANIZATIONAL CHART

(as of January 2019)



RISK MANAGEMENT

NongHyup 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.”

Risk Governance

NHFG’s risk management organization comprises the Risk Management Committee, Risk Management Council, Chief Risk Officer (CRO), and the Risk Management Department.

Risk Management Committee

The Risk Management Committee is composed of NHFG directors and is the highest decision-making body related to risk management. It sets and approves risk management policy and strategy to identify, measure, monitor and manage various risks that arise in the course of carrying out business activities. Its responsibilities are as follows.

- Set basic policy and strategy for risk management
- Decide on risk tolerance level (risk appetite)
- Approve acceptable exposure limit and loss limit
- Approve matters related to allocation of internal capital
- Deliberate on matters deemed necessary by the BOD and BOD Committees

Risk Management Council

The Risk Management Council is composed of the CROs of NHFG and the subsidiaries. It deliberates and decides on matters entrusted by the Risk Management Committee. It also discusses details concerning the implementation of NHFG’s risk management policy and procedures by each subsidiary.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO) assists the Risk Management Committee and maintains appropriate risk management policy and strategy according to changes in the environment and business strategy. The CRO is responsible for monitoring and managing risks arising in the course of managing assets and carrying out business activities.

Risk Management Department

The Risk Management Department is responsible for working-level activities such as risk monitoring, BIS ratio calculation, and internal capital management.



RISK MANAGEMENT

Risk Management Tools

Internal Capital Control

Every year, the Risk Management Committee sets NHFG's risk appetite taking into consideration the financial and economic environment and allocates the internal capital limit per risk type (credit risk, market risk, operational risk and interest rate risk) for each subsidiary. The actual figures relative to the internal capital limit are monitored on a regular basis and reported to the executive officers and the Risk Management Committee.

Risk Limits

NHFG has set limits such as total exposure in order to prevent concentration of exposure to a particular borrower or sector. Each subsidiary carries out its business within the set limit. NHFG preemptively manages risk by setting the market risk loss limit and liquidity ratio limit and by monitoring regularly.

Implementation of Basel III IRB (Internal Ratings Based) Approach

To upgrade credit risk management, NHFG established a system for implementation of the Basel III IRB approach and received approval from the supervisory authorities in December 2016. Credit risk weighted assets and BIS ratio have been calculated using the IRB approach thereafter. The measures have resulted in improvement of the capital adequacy ratio.

Stress Test

A crisis situation analysis is conducted annually to assess potential vulnerabilities relating to unexpected loss at the Group level. The analysis sets scenarios for deterioration of major economic indicators such as interest rates, foreign exchange rates and share prices. Subsequently, fluctuations in profits and capital ratios are estimated for each scenario which are then reported to the executive officers and the Risk Management Committee. The results of the crisis situation analysis are used to set NHFG's risk appetite.

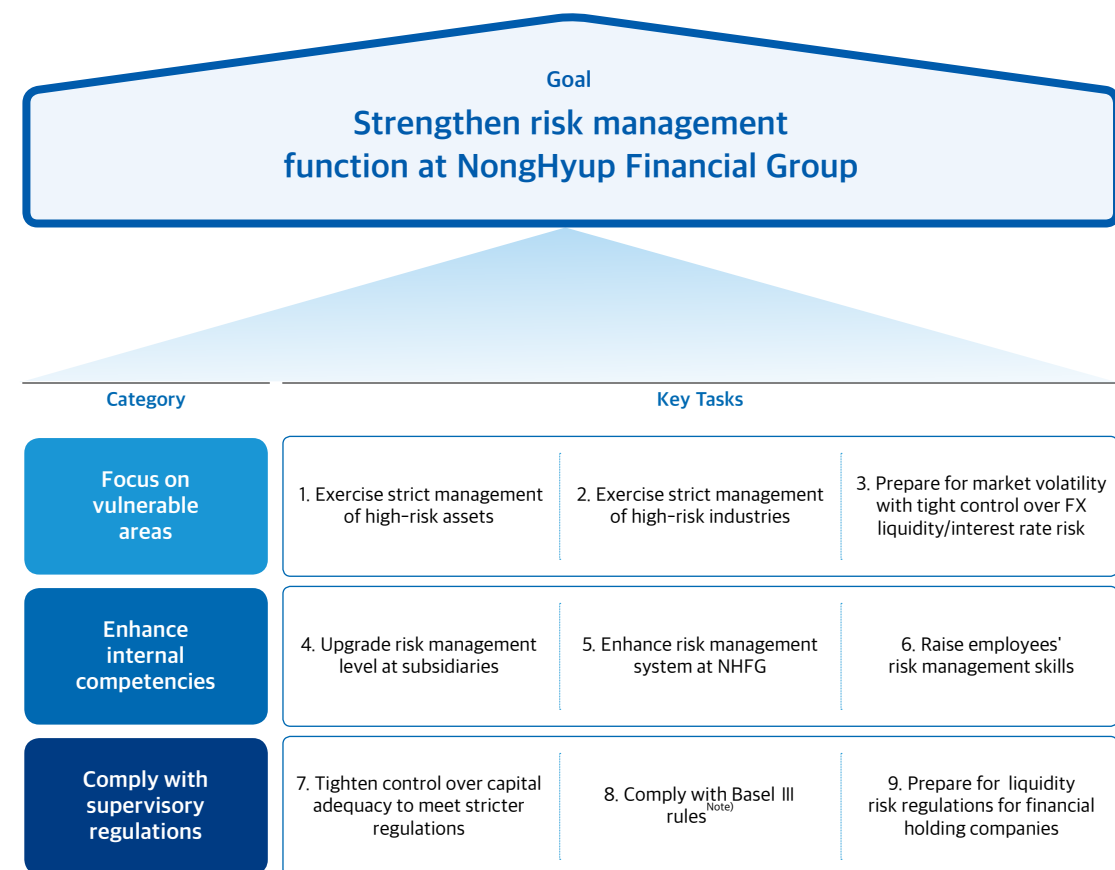


2018 Key Performances

Risk management was crucial in 2018 due to factors fueling market uncertainty such as interest rate hikes in the US and the US-China trade dispute. Therefore, we focused on borrowers and assets with a high possibility of default, which raised the qualitative level of our asset portfolios. The BIS ratio improved as risk weighted assets stayed within the set limits at each subsidiary and profits increased.

2019 Risk Management Plans

The trade conflict between the US and China is expected to continue in 2019 and changes are anticipated in the financial regulatory environment. Accordingly, our goal for 2019 is to strengthen the holding company's risk management function. Our nine key tasks which fall into three categories are shown in the following diagram.



Note) Basel III Finalising postcrisis reforms

Focus On

NongHyup Financial Group is looking beyond our successful transformation into a financial holding company.

We are seeking to maximize synergies between business lines, secure a stable profit structure and reinforce our leadership in comprehensive financial services to make the leap into a global cooperative financial group.



26 Upgrading to Digital Financial Group

32 Enhancing Investment Capabilities and Customer Asset Value

36 CIB

37 Global Expansion Strategy

UPGRADING TO DIGITAL FINANCIAL GROUP

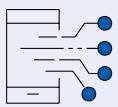
Upgrading our digital financial competitiveness is a crucial task that not only increases convenience for our customers, but is also directly linked to our survival as a financial company. By reforming our digital platform and strengthening our non-face-to-face channel capabilities, NongHyup Financial Group is solidifying our customer base. Additional innovations in business processes based on new digital technologies such as API, cloud, blockchain, and AI are helping us secure momentum for future growth. In 2019, we are accelerating our efforts in digital innovation by investing in R&D into new digital technologies and launching 'NH Digital Innovation Campus' to promote collaboration with startups.

Launch of 'NH Digital Innovation Campus' (NongHyup Bank)

In April 2019, NongHyup Bank launched 'NH Digital Innovation Campus', the largest institution of its kind in the financial industry. The Campus will serve as our bridgehead for conducting R&D into new technologies such as AI, blockchain and cloud, and for realizing various support measures for startups. The NH Digital Innovation Campus comprises the 'Digital R&D Center' - for in-house employees - and 'NH Fintech Innovation Center' - reserved for startups. Through the startup support program called 'NH Digital Challenge+', we will offer customized support for startups befitting their life-cycle stage. Startups will not only receive access to working space at NH Fintech Innovation Center but also prioritized consideration for investment through the Digital Innovation Fund, jointly formed by NH affiliates. With NH Digital Innovation Campus, NongHyup Bank is carving out its place as a leading digital bank by developing innovative services and widening the gap with the competition in digital technology which will become pivotal in the future competitiveness of financial institutions.

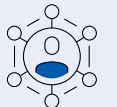
* 'NH Digital Challenge+', a program to nurture fintech firms (providing working space, management consulting, early-stage funding support, etc.)
 * Digital Innovation Fund: devoted solely to fintech companies (approximately KRW 20 billion, funded by pan-NH network including NongHyup Bank)

Digital R&D Center



R&D into new technologies and innovative business models

NH Fintech Innovation Center



Support for promising startups and creation of pan-NH collaborative models



Strengthening Competitiveness of Mobile App

NHFG readied a Group-wide management system to consolidate and improve the apps of various affiliates that had been divided by function and task, as well as remove apps with low usage. This enabled us to increase customer convenience and optimize app operations.

(NongHyup Bank) Integration of NH Smart Banking (Dec. 2018)

- (integrated 5 apps) Financial product market + retirement pension + smart certification + smart notification ⇒ 'NH Smart Banking One-Up'
- Drastically improved convenience by redesigning app to ease customer use and upgraded app speed

(NH Investment & Securities) Integrated mobile app and upgraded UX (Jan. 2018)

- Consolidated apps centering on QV and Namuh MTS (10 apps ⇒ 5 apps)
- Recorded 36% increase in monthly number of customers using apps, slight decrease in VOC (20% of 1H level)

Digitalization of Internal Operations

NHFG is enhancing internal productivity by utilizing digital technologies including robotic process automation (RPA), AI and voice recognition. Innovating our work process is helping us to deliver greater satisfaction to both employees and customers.

(NongHyup Bank/NH Investment & Securities) Work automation through RPA

- (NHIS) Reduced annual working hours by 65% on average based on five duties, including daily uploads of sales fees
- (NHB) Completed introduction of RPA for seven duties, including transfer of credit card NPLs, and plan to expand to entire company in 2019

(NongHyup Life Insurance/NongHyup Property & Casualty Insurance) Launch of text-generating mobile call center (July 2018)

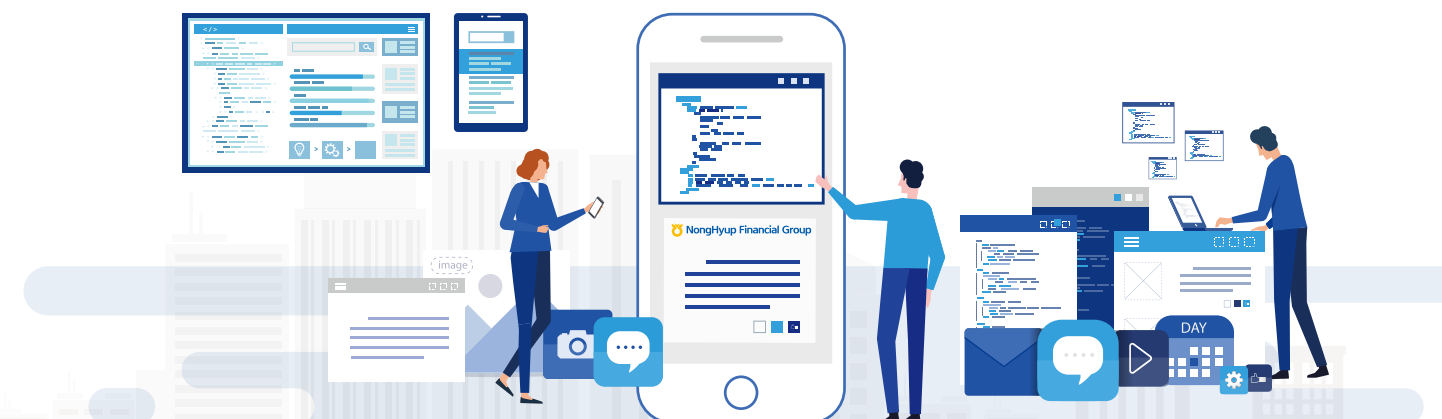
- Built text-generating ARS* and chat consulting system to improve satisfaction levels with call center service
- Improved operational efficiency by reducing time spent on customer calls

* System enables customers to use ARS more easily by receiving guidance in both voice and text form

Foundation for Utilizing and Analyzing Big Data (NongHyup Bank)

We completed building the big data platform called 'NH Big Square.' By doing so, we readied the foundation that will enable us to analyze data of NongHyup Bank customers, develop customer-oriented products and services accordingly, and provide tailored customer management.

- Formed environment for analyzing structured/unstructured data of NongHyup Bank's 22 million customers
- Prepared foundation for developing tailored products/services for customers



TO Platform Strategy (NongHyup Bank)

In light of the fast-growing number of customers using an external platform and not banks to access financial services, we have devised a new marketing strategy to attract new customers and reinforce ties with existing clients by collaborating with prominent local external platforms.

Simple payment

- Expanded new businesses via alliance with simple payment platforms
- Newly attracted strategic industries and held targeted marketing events using market leadership in simple payment

Mobile debit card payment ^{Note)}

Note) Service allows users to withdraw cash and make payments via smartphone after registering their NH ATM cards and account numbers on their smartphones

- First in banking sector to enter online payment market with program developed in-house*

* Payments made through in-house program lead to collection/analysis of customers' transaction details for big data analysis

- Leading the payment market through alliances with online payment platforms and ICT firms

Joint marketing

- Issued smart bills via promotions with external platforms
- Analyzed target customers by platform and conducted customized promotional activities
- Utilized NongHyup Bank 'NH20Haebom (youth brand)' to hold joint events targeting KaKaoPay users
- Analyzed usage data of simple payment users, shared analysis results, and used as reference when drawing up marketing strategies

BE Platform Strategy (NongHyup Bank)

Our aim is to provide differentiated products and services by upgrading our in-house mobile platform and as a result, reinforce customer contact points and customer service. We plan to innovate the customer experience by advancing the platform in 2019.

All One Bank

All One Bank is the joint platform for NHFG, and is helping to increase opportunities for income generation by expanding affiliates' customer base. As of the end of 2018, the number of customers had surpassed three million. All One Bank offers a diverse range of customer-oriented services and is helping to generate synergies within the Group by efficiently acting as a channel for NHFG affiliates' products and services.

1. Service upgrade

- Enhanced function of NHFG's joint platform by introducing NH-wide, integrated financial services including integrated account access (card/insurance/securities) and signing-up for products (card/insurance/capital/savings bank)
- Introduced All One remittance and higher ceiling on remittance amount, added payment function through Zeropy (scheduled)
- Introduced services for different age-groups, including big font service, games, congratulatory/condolence payment service, management of social group membership fees, etc.

2. Expanded customer base for non-face-to-face marketing and increased users

- Numbers of users topped three million as of the end of 2018
- Carried out active marketing measures utilizing relatively higher customer loyalty

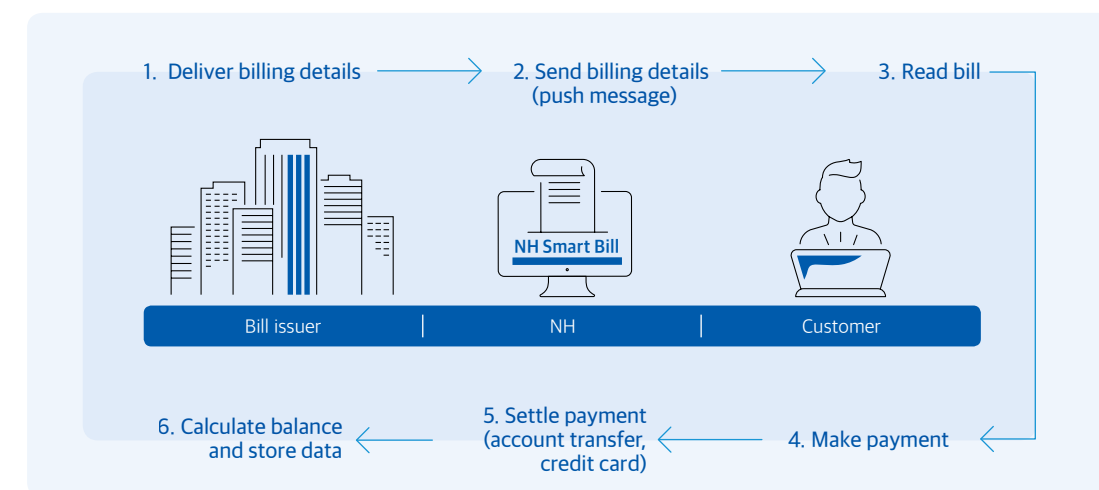
3. Improved external recognition by stepping up promotional activities

- Executed various PR activities through diverse outlets including finance-related expos
- Jointly used promotional characters on homepage and PR banners at branches, etc.

Smart Bill

Smart Bill is a service that innovates the methods through which customers receive bills and pay for everyday fees. Replacing paper bills, the system notifies some 1.45 million customers about their bills through automatic alerts on mobile phones and enables easy payment.

1. Billing and payment procedure for Smart Bill



2. Service scope (as of the end of 2018)

- NH affiliates: NongHyup Life Insurance, NongHyup Property & Casualty Insurance, NongHyup Bank (Retirement Pension, NH Card)
- External organizations: Gyeonggi Province local taxes, water and sewage bills, apartment utility bills, national taxes/ fines, hagwon (academy) fees, city gas bills, KT bills
- New technology application: Started P2P financial certificate blockchain service* (April, 2019)

* (P2P loans) Using blockchain to manage certificate to collect investors' principal and interest through distributed ledger (preventing forgery and alterations)

Pioneering New Markets Using Open API (NongHyup Bank)

NongHyup Bank is forming a new NH-focused financial ecosystem using the first open API (Application Programming Interface)* in the domestic financial sector and spearheading fintech innovation in Korea.

* Open API: open program enabling fintech companies and others to directly develop products and services

Launch of financial sector's first P2P money management service

- Achieved greater scalability thanks to direct link without intermediary (VAN operator) via API
- Contributed to promoting soundness of P2P market by opening services of 20 companies

Expansion of open platform through new API development

- Continued to develop new business models including accounts receivable, mortgage loans and non-face-to-face user authentication
- Expanded sales channels by developing customized product API, including deposits and microloans

Consumer Consulting AI (NongHyup Bank)

The introduction of 'Areumi AI', Korea's first AI financial consulting service (chatbot) using real-time voice recognition has enabled us to provide improved customer services.

Provide accurate services (short-term goal)

Areumi AI has enabled employees at branches (bank/agricultural & livestock cooperatives) and customer service center consultants to provide more accurate answers. This in turn reduces the overall workload and enables standardized consultation services.

Provide convenient services (long-term goal)

Over the long term, Areumi AI will be used to better serve customers through interactive banking* (voice banking) and chatbot consultations

* Interactive banking: [phone banking/chatbot/AI speaker] (customer) "Wire KRW 100,000 from my account to my mother"
 ⇒ [NongHyup Bank financial system] Makes real-time transfer

Asset Management System using Robo-Advisor (NH Investment & Securities)

AI algorithms are used to analyze investor preferences and based on those results, provide portfolio advisory and asset management services. This allows us to customize investment solutions depending on customer preferences and asset situation, and deliver a differentiated customer experience.

N Portfolio Market/Algorithm Market

- 'Advisory platform' providing customized portfolio through non-face-to-face channel and enabling trading of financial products
- Pursued commercialization of diverse algorithms that have received advisory/discretionary authorization by participating in Financial Services Commission's robo-advisor testbed

Verification of New Technology via External Cooperation (NH Capital)

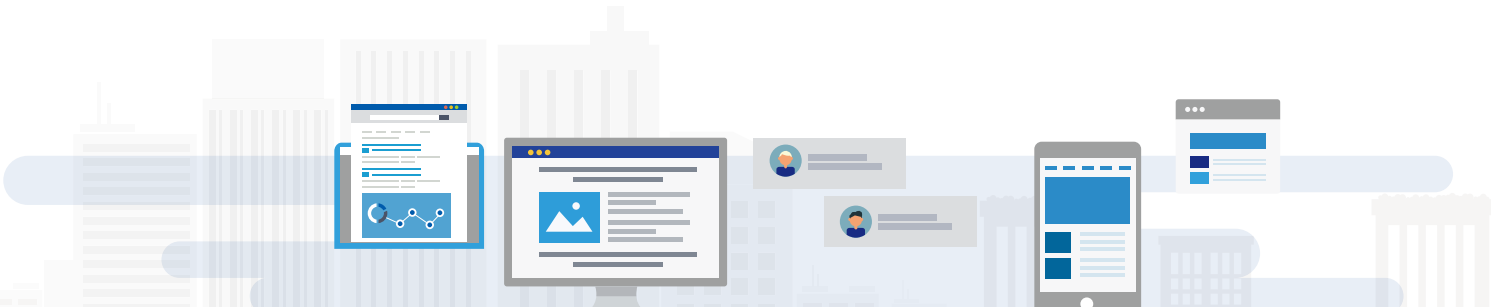
We work together with leading IT companies from home and abroad to verify new technologies, to further the lead of NHFG and stand at the forefront of the fourth industrial revolution.

Collaboration with Amazon

- Utilized cloud computing to realize efficiency of IT infrastructure and check market response system
- Shift to use of cloud for 'automatic issuance of registration documents for loan collateral (cars, construction machinery, etc.) ⇒ extraction of text from images'
- Through Amazon's machine learning on the extracted text, conducted automatic checks predicting patterns in collateral with high possibility of delinquency to minimize errors and shorten review period

Collaboration with LG CNS

- Conducted preliminary check of new technology via development of chatbot demo model that enables customer consultations around the clock, 365 days in a year
- Created chatbot scenarios and developed demo model using questions frequently asked by customers



Infrastructure for Non-Face-to-Face Insurance Sales (NongHyup Life Insurance/NongHyup Property & Casualty Insurance)

We prepared the infrastructure to enter the promising online insurance market.

(NongHyup Life Insurance)

Built and upgraded non-face-to-face insurance sales system

- Launched cancer insurance, pension savings insurance, three types of medical indemnity insurance, online savings insurance
- Readied smart infrastructure with 'responsive web**'

** responsive web: webpage where the screen automatically optimizes to any device size and resolution (PC, tablet, mobile phone, etc.)

Provided mobile insurance terms and conditions

- Innovated customer service by delivering insurance terms and conditions through mobile devices, doing away with inefficient and heavy booklets

Pursued link with NongHyup Bank mobile platform

- Uploaded diverse contents such as insurance policy loans and value assessment of protection-type insurance within All One Bank
- Linked 58 types of paper circulars to Smart Bill

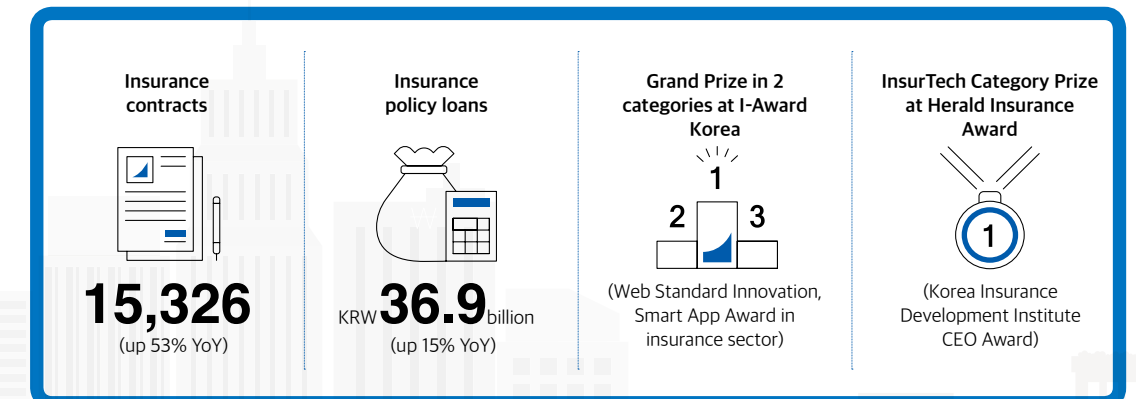
(NongHyup Property & Casualty Insurance)

Bolstered non-face-to-face insurance sales system

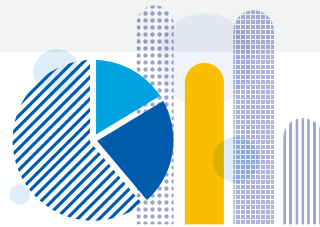
- Expanded direct products (CM channel) and introduced bio-certification (Aug. 2018)
- Pioneered new market with industry-first mandatory general insurance (house fire insurance, etc.) in CM channel



Sales of non-face-to-face products (as of the end of 2018)



ENHANCING INVESTMENT CAPABILITIES AND CUSTOMER ASSET VALUE

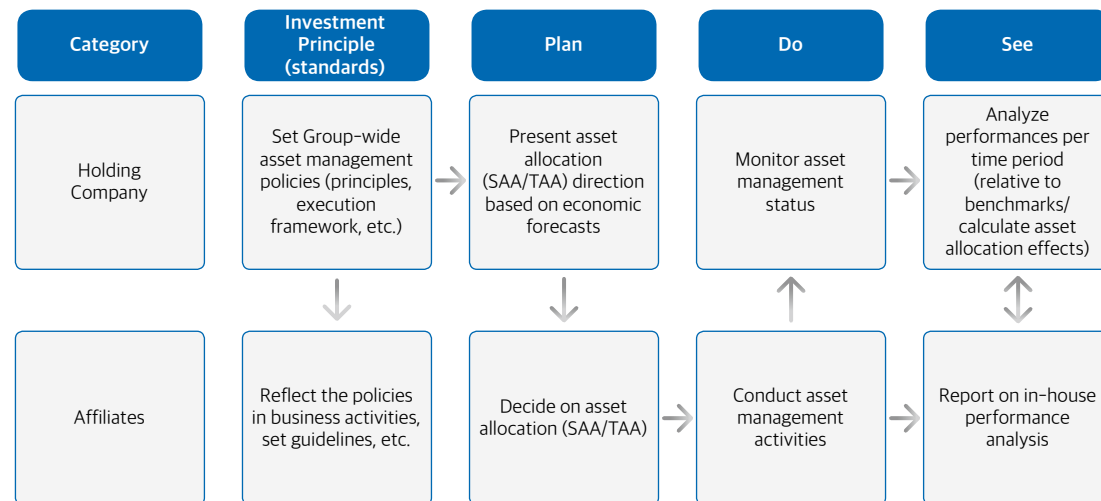


NongHyup Financial Group carries out various activities to realize its goal of improving the Group's investment capabilities and enhancing the long-term value of customers' assets.

Our efforts began in 2014 with the creation of a project task force, which was followed by the establishment of related processes and consultative bodies to address global market volatility. In wealth management (WM), a task force team was set up in the second half of 2017 to enhance the value of customers' assets. Then in 2018, we created a department dedicated to WM and upgraded the WM product process. We will continue to seek and carry out diverse tasks to reinforce our competitiveness in asset management.

Asset Management

We maintain systematic asset management processes that are in line with the investment principles of NHFG. For refined analysis and evaluation, we operate consultative bodies to share information on market-aligned investment strategies, measure investment performance against benchmarks, and conduct preemptive risk management through monitoring and simulations.



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

Major Achievements

1. Reinforced strategic asset allocation

Strategic asset allocation based on economic assumptions and investment conditions is effective in enhancing longterm returns on investment. Asset allocation resulted in significant improvements. As of the end of 2018, its effect in actual portfolio performance relative to the SAA portfolio was 3.0bp for NongHyup Life Insurance and -3.5bp for NongHyup Property & Casualty Insurance. The figures represent vast improvements from a year earlier, when the respective effects were -18.5bp and -14.6bp.

- Target: NongHyup Life Insurance, NongHyup Property & Casualty Insurance (In the case of NongHyup Bank, the purpose of holding securities is to manage surplus funds, therefore SAA-based investment is not appropriate.)
- Method: Reflected in affiliates' performance (conduct quarterly calculations and determine final results with year-end score)

2. Established capital market assumptions

Capital Market Assumptions (CMA): assumptions on risks and returns of major asset classes that serve as the basis for establishing asset allocation strategy

- Increase support for affiliates' strategic asset allocation
- Establish CMA methodology and cooperative process (after the holding company prepares CMA, hold working level consultation including research center)

3. Improved tactical asset allocation platform

For highly advanced monthly asset allocation, we are improving the TAA (Tactical Asset Management) platform.

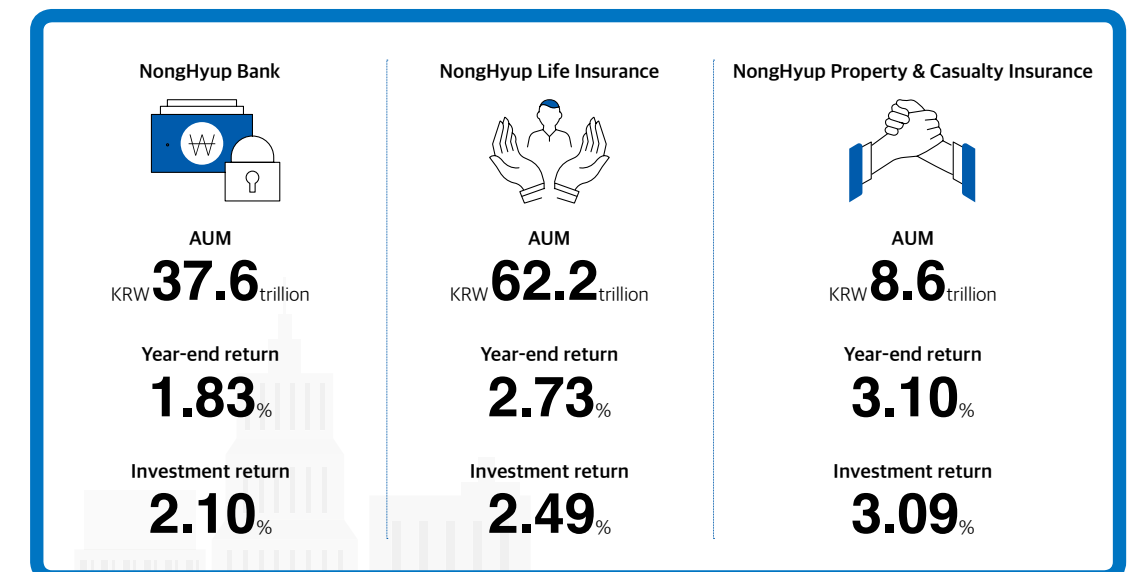
- Present a clear view on major asset classes based on systematic analysis of business cycles and markets
- Use it as affiliates' reference material through working level consultation

4. Enhanced affiliates' capabilities to respond to market changes

Hold monthly, quarterly and year-end performance analysis meetings and seminars to reinforce research information sharing.

NongHyup Financial Group's Asset Management Status as of end-2018

Assets Under Management (AUM): KRW 108.4 trillion, year-end return: 2.44%, investment return: 2.40%



2019 Action Plans

1. Systematic management

We are strengthening monitoring of the capital market and assets under management to enable prompt and flexible response.

- Select major capital market issues and follow up on their developments. (Key issues will be managed at the Group level. After they are entered in the monthly TAA Strategy Book, they will be shared with affiliates.)
- Monitor affiliates' portfolios to look for concentration in specific asset classes and potential risks. (Hold RM meetings to identify trends at affiliates (twice a month). Select key areas to manage such as structured and callable bonds.)
- Utilize NHFG's pool of asset managers. (After creating the pool of experts, the holding company will concentrate research capabilities to collect and disseminate their views to affiliates through the monthly TAA Strategy Book. Promptly gather opinions/ implement countermeasures/ hold seminars on major issues and strategies.)
- Share analysis results with affiliates and pursue timely measures

2. Asset allocation

Highly advanced Capital Market Assumptions (CMA): Refine the estimation process and calculations of CMA, the basic variable in implementing long-term strategy. Devise more effective asset allocation strategies.

Upgrade the holding company's TAA Strategy Book: Improve utilization of TAA Strategy Book, enhance its actual contribution in improving affiliates' returns.

3. Investment competencies

Monthly TAA Guidebook published by holding company: Continuously providing affiliates with updated market information and data.

- Includes macro data and key capital market data that are the basis for establishing monthly TAA.
- Link with TAA Strategy Book when establishing monthly investment plan to strengthen support for affiliates.

WM (Wealth Management)

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

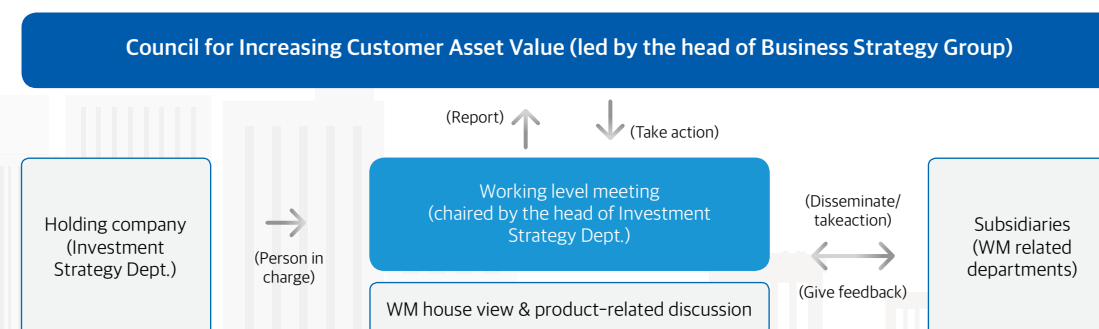
Mid-to-long term plans for WM



Major Achievements

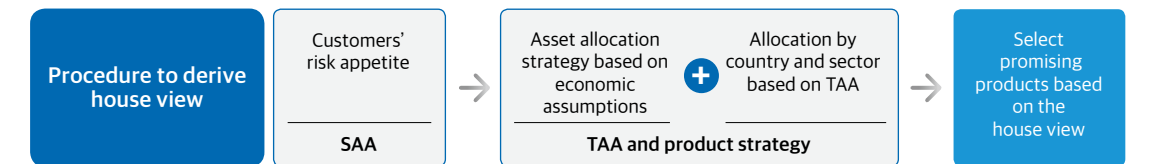
1. WM framework

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



2. NHFG's initial WM house view

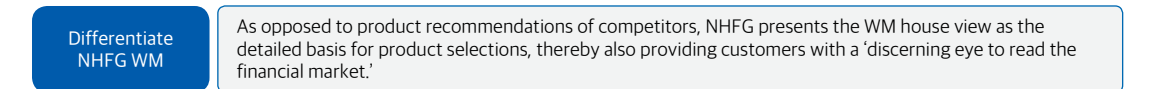
NHFG's WM house view is the Group's official investment opinion on global assets. The Council for Increasing Customer Asset Value, made up of professionals from bank, securities, asset management and mutual finance, pool their research capabilities to present the view. It allows us to embrace logic-based wealth management, by setting the customers' risk appetite as the benchmark target and carrying out tactical asset allocation (TAA) according to financial market trends and outlook.



Action Plans

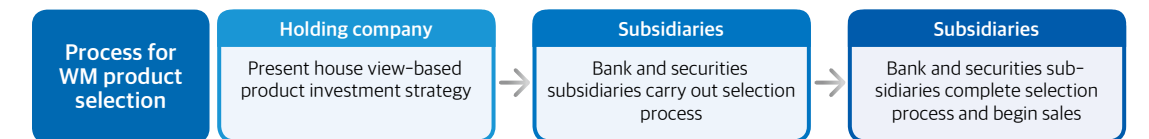
1. Refine and promote use of NH WM house view

- 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



2. Select and promote sales of WM products

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



3. Conduct joint product development & marketing

Carry out joint product development and marketing through greater cooperation among subsidiaries (bank-securitiesasset management)

Category	Details
Joint product development and support	<ul style="list-style-type: none"> · Utilize subsidiaries' competencies to develop joint products (public offering/private placement) · Develop securities and bank CIB-linked alternative investment products
Joint marketing	<ul style="list-style-type: none"> · 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

4. NH Financial PLUS Center

Following the Financial Services Commission's regulatory reform that enables joint use of sales space and joint consulting services, we operate a total of 12 BIB/Branch in Branch)/BWB/Branch with Branch)s as of the end of 2018 (10 bank-securities BIB/BWBs, 2 bank-securities-life insurance BIB/BWBs). BIB/BWBs creates synergy by combining the sales points of subsidiaries of different financial segments (bank-securities-insurance).

Action plans

	Details
Find BIB candidate sites and open strategic BIBs	Find promising sites (growth areas, potential commercial zones, etc.) for new openings and devise systematic roadmap
Reinforce sales abilities of BIBs	Uncover joint sales items by launching joint products and special system
Create optimal BIB model for NHFG	Introduce business models that capitalize on the strengths of BIB by using shared office space

CIB

NongHyup Financial Group is striving to attain income of KRW 1.5 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 in 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 ING Life (KRW 1.2 trillion) and SK Shipping (KRW 1 trillion). We also pursued real estate and infrastructure deals including Hanam Misa Standard PF (KRW 300 billion) and Gangreung Anin steam power plant project (KRW 5.2 trillion).

In addition to domestic projects, NHFG as a whole raised a combined total of KRW 255.0 billion to create and manage three indirect investment funds, namely Brookfield Infrastructure Debt fund, TGP ASIA VII fund and MBK SS fund (acquisition financing) in conjunction with global asset managers.

2018 Landmark Deals

Category	Deal	Lead Manager	Deal Value
M&A	ING Life acquisition financing	NH Investment & Securities	KRW 1.25 trillion
	SK Shipping acquisition financing	NH Investment & Securities	KRW 1 trillion
Real estate	Hanam Misa Standard PF	NongHyup Bank	KRW 300 billion
Infrastructure	Gangreung Anin steam power plant project	NongHyup Life Insurance	KRW 5.2 trillion
	Brookfield Infrastructure Debt fund	NH-Amundi Asset Management	KRW 110 billion
Overseas indirect investment fund	MBKP Special Situation fund	NH-Amundi Asset Management	KRW 55 billion
	TPG ASIA VII fund	NH-Amundi Asset Management	KRW 90 billion

Going forward, NHFG plans to boost its competitive edge in CIB by expanding both domestic and overseas partnerships. Amid the threat of a global downturn, we will pursue prudent investing and turn our attention to foreign markets as deals decline and competition intensifies in the domestic market.

Moreover, we will continue to expand cooperation with global asset management firms to seize investment opportunities and exchange knowhow. We will also increase Group-wide synergies and build a solid basis for long-term growth by combining the pan-NACF financial resources, the IB network of our industry-leading securities subsidiary, and the competencies of our asset management arm.



GLOBAL EXPANSION STRATEGY



Global business is one of the Group's core strategic initiatives for future growth. Our mid-to-long term goal is achieving Group-wide net profit of KRW 100 billion from global operations by 2025. To this end, our banking and non-banking businesses have been actively partnering up since 2016 to pursue global markets with an emphasis on Asia. As a result, our overseas network expanded from 11 business sites in 6 countries in December 2015 to 16 sites in 10 countries as of December 2018.

2018 Performance

NHFG opened NongHyup Finance Cambodia Plc, completing takeover of a local microfinance institution. Offering micro loans and agriculture financial solutions, the firm is working to empower the country's low-income class and farmers to improve their socio-economic conditions.

In Vietnam, we are helping Korean companies operating in the local market through NongHyup Bank which increased operating funds of the Hanoi branch and opened the Ho Chi Minh City office. We are catering to local customers with diverse financial services such as bank account-free money transfers. Meanwhile, NH Investment & Securities secured a 100% stake in its Vietnamese subsidiary CBV Securities and carried out a capital increase to build a solid foundation for local operations.

NH Investment and Securities' Hong Kong subsidiary has become one of the Group's key overseas outposts following a capital increase and business portfolio diversification. NH Korindo Securities Indonesia is also stepping up efforts to offer diverse ways to increase earnings from the local market.

2018 was the year in which NHFG's global business made meaningful quantitative growth and qualitative enhancement. Total assets of the Group's overseas network in 2018 grew 15% YoY to KRW 1.13 trillion while its net income improved significantly from the previous year to record KRW 17.9 billion. Going forward, we expect better performance across global businesses, considering that most of our overseas offices are in the early stages of market entry.



2019 Plans

NHFG will continue its strategic expansion of overseas outposts with a focus on Asia. In China and Southeast Asia, we plan to implement growth strategies such as capital increase and joint ventures after securing a solid foothold in local markets. In more advanced markets like Hong Kong and New York, our plan is to use the existing overseas outposts to build a Group-wide global asset management platform to boost NHFG's competitive advantage in the global arena.

By developing a uniquely NHFG business model, we plan to boost localization and revenue-generating capabilities. We will create tangible results through ongoing joint ventures with local partners like the China Co-OP Group, Vietnam's Agribank and Myanmar's HTOO Group. We also plan to expand our sales channels such as digital financing by partnering with digital platform service providers.

Leveraging NHFG-specific capabilities and expertise in banking and economic sectors, we plan to combine the pan-NACF financial resources to make inroads into areas with the need for agriculture finance.

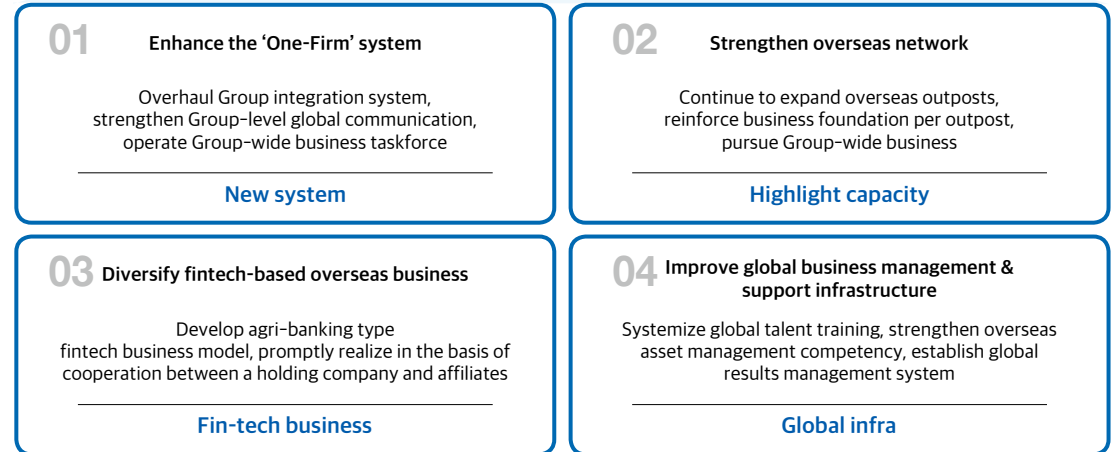
To achieve our global vision of becoming "Asia's leading global cooperative financial group," we will continue to expand our global business by creating uniquely NHFG business opportunities.



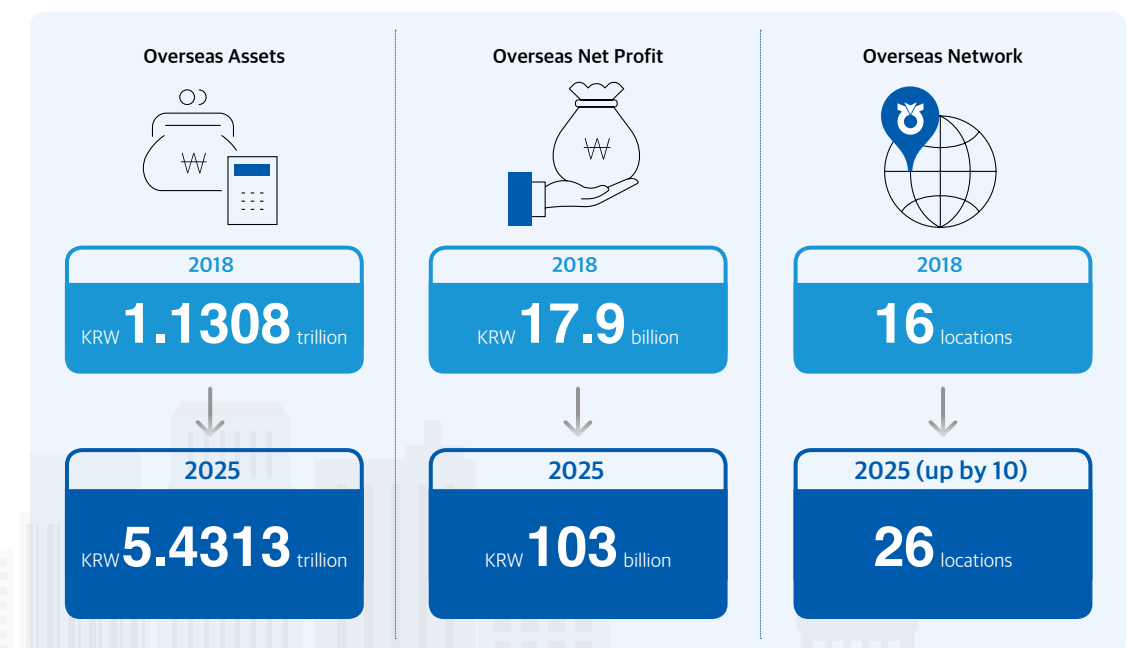
Direction of Global Business in 2019

Strategic Goal
Realize tangible results from joint ventures and expand overseas network

Strategic Direction
Strengthen execution capability, enhance business profitability, maximize results



2025 Target



Business Overview

At NongHyup 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.

- 42 NongHyup Bank
- 56 NongHyup Life Insurance
- 66 NongHyup Property & Casualty Insurance
- 72 NH Investment & Securities
- 82 NH-Amundi Asset Management
- 86 NH Capital
- 90 NH Savings Bank
- 94 NongHyup REITs Management
- 98 NH Futures



NongHyup Bank



NongHyup Bank is a bank established solely with domestic capital that has an expansive branch network spanning from urban to rural areas and outlying islands. We promote the welfare of agriculture and rural communities and contribute to regional and national economic development while striving to enhance customer service and provide financial support to our customers. We not only pursue stable generation of profits and sustainable growth, but also carry out our responsibilities as a bank specializing in public finance and microfinance to grow alongside local communities. NongHyup Bank's recent challenge is to become the leader of 'smart' finance as Korea's representative, world-class cooperative bank.

FINANCIAL HIGHLIGHTS (Consolidated)

(unit: KRW billion, %)

	FY2018	FY2017	
Key Indicators	Total assets	283,250.6	267,333.2
	(Trust accounts)	35,939.8	31,482.9
	Total liabilities	267,315.2	252,681.8
	Total equity	15,935.4	14,685.6
	Net income	1,222.6	652.1
Profitability	Net income before agricultural assistance expenses	1,433.9	871.5
	RoA (%)	0.44	0.25
	RoE (%)	8.02	4.52
	RoA before agricultural assistance expenses (%)	0.52	0.34
	RoE before agricultural assistance expenses (%)	9.40	6.05
Capital Adequacy	Total capital ratio	15.54	14.72
	Common equity tier 1 ratio	12.49	11.60
	Tier 1 ratio	12.75	11.92
Asset Quality	Substandard & below loan ratio	0.89	1.03
	NPL ratio	0.75	0.95
	NPL coverage ratio	170.46	143.71
	NPL coverage ratio*	93.67	79.71
NIM (including NH Card)		1.89	1.77
NIM (excluding NH Card)		1.65	1.53

* After provision for credit loss

VISION



First-class bank beloved by all!

The future envisioned by NongHyup Bank

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



Beloved bank

Bank that is beloved not only by our customers, but also by our employees and all of society



First-class bank

Korea's leading bank that is the best in customer service, soundness and social responsibility



People's bank

A bank founded wholly with domestic capital that is respected and shares true value with society

NongHyup Bank



CEO
LEE DAE-HOUN

CEO Message

We sincerely appreciate all your continuous support for NongHyup Bank. We hope this message finds you well as we wish your family health and happiness.

Last year was a difficult one marked by sluggish domestic and global economies, coupled with changes in the overall financial environment. Nevertheless, we proudly achieved over KRW 1 trillion in net profit for the first time in NongHyup Bank's history. Non-performing loans declined and asset quality improved, enabling us to become a more solid and trustworthy bank. NongHyup Bank was also named the top bank for corporate social responsibility for the seventh consecutive year, driven by our ongoing support for the underprivileged. Yet our efforts will not stop here. We have selected the following key goals in line with our 'Sustainable Growth 1+ Movement'.

First, we will become a better bank for farmers and customers.

Enhancing farmers' quality of life and their household income are the underlying values of NHFG. We will form partnerships and offer financial services that contribute to advancing farming communities and promoting more active urban-rural exchanges. NongHyup Bank will also be at the forefront to protect financial consumers' rights so they can conduct their financial affairs with ease of mind. In addition, we will actively provide financing in productive industries to spur job creation. At the same time, we will faithfully carry out our social responsibilities as a bank and provide microfinancing for the underprivileged.

Second, we will prudently manage risks with a preemptive approach.

NongHyup Bank will improve the overall quality of its asset-liability portfolio to increase profitability. We will strengthen asset quality control and internal control, and secure an advanced anti-money laundering system to prevent financial mishaps.

Third, we will cement our role as NHFG's profit center by establishing a virtuous cycle of profits.

We will concentrate on bolstering our core operations. We will enhance public finance, expand financial support for agriculture and food companies, reinforce marketing for comprehensive asset management, and grow the credit card business. For diversification of profit sources, we will increase investments and elevate our competitive edge in corporate banking, thus solidifying the base for sustainable growth.

Last of all, we will prepare for the future to drive sustainable growth.

Our goal this year is to create various innovative services through our digital R&D center. Aiming to become the 'No.1 digital bank', we will emphasize growth of the non-face-to-face channels. NongHyup Bank will also pursue global expansion, targeting newly emerging Asian markets. We will develop global business models that reflect our strengths in agricultural finance and forge more alliances with local institutions.

NongHyup Bank is bracing itself for a turbulent year and is prepared to brave stormy waters. We will race ahead to become the leading bank in the ever-changing financial environment by focusing on future core businesses and strengthening our profit base. NongHyup Bank will strive to become a more trustworthy bank to customers and create a better future for farmers, other stakeholders and all of society. We humbly ask for your continuous interest and support.

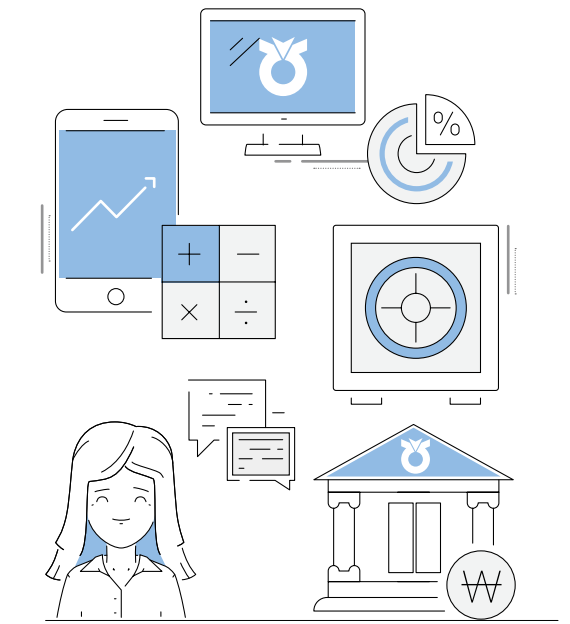
Thank you.

At a Glance

- Held a fintech & blockchain hackathon (IT contest) that contributed to promoting fintech
- Established a startup ecosystem through NH FinTech Innovation Center
- Supported growth of fintech companies by promoting fintech services as banking leader in open API

NongHyup Bank's global network spans seven countries. A recent addition was NongHyup Finance Cambodia which was successfully launched through a global M&A deal in September 2018. NongHyup Bank quickly established a strong footing in overseas markets, with the Hanoi branch in Vietnam and NongHyup Finance Myanmar turning profitable within two years of operation.

- Launched 'NH Smart Banking One Up' which integrates five different apps in December 2018 (new services such as mobile OTP, consulting texts, keyboard banking, product recommendations based on big data)
- 'All One Bank' went through two upgrades under the goal of providing a 'simple financial life' (new services include voice recognition and account-less overseas bank transfers, NHFG synergy expansion, new content partnerships)



Awards

Jan. 2018	Maeil Business.com	2018 Korea's Best Management Awards (in consumer-oriented management category)
Jan. 2018	Dong-a Ilbo	2018 KCAB Consumer Evaluated Best Brand Awards (Grand Prize, brand)
Feb. 2018	Financial Supervisory Service	Award of Excellence for 'One Company - One School Financial Education' Program for the second consecutive year
Mar. 2018	Maeil Business Newspaper	23rd MBN Financial Product Awards (Grand Prize in banking category)
Mar. 2018	Seoul Economic Daily	2018 Korea Best Banker Awards (banking category - Korea Federation of Bank's Best Product Development Award)
Apr. 2018	Digital Chosun Ilbo	2018 Mobile Award Korea (Grand Prize in banking category for financial services)
Apr. 2018	Digital Chosun Ilbo	Seventh Mobile Brand Awards (Grand Prize in banking category)
Jun. 2018	Korean Management Association	Named 'Excellent Call Center' for the eighth consecutive year
Jun. 2018	Money Today	Fifth Korea Pension Awards (top prize in retirement pension for banking category)
Jul. 2018	Korea Economic	2018 Corporate Social Responsibility Awards (Grand Prize in underprivileged category)
Jul. 2018	Korea Federation of Banks	Ranked No.1 in Social Responsibility among banks for the seventh consecutive year
Sept. 2018	Korea Economic	2018 Lifetime Asset Management Awards (top prize in banking service category)
Oct. 2018	Asia Today	2018 Finance Grand Prize (top prize in future banking of banking category)
Oct. 2018	Korea Economic TV	2018 Global Finance Awards (Korea Economic TV President's Social Contribution Award)

Review of Operation

Financial Management

Overview

The domestic and global economic downturn along with changes in the financial environment presented challenges last year. However, they also gave NongHyup Bank the opportunity to prove its inner strength and potential. For the first time in our history, we achieved over KRW 1 trillion won in net profit. Non-performing loans decreased and asset quality improved, making NongHyup Bank a more trustworthy bank.

Profit & Loss

In 2018, NongHyup Bank recorded gross income of KRW 5,494.8 billion and SG&A expenses of KRW 2,929.3 billion. Net income was KRW 1,218.1 billion (net income before agricultural assistance expense was KRW 1,429.4 billion). Return on assets (ROA) was 0.43% (or 0.51% before agricultural assistance expense), while return on equity (ROE) was 7.95% (or 9.25% before agricultural assistance expense).

(Unit: KRW billion)

	2018	2017
Gross income	5,494.8	4,822.6
SG&A expenses	2,929.3	2,797.4
Provision for credit loss	585.5	844.6
Operating income	1,980.0	1,180.7
Other gain/loss	△323.1	△329.0
Income before income taxes	1,656.9	851.7
Net income	1,218.1	651.3

※ Based on separate financial statements

※ Agricultural assistance expense is imposed by NACF on its subsidiaries, including NongHyup Bank, to provide financial support needed to carry out assistance and extension projects for its members. The expense rate is 2.50% of the average gross income of the three preceding years.

Net interest margin (NIM) rose 1.89%, a 0.12%p YoY increase, due to falling market interest rates.

(Unit: %)

	4Q17	1Q18	2Q18	3Q18	4Q18
NIM ^{Note}	1.77	1.82	1.86	1.87	1.89

Note) Debit card merchant fees excluded

Total Assets



315.1
KRW in trillion

Net Income



1,218.1
KRW in billion

NIM



1.89%

Business Volume

In 2018, NongHyup Bank's total assets increased by KRW 20.2 trillion (or 6.8% YoY) to KRW 315.1 trillion. Total deposits grew by KRW 22.0 trillion (or 9.8% YoY) to KRW 247.5 trillion, while total loans went up KRW 10.3 trillion (or 5.0% YoY) to KRW 216.4 trillion.

(Unit: KRW trillion, %p)

	2018	2017	Change	%YoY (%)
Total Assets ^{Note}	315.1	294.9	20.2	6.8
Total Deposits	247.5	225.5	22.0	9.8
Total Loans	216.4	206.1	10.3	5.0

※ Based on separate financial statements

Note: Bank accounts (KRW 279.1 trillion) + Trust accounts (KRW 38 trillion) - mutual transactions (KRW 2 trillion)

Asset Quality

Substandard and below loans stood at KRW 1.9 trillion (0.89%) at the end of 2018, representing a YoY decrease of KRW 199.3 billion.

Substandard & Below Loans

(Unit: KRW billion, %p)

	2016	2017	2018	Change
Substandard and below loans	2,693.4 (1.36%)	2,117.1 (1.03%)	1,918.5 (0.89%)	△198.6 (△0.14)
Corporate	1,704.0 (2.17%)	1,470.9 (1.77%)	1,266.5 (1.45%)	△204.4 (△0.32)
SME	1,014.7 (1.51%)	814.1 (1.13%)	770.1 (1.00%)	△44.0 (△0.13)
Household	259.0 (0.30%)	197.9 (0.21%)	123.0 (0.12%)	△74.9 (△0.09)

Loan loss allowance amounted to KRW 1.8 trillion at the end of 2018, up by KRW 131.6 billion from a year ago.

The coverage ratio was 93.58%, a YoY increase of 15.03%p.

The coverage ratio rose due to an increase in loan loss allowance and a decline in non-performing loans.

Loan Loss Allowance

(Unit: KRW billion, %, %p)

	2016	2017	2018	YoY
Substandard and below loans (A)	2,693.4	2,117.1	1,918.5	△198.6
Ratio	1.36	1.03	0.89	△0.14
Loan loss allowance (B)	1,533.2	1,663.1	1,797.0	133.9
Coverage ratio (B/A)	56.93	78.55	93.67	15.12

Retail Banking

Performance in 2018

The retail banking department was a great contributor to reach the profit target in 2018, despite intense competition and the rapid rise of Internet banks. It fulfilled its role as stable source of funding as the average balance of retail core deposits grew by KRW 1,519.1 billion. Household loans increased KRW 8,873.4 billion, resulting in interest income of KRW 1,986.7 billion.

Key Results

(Unit: KRW billion, %)

	2016	2017	2018
Interest Income	1,526.1	1,713.5	1,986.7
Core deposits (average balance)	33,014.7	36,820.0	38,339.1
Household loans (balance)	86,563.7	94,049.4	98,347.7

Plans for 2019

Various marketing issues are cropping up in retail banking amid the rapidly changing financial environment. To effectively address these issues, NongHyup Bank will reinforce support for branches and strengthen customer-centered marketing efforts.

In 2019, we aim to record a net increase of KRW 1 trillion in retail deposits and KRW 5 trillion in household loans and achieve interest income of KRW 2,165.6 billion. In the non-interest income category, our target is reaching KRW 39 billion in housing funds, thus increasing our share of the National Housing Fund. This will help us achieve balanced growth in our retail banking operations.

WM & Pension

Performance in 2018

For systematic personnel management in WM (wealth management), we adopted a step-by-step training program to nurture WM specialists. Our WM Star Road program involves a point system whereby all employees receive training at different levels. Those who accumulate the most points are given the top ranking, WM Star. Accordingly, a total of 95 employees were selected to serve customers as 'financial doctor.'

We solidified our mid- to long-term profit base by focusing on public offering funds in the fund business and on monthly installment products in bancassurance. For retirement pensions, we carried out a company-



wide marketing campaign to capitalize on the expanded pool of potential IRP (individual retirement pension) subscribers. We also worked in cooperation with the Seodaemun branch of 50 Plus Foundation, a public organization that promotes financial life planning. Back office work was streamlined through BRP (business process reengineering). All in all, commission income from funds, bancassurance and retirement pensions reached KRW 154.1 billion in 2018.

Plans for 2019

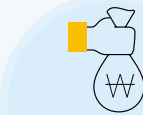
To provide better returns for customers, we will make timely recommendations of market funds that are selected based on the WM house view presented by NHFG. We will also strengthen the follow-up process. By reinforcing WM Consulting Center operations within our All100 Plan Team, we will provide comprehensive wealth management, portfolio and real estate consulting to boost the value of VVIP customers' assets. In bancassurance, we will increase convenience by launching an online and smart banking channel that will allow customers to easily find information on insurance products, check on their existing insurance plans and more. For retirement pension, we will enhance investment returns, increase deposits in existing accounts and launch new pension products.

Corporate Banking

Performance in 2018

While the 'big bath' in 2016-2017 improved asset quality, further improvements were made to the corporate banking portfolio in 2018 to sustain growth moving forward. Asset growth centered on healthy SME loans allowed us to surpass our profit target, while asset quality was strengthened thanks to the increased weight

Retail core deposits (average balance)



33,014.7
KRW in billion

Household loan balance



86,563.7
KRW in billion

Review of Operation

of loans backed by high-quality collateral and loans to borrowers with high credit ratings. Corporate loans climbed to a three-year high of KRW 3.3 trillion. We attracted 8,156 new corporate clients and 43,543 SOHO clients. We supported companies with promising technologies and growth potential in partnership with Korea Federation of Credit Guarantee Foundations and Korea Credit Guarantee Fund. In terms of marketing, we increased support for branches through our RM policy, onsite corporate meetings, and distribution of marketing manuals. To better serve our customers, we organized farming experience events for employees of outstanding companies and expanded business consulting services.

Plans for 2019

We will attract healthy corporate clients, foster core branches for corporate banking, expand customer services, and increase marketing support for branches. By providing productive and comprehensive financial services, we will position corporate banking as a main pillar of NongHyup Bank's 'Sustainable Growth 1+ Movement.'

Investment Banking

Performance in 2018

Profit & Loss

• Income reached KRW 175.8 billion, exceeding our 2018 target (KRW 164.0 billion) by KRW 11.8 billion.

Interest margin rose 8.7% YoY thanks to an increase in investment assets

Assets

• An increase in housing association project loans (KRW 320 billion), acquisition financing (KRW 85 billion), international investments (KRW 160 billion), and credit

(Unit: KRW billion, %)

	2017		2018		YoY	
	Result	Target	Result	Achievement Rate	Change	Growth Rate
Interest income	58.5	62.5	63.6	101.8	5.1	8.7
Commissions	47.0	40.0	41.8	104.5	△5.2	△11.1
Gain/loss on marketable securities	73 .1	61.5	70.4	114.5	△2.7	△3.7
Total	178.6	164.0	175.8	107.2	△2.8	△1.6

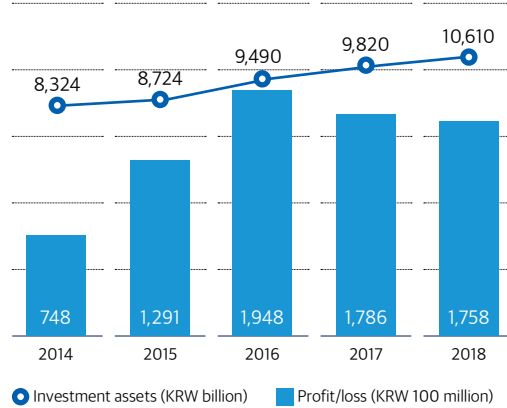
(Unit: KRW billion, %)

	2017		2018		YoY	
	Result	Target	Result	Achievement Rate	Change	Growth Rate
Loans	5,931.1	6,233.0	6,422.8	103.0	491.7	8.3
Marketable securities	1,317.2	1,423.0	1,472.5	103.5	155.3	11.8
Credit	2,574.1	2,771.0	2,714.5	98.0	140.4	5.5
Total	9,822.4	10,427.0	10,609.8	101.8	787.4	8.0
New commitments	4,520.3	4,095.0	4,150.1	101.3	△370.2	△8.2

(KRW 140 billion) related to Korea Credit Guarantee Fund's P-CBOs boosted assets by KRW 777.6 billion from a year ago.

New commitments stood at KRW 4,150.1 billion, equivalent to 101.3% of our target

Reference: Profit and Asset Trends



Plans for 2019

1) Overseas Investment

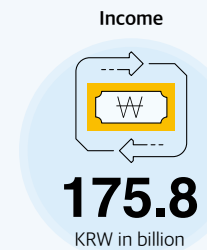
Direction: Expand overseas investment by diversifying deal sourcing channels

• Forge cooperation with global asset management companies

Extend foreign currency loans to global companies that demonstrate stability and profitability

• Strengthen cooperation with CIB, and pursue overseas infrastructure investments in conjunction with the Hong Kong IB desk

Create synergy with subsidiaries such as NH Investment & Securities and boost global deal sourcing using local network in Hong Kong



2) IB

Direction: Form mid-to-long-term basis for non-interest income and generate synergy across affiliates

• Increase investment in funds of asset managers with high investment returns

Invest in domestic and overseas PEF, VC and PDF that can provide stable dividend income

• Pursue M&A deals that involve PEF investment and acquisition financing

Arrange M&A deals through partnership with asset managers specializing in buy-out investments

• Continue extending credit related to Korea Credit Guarantee Fund's P-CBOs

Participate in Korea Credit Guarantee Fund's P-CBOs

Project Finance

Direction: Increase PF loans for safe assets

• Pursue financing for large infrastructure projects such as environmentally friendly energy

Secure large-scale deals based on track record of financing Korea's largest combined heat & power plant (DS Power)

• Increase PF loans centered on safe assets amid uncertainty in the real estate market

Provide more standard PF loans and lending for sizeable housing projects around the metropolitan areas

Increase relocation/intermediate loans corresponding to greater size loans

Agricultural & Food Finance

Performance in 2018

In 2018, we provided KRW 7,109.7 billion worth of new agricultural policy loans (loan balance of KRW 19.42 trillion, including NongHyup Bank and Agriculture & Livestock Cooperative loans). In particular, we extended KRW 2,588.1 billion in loans designed to give comprehensive support for farming activities. We also extended greater lending to agriculture-food companies such as food manufacturers and distributors. As a result, the loan balance stood at KRW 20.87 trillion won at the end of 2018, which was an increase of KRW 1,549.2 billion compared to the end of 2017. Moreover, we have established a PEF worth KRW 20 billion to support SMEs in the agricultural sector. During 2018, we made KRW 6 billion in new investments, which raised accumulated investments to KRW 12 billion.

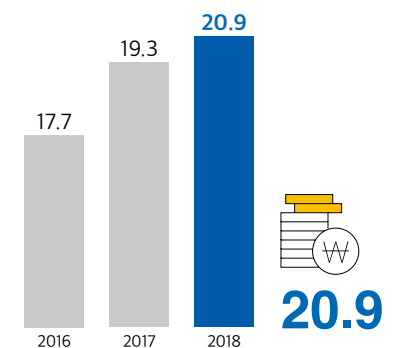
In 2018, we worked with the government to launch 'Young Farmers, Smart Farms Loan', a product carrying low interests targeting young farmers to stimulate the agricultural economy. The loan has a dual purpose of rearing future farmers and creating jobs for the youth. We also provide free consulting services to promote 'smart farm' ventures. For agri-food companies, we launched two new loans that offer preferential interest rates. In July 2018, we unveiled the 'Agri-Food manufacturing loan' to encourage related investments. Through this product, manufacturers that use domestic produce as raw materials can enjoy loans at favorable interest rates. Another product, 'NH Job & New Agri-Food Companies Loan' promotes entrepreneurship and job creation. It is a loan with favorable borrowing rates available to agri-food companies that are less than five years old and create new jobs.

Agricultural policy loans (balance)



Balance of Agri-Food Company Loans

(unit: KRW trillion)



Review of Operation

Plans for 2019

Our target for 2019 is to newly extend agricultural policy loans worth KRW 6.5 trillion and increase the balance of agri-food producer loans by KRW 1.5 trillion (net increase). We will offer both funding and consulting services to strengthen the agriculture and agri-food sectors. We will also continue to discover new investment targets in the agriculture-food industry and expand the investment amount. Through our 'Proud Agricultural Food Product Award', we will find healthy companies in the agriculture/food industry that will drive the industry's future and grow together with NongHyup Bank.



Public Sector Banking

Performance in 2018

- Renewed 57 contracts, and won new contract (Jeju authorities) in 2018
- Completed the only nationwide e-education deposit system (in 16 Metropolitan and Provincial Offices of Education)
- Net growth of 22,000 public servants and institutional employees as main customers
- Net growth of KRW 327.2 billion in balance of cooperative loans offered in conjunction with provincial governments

Plans for 2019

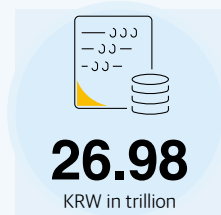
We will put in our very best effort to reach our profit goal by implementing a marketing strategy reflecting the needs of public sector customers. From managing funds for local governments and serving institutional clients to marketing directed toward public servants and collective loans, we will serve various needs and diversify income sources to enhance our reputation in public sector banking.

Trusts

Performance in 2018

In 2018, total AUM balance stood at KRW 26.98 trillion, an increase of KRW 4,101.4 billion (+17.9% YoY). Broken down, money trust was KRW 16,177.5 billion (60% of total) and Asset trust was KRW 10,807.4 billion (40% of total). In particular, specified money trust reached KRW 12,797.5 billion, an increase of KRW 2,387.3 billion (+17.9% YoY).

Total Trusts AUM(balance)



Plans for 2019

We will further strengthen trust operations by securing and nurturing related professionals. Furthermore, we will fortify employee training to prevent incomplete sales and better protect financial consumers through systematic improvements for standardized sales procedures. In this way, we will continue to provide clients with comprehensive asset management services that meet their needs while enhancing our role as a core business of NongHyup Bank.

Risk Management

Performance in 2018

The Risk Management Department plays a key role in assessing all risks that can arise from NongHyup Bank's operations. Our goal is to elevate the soundness and stability of all operations to secure a platform for business sustainability. This department identifies and measures risks that can arise in all stages of carrying out business activities and enables the risks to be taken into consideration from the business planning stage.

We set risk limits to ensure capital adequacy and efficient allocation of capital, and designate limits per industry and category in order to prevent skewed exposure. Improvements were made to our total exposure system to more efficiently manage limits for individual companies and affiliates. Considering the increase in overseas investments and fluctuating market conditions, we expanded our scope of control using risk limits. We also strengthened our loan portfolio with tighter control related to international finance. For preemptive risk management, we conducted crisis scenario analysis and drew up corresponding response measures.

The Risk Dashboard is our own risk monitoring system that allows us to better observe risk factors. We made improvements regarding credit risk factors and the credit evaluation system for more accurate measurement of risk. We took steps to proactively respond to liquidity regulations. We tightened internal standards to better manage the liquidity coverage ratio and net stable funding ratio. We took a preemptive move and set up a system to prepare for large exposure regulations. We also took various measures regarding overseas risk management. We established risk limits for overseas branches, prepared plans to manage foreign exchange risk and reviewed risk factors.

Plans for 2019

Greater volatility in the financial markets and a deteriorating corporate environment are expected to be the main risk factors in 2019. Our goal is to build a foundation for sustainable growth to become a leading bank. We will enhance our risk management abilities and upgrade the credit evaluation system for overseas companies to better support global business expansion.

Digital Strategy

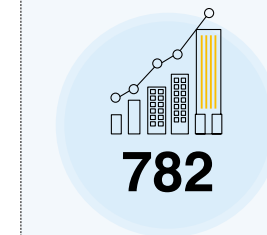
Performance in 2018

We laid the groundwork for digital transformation to meet the demands of the fourth industrial revolution. We successfully launched 'NH Big Square', a system that enables us to process and analyze massive amounts of data. Various analysis models were developed, paving the way for innovative data-based services.

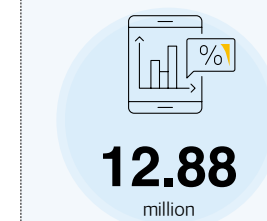
We also expanded 'NH Cloud Branch', which is the first of its kind in the banking industry. Corporate clients using this branch grew about twelve-fold (net addition of 350) year-on-year to raise the total number of clients to 782. Our API-based fintech business solidified its competitiveness as well. We developed 46 new APIs and attracted 15 new corporate users. Accordingly, there was a 126% increase in transaction volume and a 197% rise in commissions. Lastly, we pursued new customers by stepping up cooperation with platform providers. Simple payment service clients reached 5.5 million while transaction volume rose 82%. We ranked in first place in the simple payment service market among banks, marking our success in digital banking.



No. of corporate clients using 'NH Cloud Branch' (Accumulated)



No. of digital banking customers



Plans for 2019

We will continue with efforts for digital transformation of NongHyup Bank. Through our newly opened NH Digital R&D Center, we will harness core technologies of the fourth industrial revolution (big data, blockchain, API, cloud, etc.) to develop new business models. We will also strengthen technology ties with fintech companies. To spread a digital corporate culture, we will take steps to realize an agile organization and promote internal ventures. This will ultimately transform the corporate culture throughout NongHyup Bank.

Digital Channel

Performance in 2018

With the launch of smart banking in December 2018, we unveiled services based on new technologies such as AI chatbot, keyboard banking, and big data-based product recommendations. We attracted five million customers after just one month of the launch. Additionally, through the upgrading of e-finance services, the number of digital banking customers (smart/Internet) stands at 12.88 million.

Backed by our user-friendly banking platform, average monthly transactions (checking bank balance, making transfers, etc.) exceeded 630 million. In particular, there was a net addition of 860,000 smart banking customers in 2018. NH's representative mobile banking app 'All One

Review of Operation

Bank' had 3 million users as of December 2018 (net increase of 1.6 million from end-2017) thanks to greater offerings of simple financial services and partnerships. Accumulated simple transfer transactions numbered 62.03 million (up 425% YoY), steered by aggressive marketing such as money wires using just contact info (no need for bank account details) and fee-less moneys transfers for amounts under KRW 500,000. Since its release in August 2016, All One Bank has steadily expanded its user base. There were 450,000 registered users at the end of 2016. The figure rose to 1.4 million at the end of 2017 and further increased to over 3 million as of the end of 2018.



Plans for 2019

To become the leading banking platform in the financial industry, we will implement a two-track strategy encompassing NH Smart Banking and All One Bank. For NH Smart Banking, we will make upgrades in order to provide full banking services and expand mobile support for branch operations. For All One Bank, we will harness its strengths and expand overseas QR payment service. We will bolster marketing of joint services based on alliances such as All One Candy, mobile coupons, among others. Through this, our long-term plan is to construct another mega platform.

To keep apace with the fourth industrial revolution, we will continue to develop banking services linked to various platforms. IoT-based AI Speaker Banking (tentative name) service will be expanded to include diverse functions such as checking account balances and foreign exchange rates. We plan to introduce digital STM (smart teller machine) featuring biometric authentication technology. STMs will take NongHyup Bank one step closer toward year-round self-banking and increase branches' overall efficiency by replacing high expense/low productivity teller operations.

Digital Marketing

Performance in 2018

We established a 24-hour/365-day non-face-to-face product registration system that allows customers to sign up for new products anytime, anywhere. We also set up 'NH Propose', a specialized digital customer management system.

Products sold through the non-face-to-face channels amounted to KRW 6,087.1 billion, rising 19.3% YoY.



In addition to running our financial product mall UI/UX, we expanded the product line-up in non-face-to-face channels and made it easier to sign up for products.

We reinforced marketing activities, conducting special promotions and advertising through various channels. New deposit accounts opened via the non-face-to-face channels skyrocketed 650% YoY. Our debit card payment service is growing strong with an increase in prominent merchants and service expansion. We are also actively participating in the state-sponsored mobile payment system, Zero Pay. Smart Billing, a platform for public service billing and payments, drew 1.4 million registered users just one year after its launch. We will improve services and increase the number of public institutions on the platform to provide our customers diverse benefits and greater convenience.

Plans for 2019

We will strengthen digital marketing and customer care to evolve into a digital financial company. Mobile branches, or virtual mobile centers, will be set up to promote online-offline marketing. We will also work with different platforms to increase digital customer contact points. These moves will help us attract new digital customers and boost product sales via the digital channels.

We will launch products designed specifically for the digital channels. Adding to that, we will hold seasonal digital promotions and carry out big data-based marketing to sharpen our digital marketing capabilities.

Consumer Protection

Performance in 2018

Maintained the lowest level of fake accounts in the banking industry for the fourth straight year since 2015

* 3.0% in 2015, 2.7% in 2016, 3.4% in 2017, and 3.8% in 2018

Expanded financial fraud prevention activities

* Prevention of loss to customers from fraud: KRW 21.4 billion (+80%YoY) or 2,214 cases (+50%)

Adopted and unveiled 'Ethical Sales Guidelines', a first for the banking industry

* Established ethical standards concerning overall sales activities <July 17, 2018>

* Held a ceremony to declare implementation of ethical sales activities at NongHyup Bank <Aug. 20, 2018>



Plans for 2019

The Consumer Protection Department worked to eliminate incomplete sales of financial products. This included improving the selling process using artificial intelligence. Greater education efforts will be made to raise clients' awareness of financial fraud to minimize possible damages. In addition, we will raise employees' commitment to customer satisfaction to prevent civil complaints and enhance convenience for customers who visit our branches.

Global Business

Performance in 2018

General Overview : As of the end of 2018, NongHyup Bank had a global network spanning across seven countries. It consisted of two branches, two subsidiaries (with 33 local branches) and three representative offices. In addition, we have employees who are experts on the local market stationed overseas. The overseas business sites are manned by some 500 employees including staff hired locally.



Overseas Network & Business Expansion : We added one local subsidiary and one representative office in 2018. In September, NongHyup Bank successfully completed its first global M&A and launched NongHyup Finance Cambodia which is engaged in microfinance. In Vietnam, we opened our second representative office in Ho Chi Minh City, expanding our operations in Southeast Asia, a region that promises vast potential. We received approval from our board of directors to open an office in Hong Kong, which will serve as a foothold in Asia's financial hub. Our Hanoi and Cambodia operations turned profitable within just two years, which was earlier than anticipated. The Hanoi branch is expanding its asset and customer base by focusing on corporate loans, while NongHyup Finance Myanmar opened seven additional branches during 2018 and secured 50,000 customers.

(As of end-December 2018)

	USA	Vietnam		China	India	Myanmar	Cambodia
	New York	Hanoi	Ho Chi Minh City	Beijing	New Delhi	Yangon	Phnom Penh
Business format	Branch	Branch	Rep. Office	Rep. Office	Rep. Office	MFI Subsidiary	MFI Subsidiary
Launch date	August 2013	December 2016	October 2018	September 2013	June 2016	December 2016	September 2018
No. of business sites	1	1	1	1	1	14	19
Main businesses	Corporate banking, trade finance	Corporate banking, remittance transit, etc.	Preparation to set up sales entity	Preparation to set up sales entity	Preparation to set up sales entity	Microfinance	Microfinance, SME lending
No. of employees	21	18	2	5	4	209	241

* Indonesia: Two employees (local professionals) dispatched from Korea

Review of Operation

Plans for 2019

NongHyup Bank will continue to expand its global network to diversify income sources and cultivate long-term growth engines.

Expansion into New Markets : NongHyup Bank intends to open branches in the Asian financial hub of Hong Kong and countries that have robust growth potential like India, Southeast Asia, Europe, China, and other potential markets are eyed with interest to expand our global network. We will closely examine whether or not each country is a good fit for NongHyup Bank, and if so, in what form of market entry should be pursued.

Advancement of business model for existing network(or countries) and Strengthen global infrastructure : We will upgrade business models for existing country operations like Vietnam, Myanmar and Cambodia to sustain growth and increase profits. Overseas branches, in essence, are a condensed version of the bank's business operations and scope.

This means inter-departmental cooperation and core competencies of each department are essential. We will take steps to enable greater support of each department so that various issues can be addressed effectively. Nurturing skilled experts is of utmost importance to expand our global business. For this purpose, we will implement global training programs to rear local professionals, the NH-Finance MBA global program, and overseas exchange programs.

Foreign Exchange

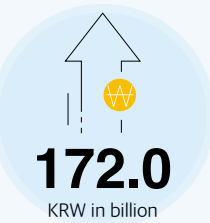
Performance in 2018

Under the goal of "Profit first, site first business initiatives" the Foreign Exchange Department achieved business volume of USD 68.5 billion and profit of KRW 172.0 billion in 2018, up 5.7% and 9.6%, respectively from the previous year. We generated business through marketing efforts that were seasonally opportune and onsite support.

We strengthened market competitiveness by launching new services like NH account-free remittance and non-face-to-face automatic remittance. Also, our year-end reorganization helped build a foundation for growth by integrating the existing foreign exchange derivative center and international business department.



Profit of the Foreign Exchange Dept



Plans for 2019

We foresee a difficult year ahead as import and export volumes are expected to weaken due to a rise in global economic uncertainties. Threats from fintech startups and online banks in the remittance market may also negatively impact profits. To respond to these challenges, we will harness synergies of our integrated organization and pursue four core strategies: 1) focus on key branches involved in trade finance operations by designating a person in charge per branch to listen to customer concerns and offer customized support; 2) establish a site-focused support system to build and expand support teams on site; 3) strategize and systemize talent training to nurture a pool of FX experts; and 4) strengthen digital non-face-to-face service by developing innovative tech-based solutions.

NH Card CIC

Performance in 2018

Total credit card usage in 2018 was KRW 97.3 trillion, representing market share of 11.6% and a growth rate of 9.2%. We ranked fourth in the industry based on card usage. Despite difficulties posed by the expanded application of lower fees for small-sized merchants, NH Card CIC produced favorable profits, thus fulfilling its role as a major profit center for NongHyup Bank.



Our activities in 2018 were as follows: ▲ strengthened marketing ▲ new entry into the public payment market ▲ enhanced competitiveness ▲ timely launch of new products to reinforce the non-face-to-face channel. As a result, we attracted 1.29 million new credit card holders in 2018, marking the fourth consecutive year to sign up over 1 million customers.

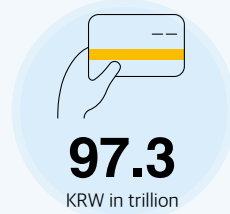
The pan-NACF membership scheme 'NH Members' was launched in December. Following the launch, 'NH points' can be accumulated not only at agricultural & livestock cooperatives and NH affiliates, but also at some 30,000 NH point partners nationwide.

Card Holders and Usage

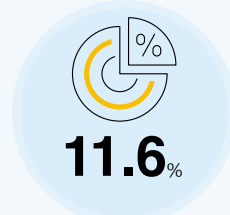
(Unit: KRW trillion)

	2016	2017	2018
Total usage	80.0	88.8	97.3
Total No. of cardholders (1,000)	26,447	28,683	30,497

Total credit card usage



Credit Card Market share



Plans for 2019

We have set 2019 as our first year of management accountability and will strive to reach our target profit. We will elevate management authority and responsibility to the levels of an independent card company. The focus will be on raising profitability and competitiveness. We will carry out 12 action plans under four strategic directions which are: ▲ adopt crisis management mode ▲ boost efficiency ▲ have responsible management practices take root ▲ discover new growth drivers. Our mid-term vision is to transform into an agile digital card company. For this, we will pursue the following: ▲ expand open innovation as part of our digital response ▲ adopt machine learning and RPA to fine-tune work processes ▲ respond to spread of local currencies by upgrading apps ▲ firmly establish NH Members in the market.

The operating environment in 2019 is predicted to remain difficult due to: ▲ continuing downturn of the domestic economy and high unemployment ▲ reduced merchant fees ▲ stricter credit card loan regulations ▲ promotion of new payment methods (such as Zero Pay). NH Card CIC will spare no effort to emerge as a leading card company regardless of the challenges that lie ahead.

NongHyup Life Insurance



NongHyup Life Insurance began its journey as a private insurer on March 2, 2012, armed with 50 years of experience in the insurance industry, over 3 million customers, and a 5,700-strong nationwide sales network. We draw on decades of experience in mutual-aid projects and an expansive sales network to provide insurance services to people across the entire country. Our comprehensive services deliver financial security to people in their golden years. We also seek to be a kind and responsible financial company that contributes to increased profits for farmers and stability for farming communities. We promise to always remain close by our customers and to think from their perspective, to grow into a financial company that realizes a virtuous cycle of value to benefit our customers, company and society.

FINANCIAL HIGHLIGHTS (Consolidated)

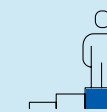
(unit: KRW billion, %)

		FY2018	FY2017
Consolidated BS	Total assets	64,699.5	63,702.4
	Total liabilities	61,066.1	59,835.6
	Total equity	3,633.4	3,866.8
Consolidated IS	Operating income	(79.1)	171.6
	Pre-tax income	(148.9)	112.2
	Net income	(114.1)	85.4
	Net income before agricultural assistance expenses	(51.3)	125.3
Business Volume	Invested assets	62,634.5	61,289.5
	Premium income	7,502.3	8,138.0
	Initial premium	1,108.4	1,336.2
Key Ratios	RBC ratio	194.98	217.92
	New business ratio	14.26	14.28
	Expense ratio	7.73	7.35
	Invested assets/total assets ratio	96.84	96.21
	Investment yield	2.63	3.16

* Prepared and presented based on K-IFRS No. 1039

VISION

No. 1 insurer that delivers unrivalled satisfaction to all citizens, including those that do not have access to insurance. We are a steadfast partner to our customers who seek safe and stable lives.



No. 1 in Customer Care and Appreciation
No. 1 insurer and reliable facilitator that helps 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 that seeks change



Mutual Trust
Mutual respect through communication and cooperation, honesty and integrity based on sense of responsibility

NongHyup Life Insurance



CEO
HONG JAE-EUN

CEO Message

NongHyup Life Insurance is faithfully executing its role as a cooperative-based insurer to realize value for our customers, company and society.

We will maintain customer value as our foremost priority.

Guided by our vision to be 'No.1 in customer care and appreciation', we exercise customer-focused management. Our efforts have resulted in NongHyup Life Insurance receiving re-certification for CCM (Consumer Centered Management), recognition for excellence in call center operations for three years in a row, and introduction of the industry-first simplified claim service for indemnity medical insurance.

We will fulfill our social responsibilities.

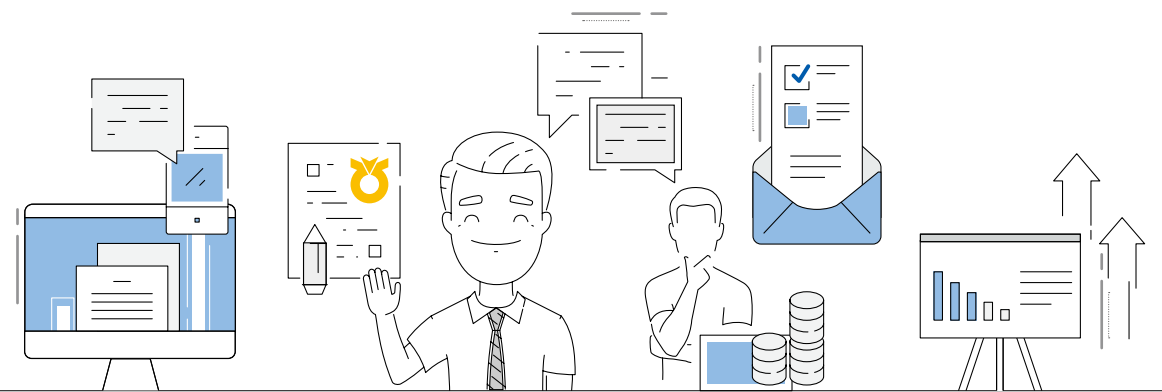
All employees of NongHyup Life Insurance commit 10.8 hours annually to volunteering activities. A key social contribution program is organizing visits to farming communities nationwide to provide free medical checkups. We also offer a unique insurance product that provides accident coverage for farmers. Some 800,000 have signed up for the product, for a record subscription rate of 60%.

We will grow our corporate value through management innovation.

NongHyup Life Insurance is endeavoring to secure future growth drivers with a focus on delivering long-term value. Efforts include solidifying insurance revenues, advancing our business structure, strengthening competitiveness in asset management, enhancing digital finance functions and proactively responding to new accounting standards.

As we celebrate our eighth anniversary, NongHyup Life Insurance pledges to continue efforts to be 'No.1 in customer care and appreciation' by developing products that meet customer needs and providing convenient customer services.

Thank you.



At a Glance

Strengthening insurance revenues

To improve profitability, we expanded the lineup of protection-type plans such as whole life insurance and CI products, and developed new products customized for the different channels along with medicare/lifecare services including women-only health and psychological consultations. Furthermore, we upgraded the FC channel structure for enhanced efficiency by increasing customized training and on-site support for agricultural/livestock cooperatives, securing stronger sales momentum by improving the FC operating rate, and boosting channel competitiveness.

Advancing the management system

The adoption of ALM management has enabled us to tighten management of assets and liabilities through detailed profit/loss predictions and financial strategies. We also newly created the Product Information Team to support product development and systemize the verification process. We built a pre-launch testing environment for new products, and ensured that information needed for product and IT system development are available in a timely manner. The introduction of a mobile call center invigorated insurance policy loans through the call center, while raising the ceiling on total automatic transfer lowered transfer fees. We were able to streamline operations and reduce maintenance and management fees by signing an IT contract directly with an outside company rather than going through a third intermediary.

Increasing asset management competitiveness

We expanded alternative investments and individual loans, and diversified risk-based investments that yield fees from financing arrangements and consultations, as part of efforts to improve investment returns. Analyzing case studies from overseas such as Taiwan and Japan contributed to diversifying our asset management strategy. We also increased marketing of insurance policy loans and enhanced customer convenience by improving the related interest rate scheme and system development. As for the asset/liability duration gap, we reinforced the link between the strategic direction of asset management and duration targets. Additionally, the asset allocation process was improved through a more accurate mid-to-long-term interest rate prediction system. We also upgraded the asset management system by reinforcing the ALM function and upgrading the investment process.

Securing future growth drivers

In preparation for IFRS17, we selected a consulting firm and officially began financial impact analyses and system building. We are planning to conduct education for related personnel and preparing responses for each sector. The SFA system has been upgraded by reflecting 143 on-site opinions, and the scope of products offered electronically was increased to shorten the time needed for processing. We carried out on-site training for approximately 2,900 people and enhanced their sales capabilities. Improvements were made to insurance schemes covering farmers' accidents, such as the lowering of premiums by applying the most recent risk rates and increasing coverage. We also developed new products for farmers that offer practical assistance such as pension plans and dementia insurance. Moreover, NongHyup Life Insurance worked to increase understanding and appreciation for farms, by organizing events where city residents can visit farming communities and take part in various activities.

Awards

Jun. 2018	Financial Supervisory Service Governor Award (marketing category), Korea Life Insurance Association Chairman Award (sales division), 2018 Seoul Economic Daily 'Charm Insurance Awards'
Oct. 2018	Innovative Product Development Award (product development category), 23rd Korea Herald Business Insurance Awards Award of Excellence (life insurance category), 7th Centenarian Era Financial Award
Nov. 2018	Best Life Insurance Award (insurance category), 2018 Korea Economic Daily Fund Operation Awards

Review of Operation

Overview

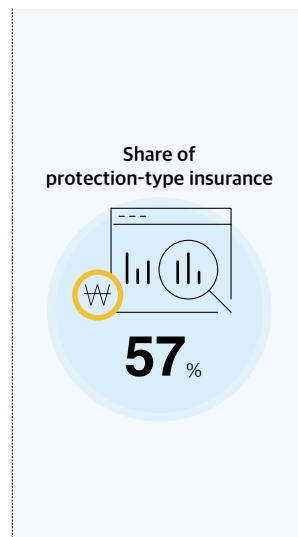
As we enter our seventh year of operations amid heightened uncertainties in the business environment along with signs of slower growth, NongHyup Life Insurance is continuing to focus on profitability and greater competitiveness. We aim to focus on boosting insurance profits, competitiveness in asset management, improving management infrastructure and reinforcing the base for future competitiveness.

We will pursue greater profits by expanding sales of protection-type insurance and shoring up our product lineup. At the same time, the introduction of ALM management is accelerating efforts to advance our management system.

'9988 NH Health Insurance' received an explosive response on its launch in May of 2018 with 10,000 sold in just the first day. The figure set a new record for the highest sales in the shortest period of time. The 'NH Safety Insurance for Farmers' was another popular product as 800,000 people signed up for the practical coverage plan as of the end of 2018, reaching a record high subscription rate of 60%. We also introduced the industry-first simplified claim service for indemnity medical insurance which enhances customer convenience and satisfaction.

Guided by our vision to be 'No. 1 in customer care and appreciation,' we practice customer-focused management which resulted in our receiving re-certification for CCM (Consumer Centered Management) and recognition for excellence in call center operations for three years in a row.

Our strict IT security policies and management have yielded zero hacking/infringement cases, increasing customer trust. Our employees also voluntarily put in over 10.6 hours each year in various sharing activities to set an example in social contribution.



Despite the difficult business forecast in 2019 due to continuing economic uncertainties and extended downturn, NongHyup Life Insurance will continue to forge ahead with efforts to increase profitability by pursuing management innovation that is based on long-term values. We will build a sustainable foundation for growth, strengthen our insurance profit base, maintain stability in asset management, and upgrade our business infrastructure.

Monthly premium equivalent for protection-type insurance

(unit: KRW billion)

Channel	2013	2014	2015	2016	2017	2018	CAGR	YoY
NongHyup Life Insurance	15.2	20.0	24.3	26.8	30.5	29.1	14%	-4%
Agri/livestock cooperatives	9.1	10.5	13.6	16.7	18.4	16.0	12%	-13%
New channels	6.0	9.5	10.7	10.1	12.1	13.0	17%	8%
New channel share	40%	47%	44%	38%	40%	45%		5%p
Protection-type share	13%	16%	29%	33%	51%	57%		6%p
Life insurance industry total	52.1	52.4	56.9	59.2	54.4	54.8	1%	1%

Marketing

Performance in 2018

Related to marketing, we sought to improve profitability and greater efficiency in four main areas: channel, product, customer and digital finance.

First, we reinforced our marketing capabilities by focusing on productivity for balanced growth of agricultural/livestock cooperatives and new channels.

As a result, the monthly premium equivalent for protection-type insurance grew at a CAGR of 12% YoY for agricultural/livestock cooperative channels and 17% YoY for new channels from 2013 to 2018. New channels accounted for 45% of the total in 2018, up from 40% in 2013.

Second, we bolstered our product lineup by enhancing protection-type insurance plans and by launching new products. Marketing and sales training support were extended to boost sales of protection-type insurance. These included providing target customer database and carrying out campaigns and customized training courses including on-site training. Thanks to these efforts, our market share of protection-type insurance continued to rise from 14% in 2013, to 51% in 2017 and 57% in 2018.

Third, we directed our efforts to attract new customers and grow the market. A campaign to attract new customers in agricultural/livestock cooperatives by linking mutual finance resulted in securing about 15,000 new customers. We also carried out 517 cases of financial consultations, which helped to strengthen our market presence. Meanwhile, online insurance products are enlarging our base of younger customers.

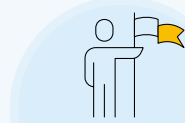
Lastly in digital finance, we are upgrading mobile services and developing new systems to heighten customer satisfaction, and we are actively pursuing the adoption of new technologies using fintech. Major examples of services already in place include the sending of mobile insurance terms and conditions and digital (online) bill service, while review has begun on the development of a chatbot system.

Plans for 2019

To maintain business resilience and flexibility in the face of an aging population, low economic growth and introduction of new accounting standards, we will focus on improving profitability and building a foundation on increasing sales to enable sustained growth over the mid-to-long term. This entails continued efforts to increase protection-type insurance, and aligning our

The achievements of a campaign to attract new customers in agricultural/livestock cooperatives

No. of new customers



15,000
(approx.)

Cases of financial consultations



517

marketing and sales strategies. We will build a framework that will allow us to simultaneously pursue profits and growth.

To achieve our objective, we will more rigorously manage selling costs and product profitability. The system for fees and operating cost payment per channel will be improved for greater efficiency related to productivity. Reorganizing our product portfolio to center on profitability will also enhance our bottom line. Secondly, we will improve our sales capabilities to increase efficiency. By improving the way we manage each stage of signing up a new contract, we plan to raise the policy persistency rate. To improve sales channels, we will designate key management indices per channel and closely monitor them year-round.

Thirdly, all efforts will be made toward boosting marketing in order to reach our sales targets. Through the development of new, innovative protective-type insurance schemes, increasing our sales capabilities and providing customized sales/marketing support, we will continue to expand the market.

Finally, we plan to make improvements through digital innovation. New technologies such as chatbot, RPA and blockchain will be actively utilized in insurance sales and customer services to raise operational convenience and lower costs.



Review of Operation

Agricultural/Livestock Cooperatives

Performance in 2018

The Agricultural/Livestock Cooperatives Division maintained its focus on supporting on-site operations.

First, we conducted the 'KRW 50 million Protection-Type Insurance Campaign' to protect farmers and agricultural/livestock cooperative customers. In particular, we contributed to farming households securing stable income through protective-type insurance.

Second, we launched three rounds of 'agricultural/livestock cooperative no. 1 campaign' under monthly themes to promote profits for agricultural/livestock cooperatives.

Third, we provided customized education for agricultural/livestock cooperatives to form consensus on the need for a learning group and strengthened our ability to pursue insurance businesses by nurturing employees' talents and capabilities.

Fourth, we took steps to expand subscription to insurance that covers farmers' accidents and to help farmers maintain stability in their farming activities.

Notable Achievements

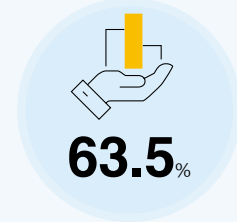
- KRW 50 million protection-type insurance campaign: 5 agricultural/livestock cooperatives, average protection-type insurance per customer of KRW 57 million
- Completed customized education for 118 agricultural/livestock cooperatives

Plans for 2019

The Agricultural/Livestock Cooperatives Division remains focused on strategic businesses that value sales and efficiency. We will boost profitability and efficiency; nurture talent through systematic education to enhance sales skills (support for special events, 'KRW 50 million protection-type insurance campaign', etc.); and contribute to increasing profits for farmers by promoting insurance that covers farmers' accidents.



Share of protection-type insurance in new channels



New Channel

Performance in 2018

The new channels are divided into three categories: FC channel which is the face-to-face-channel for financial consultants; AM channel which is the face-to-face sales channel for general agencies; and DM channel which combines both non-face-to-face and mixed-face-to-face channels. Top-line growth and efficiency were the two main areas of focus in 2018. The FC channel concentrated on improving efficiency and productivity, while the AM channel jointly pursued growth and efficiency by quickly adapting to the expanding GA market. The DM channel achieved modest growth while adhering to a policy of protecting personal information.

Notable Achievements

- The share of protection-type insurance in new channels rose 4.5%p to 63.5% as we focused on providing protection, the founding value of insurance
- The number of FCs in the AM channel increased by 62 to 1,358, while the DM channel saw the creation of an additional O/B branch.

Plans for 2019

Our goal for 2019 is to achieve sustainable growth based on a foundation of greater efficiency. In particular, the FC channel will pursue efficiency- and productivity-based growth. The AM channel will pursue growth

through strategic GAs and by increasing the number of branches. The DM channel will focus on enhancing productivity and sales efficiency by securing a stable database through direct management of first-stage organizations.

Customer Support

Performance in 2018

NongHyup Life Insurance realized its unique 'NH customer happiness service' to spread a customer-focused management culture. One, in an industry-first, we developed an EDI (Electronic Data Interchange) system that enables customers to easily request medical indemnity payments through a hospital app, thereby dramatically improving customer service and convenience.

Two, we raised the age ceiling for insurance riders for two common diseases (acute myocardial infarction and stroke), expanding coverage for older customers.

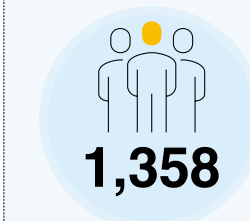
Three, we established an advanced mobile call center with text-supported ARS and chat consultation service. We also introduced a smart mobile service that allows for 100% mobile transactions, from getting an insurance policy until the policy expires.

Notable Achievements

- Raised the age ceiling for eligibility to apply for riders for two major diseases: 60 ⇒ 75
- Insurance payments were made within three business days for 95% of filed claims
- Longest call center operating hours among life insurers: 8:30~19:00



No. of FCs in the AM channel



Plans for 2019

First, we plan to keep extending the age eligibility and subscription amount to provide insurance coverage to more customers.

Second, we plan to utilize digital technology to introduce a 'mobile-led customer guidance system' that can provide swift and accurate information to customers.

Third, to receive a fourth consecutive certification for having an excellent call center from KSQI, we will continue to strive to provide better quality service and at the same time, introduce counseling for our call center employees.

Fourth, to expand CS management activities, we will pursue a wide range of efforts such as diversifying our customer panel makeup, having employees experience working at the call center, and inviting customers to special events.



Review of Operation

Product Development

Performance in 2018

Our focus in 2018 was to bolster the overall competitiveness of our products to improve profitability and stimulate sales.

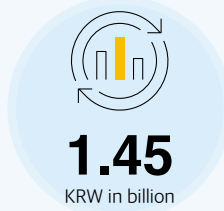
First, we improved company profitability with expansion of the protection-type product lineup and tighter control over income and expenses. By developing a new risk rate, we supplied whole life insurance and CI products which contributed significantly to the bottom line. In addition, we upgraded monitoring activities and post-sale profit/loss analyses.

Second, we strived to expand our market share through new product launches that answer to customer needs and social trends. These included low-to-mid-cost products (10,000 sold on first day of '9988 Health Insurance'), products that are in high demand from customers such as Alzheimer's insurance, and other specialized plans for diverse channels.

Third, we developed new collateral and services to boost product marketing. We added a rider to cover Alzheimer's to enhance existing insurance plans. We also strengthened non-price competitiveness by providing various healthcare services to match customer groups, such as 'safety care service' for women.



Saved investment costs



Plans for 2019

We will prioritize the development of innovative products that take into consideration the company's profits and channel needs, in addition to strengthening product profitability. We will develop products that contribute to the mid-to-long-term profitability of NongHyup Life Insurance while adhering to our product philosophy and principles. We will continuously monitor and review existing products to enhance their profitability. Finally, we will enhance non-price competitiveness by introducing new riders and additional services.

IT Support

Performance in 2018

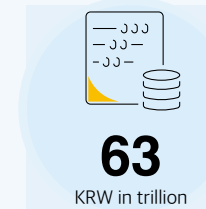
The IT Support Department readied an advanced financial IT environment to contribute to NongHyup Life Insurance's growth. Thorough analyses and discipline enabled us to save KRW 1.45 billion in investment costs, while timely IT development for 59 new and renewed products allowed us to extend swift sales support. The successful completion of diverse IT projects including the mobile call center upgrade and mobile service improvement also benefited overall capabilities of NongHyup Life Insurance.



Plans for 2019

We plan to pursue greater advancement and upgrading of IT systems to boost support of on-site and sales operations. We will improve the processes for managing IT systems and strengthen preview and follow-up measures related to IT investments to enable stable operation of IT infrastructure. We will proactively respond to the emergence of new technologies and regulations. This includes application of new technologies of the fourth industrial revolution such as chatbot. We will also build systems required for new supervisory standards such as IFRS17 in a timely manner. We will provide improved on-site support by establishing a system for timely dispatches. We will conduct on-site visits to gather opinions from the field and draw up concrete improvement measures. This will entail boosting the abilities of our own personnel through related training and education.

Invested assets



Asset Management (Investment Strategy)

Performance in 2018

The Asset Management Department considers stability, liquidity, profitability and public interests to adhere to the 'Regulation on Supervision of Insurance Business'. Investments are diversified in various asset classes. The scope of assets include marketable securities including domestic and overseas stocks and bonds, loans such as household and corporate loans, as well as domestic and foreign alternative investments.

As of the end of 2018, NongHyup Life Insurance had KRW 63 trillion in invested assets, ranking fourth in the domestic life insurance industry. Assets comprised mostly marketable securities which reached 82.2% of the total, followed by loans (15.4%), real estate (0.7%), and cash and cash equivalents (1.7%). While a high weighting of bonds provides stability, we have recently been diversifying assets in search of higher returns.

Plans for 2019

The Investment Strategy Department draws up an investment plan for each asset class according to tactical asset allocation that reflects monthly financial market trends and forecasts. Once the plan is reviewed and approved by the Investment Asset Committee, the assets are managed within the pre-set limits. The department continuously monitors and analyzes investment performance.

The Investment Strategy Department and Asset Management Department are responsible for managing assets according to a strategy-execution-analysis process. They carry out diverse activities such as uncovering areas for improvements and making upgrades to enhance the value of the asset portfolio.

The imminent adoption of IFRS17 calls for many changes in the insurance industry. Accordingly, we will study the expected impact on asset management to come up with responses and raise the value of our asset portfolio over the mid to long term.

In this respect, 2019 will see us focusing on advancing the investment process, further improving our capabilities in asset management, as well as building a foundation for future competitiveness to drive continued growth of NongHyup Life Insurance.

NongHyup Property & Casualty Insurance



NongHyup Property & Casualty Insurance started anew as a non-life insurance company on March 2, 2012 with a goal to deliver greater value and happiness to customers. Harnessing a half century's experience and knowhow, we will place top priority on enhancing the quality of lives of our customers under the vision of 'premier property & casualty insurance company committed to the happiness of customers.'

We are drawing closer to realizing this vision as we are maintaining sound capital adequacy, as attested to by leading credit rating agencies. In addition to expanding health and property coverage and advancing agricultural policy insurance, we will do our best so that no one is left behind in receiving the full benefits of insurance as we continue to grow with communities we serve as a socially responsible company.

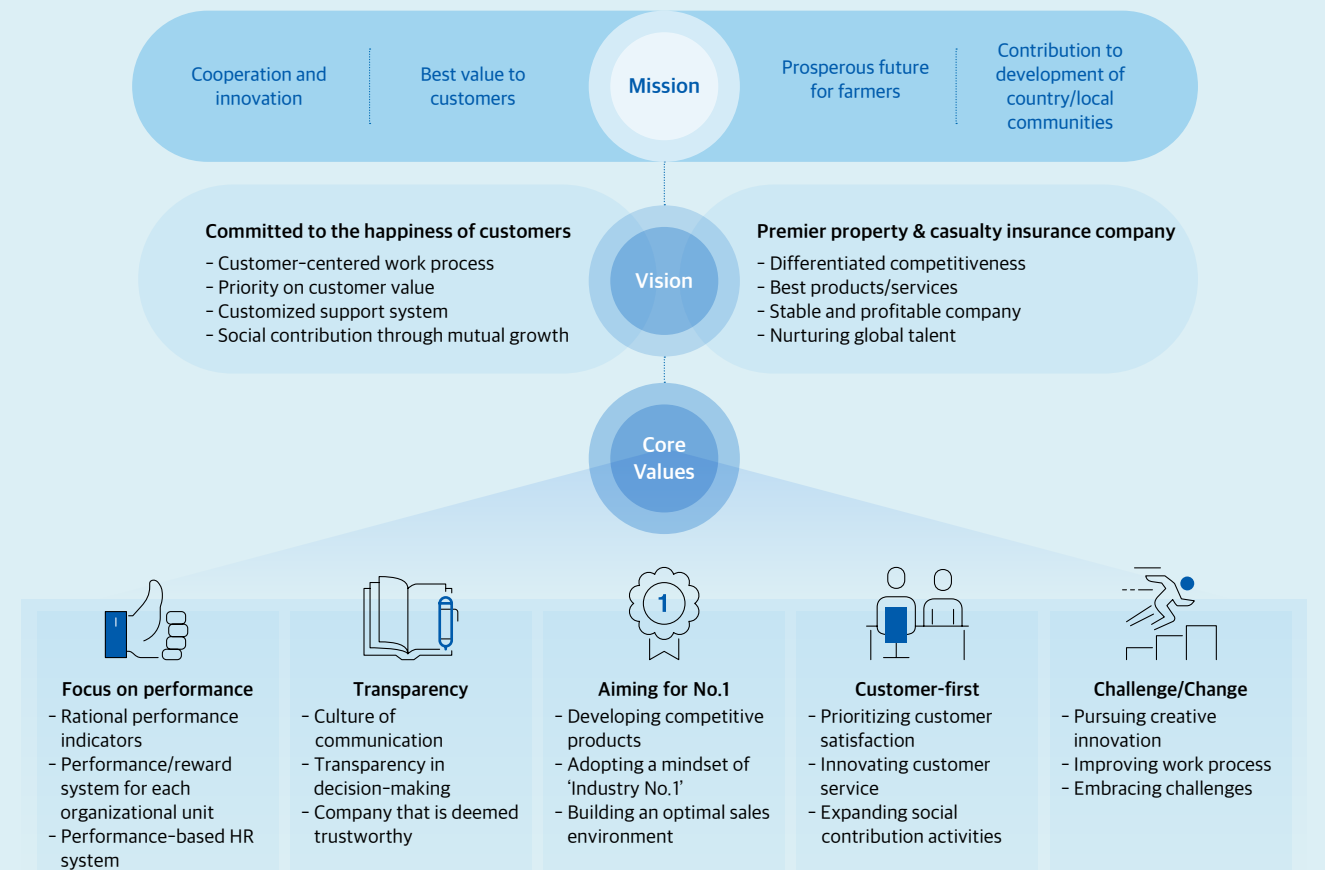
FINANCIAL HIGHLIGHTS

(unit: KRW billion, %)

		FY2018	FY2017
BS	Total assets	10,467.5	9,428.0
	Total liabilities	9,813.4	8,761.1
	Total equity	654.1	666.9
IS	Operating income	11.2	36.9
	Pre-tax income	2.4	34.9
	Net income	2.0	26.5
	Net income before agricultural assistance expenses	8.0	27.5
Business Volume	Invested assets	8,650.0	8,218.3
	Premium income	3,327.2	3,142.9
	Initial premium	1,251.1	1,056.5
Key Ratios	RBC ratio	176.63	190.59
	Loss ratio	95.30	91.09
	Expense ratio	18.89	15.84
	Invested assets/total assets ratio	82.64	87.17
	Investment yield	2.97	3.01

* Prepared and presented based on K-IFRS No. 1039

VISION



NongHyup Property & Casualty Insurance



CEO
OH BYEONG-GWAN

CEO Message

After serving the agricultural community for 50 years as a mutual aid society, NongHyup Property & Casualty Insurance was relaunched in March 2012 as a non-life insurance company with reinforced capabilities to provide more people with the benefits of insurance.

At NongHyup Property & Casualty Insurance, we put customers at the heart of everything we do. Our signature brand 'Hearim', which means 'consideration' signifies our commitment to 'prioritizing customers' needs and doing our utmost from the customers' point of view.'

As part of continued efforts to maintain stability in our operations and organization, we expanded our contact points with customers by enhancing our operating channels including 4,500 member cooperatives and 1,200 NongHyup Bank branches. And we are also increasing our partnership with GAs (General Agency) in order to respond changing market environments. Additionally, we built an advanced IT system, developed customer-tailored products that take into account diverse lifestyles, and expanded e-marketing channels befitting the fintech era.

We are actively engaged in government-offered policy insurances including those to cover crop and livestock disasters, agricultural machinery and natural disasters. We also fulfill our social responsibilities with various volunteering activities for isolated neighbors within our communities, in addition to carrying out activities such as 'One Company-One Village initiative', safety campaign for livestock facilities and agricultural machinery, fire prevention campaign at farms and low-income homes.

Our efforts are paying off as total assets grew from just KRW 1.8 trillion at the beginning of 2012 to more than KRW 10 trillion as of the end of 2018. The excellence of our customer-first management has also been recognized externally, with the Financial Supervisory Service awarding us with the top grade in its consumer complaint assessment. We also received the Korea Fair Trade Commission's CCM (Consumer-Center Management) certification. Most notably, we received 'A-' rating from A.M. Best, a global credit rating agency focused on the insurance industry, which attests to the fact that we are earning trust from customers and the market.

NongHyup Property & Casualty Insurance was built on a foundation of agricultural cooperatives that stresses the importance of mutual aid. We will continue to honor that spirit and offer products and services that better serve our customers. Furthermore, we will embed transparency into all levels throughout the company as we strive to grow with our customers.

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

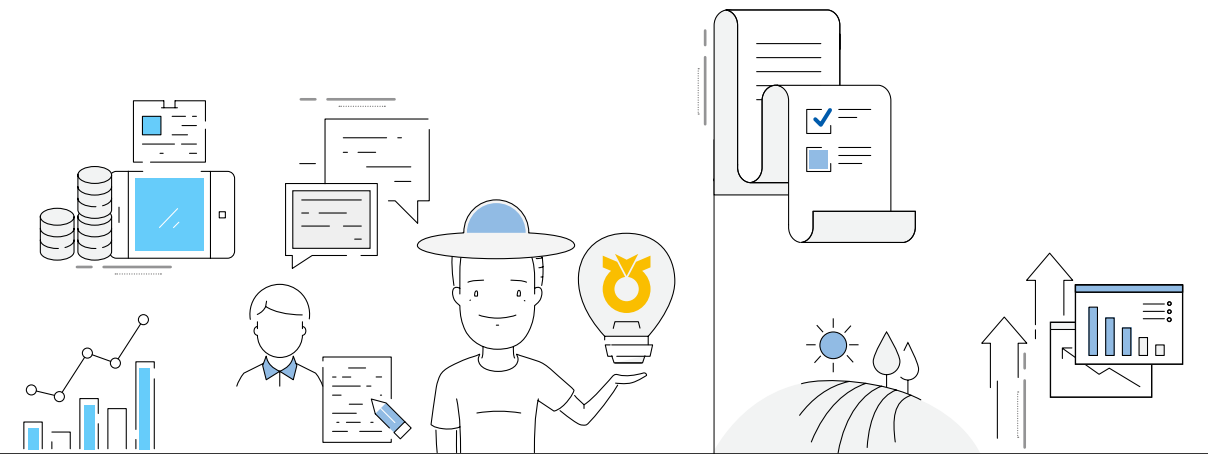
Thank you.

At a Glance

As an insurance company affiliated with NACF, we offer various policies designed to improve lives of farmers. In 2018, the subscription rate for crop insurance reached a record high of 33.1% in terms of area covered. We also introduced an upper limit on crop insurance premiums and expanded the scope of coverage.

To improve long-term profitability and prepare for IFRS17, we are in the process of expanding the proportion of long-term protection-type insurance. In 2018, the share of such products was 93.5% based on monthly premium equivalent, up 17.5%p from the previous year.

Moreover, we are harnessing digital technology to enhance customer experience. We were the first in the industry to introduce biometric technology such as fingerprint and iris recognition in all of our non-face-to-face channels. We were also the first to offer fire legal liability insurance and disaster liability insurance through the CM (cyber marketing) channel.



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 category)
Oct. 2017	22nd Herald Business News Insurance Awards (product development innovation)
Dec. 2017	2017 Smart App Awards (insurance sector) 2017 Web Award Korea, Web Standard Innovation Award (Korea Internet & Security Agency President Award) 2017 Great Place to Work Korea Awards (mutual prosperity)
Jun. 2018	Seoul Economic Daily Insurance Awards (product category)
Oct. 2018	23rd Herald Business News Insurance Awards (insure tech category)

Review of Operation

Credit rating

A.M. Best, the world leading credit rating agency for insurance gave us an 'A-' rating for the fourth consecutive year.

Biometrics

We enhanced customer experience by becoming the first in the industry to introduce biometric technology in all of our non-face-to-face channels. Customers can use fingerprint and iris recognition as well as PIN (personal identification number) to sign up for insurance and carry out electronic financial transactions.

CM channel expansion

We were the first in the industry to use cyber marketing (CM) for two obligatory insurance policies, namely fire legal liability insurance and disaster liability insurance, enabling easy online subscription.

Crop disaster insurance

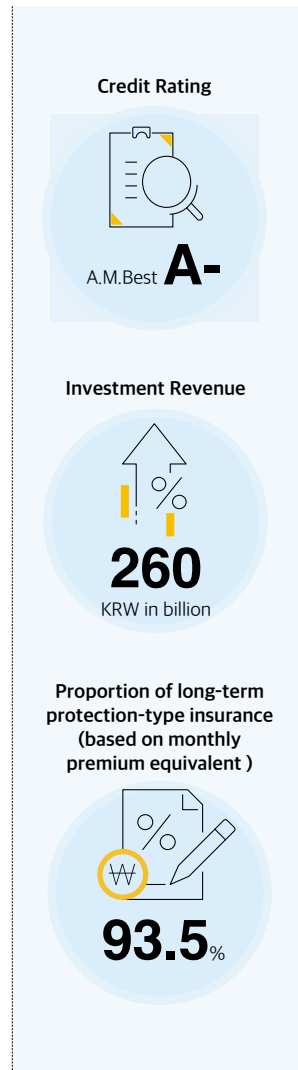
With rising demand for crop insurance, in particular for rice plant, open-perils covers and horticulture facility-related policies, the subscription rate reached a record high of 33.1 % in terms of area covered. We also introduced an upper limit on insurance premiums and enhanced coverage by expanding the total items covered to 57. (Compared to the previous year, the area covered increased by 27,383ha to 378,714ha.)

Best call center certification

For the fourth year in a row, we were rated as Korea's best call center by Korea Management Association Consulting.

CCM certification

From product planning to sales, all our activities are centered on customers. Our customer-first approach has been externally recognized; we have been awarded CCM (Consumer-Center Management) certification by the Korea Fair Trade Commission from 2015.



Asset Management

Performance in 2018

In 2018, we exceeded our business targets by 3bp and KRW 5.5 billion, posting KRW 260 billion in investment revenue, 3.13% in investment yield and KRW 45.3 billion in interest gains.

Plans for 2019

Our focus in 2019 will be on achieving our target investment yield through strategic asset allocation and improving returns on invested assets. We will continue to explore strategic assets (bond lending and borrowing, high-dividend stocks, etc.) that have potential to deliver excess returns.

Marketing Strategy

Performance in 2018

The proportion of long-term protection-type insurance increased 17.5% YoY to 93.5% based on monthly premium equivalent thanks to a sales strategy centered on promoting such products. We secured additional growth momentum by using fintech in our marketing activities, like introducing biometrics in all our non-face-to-face channels.



Plans for 2019

In 2019, we plan to continue boosting sales of highly profitable protection-type insurance. We will concentrate on improving our sales capabilities by setting separate goals for each operating channel, expanding sales support and sharing marketing plans. Moreover, we will introduce robotic process automation (RPA) to improve work efficiency in reviewing insurance claims.

Member cooperatives Business

Performance in 2018

We enjoyed above average performance in 2018. Sales of the member co-ops channel grew 3.2% YoY and the 13-month retention rate of this channel stood at 85.8%. Net sales of general insurance posted a growth rate of 6.3% YoY.

Plans for 2019

We plan to stay ahead of the curve by reinforcing sales activities in the member co-ops channel, launching innovative products tailored to customers' needs and increasing bancassurance sales by pursuing new alliances with other banks.

Corporate Business

Performance in 2018

The Corporate Sales Division posted KRW 158.9 billion in premiums written, up KRW 1.5 billion or 0.9% YoY. The growth was driven by introducing novel policies like mobile phone insurance, repair cost insurance and engineering liability insurance. Also, the division produced NHFG-wide synergy through referral schemes as well as PF and SOC projects.

Plans for 2019

Key tasks for 2019 will be pioneering new insurance markets and products, conducting our business in a way befitting the identity of member co-ops, and increasing synergies among NHFG affiliates. We will continue to uncover new growth drivers by expanding mobile phone insurance (KRW 2 billion annually) and cyber insurance (KRW 1 billion). To stabilize livestock farms' incomes, we plan to roll out insurance policies for bovine muscle bleeding (KRW 1 billion) and package insurance to save member co-ops costs (KRW 5 billion).

Strategic Channel Business

Performance in 2018

In 2018, we focused on long-term protection-type insurance in the strategic channel, resulting in sales increase of 26.6% YoY. The sale portion of these products went up 0.9 % from the previous year to 99.8%

Plan for 2019

In the strategic channel, we will continue to concentrate on long-term protection-type policies through boosting productivity of financial consultants, partnering with mid-to large scale GAs and improving on-site work processes.



NH Investment & Securities



Leading Platform Player in the capital market, NH Investment & Securities. With steadfast commitment to providing customized total solutions that add value for clients, NH Investment & Securities has solidified its reputation as Korea's leading financial investment company. We will continue to focus on proactively uncovering our clients' needs, providing them with the most innovative solutions, and solidifying our position as their preferred financial platform. We have grown alongside our valued clients over the past 50 years. The coming 50 years will further cement our position as the representative platform player in the capital market.

FINANCIAL HIGHLIGHTS (Consolidated)

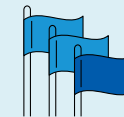
(unit: KRW billion, %)

	FY2018	FY2017	
Consolidated BS	Total assets	53,422.6	43,892.7
	Total liabilities	48,368.8	39,056.5
	Shareholders' equity	5,053.8	4,836.2
Consolidated IS	Net operating revenue	1,261.0	1,185.3
	(-)Selling general & administrative expenses	691.5	709.2
	(+)Gain/loss on valuation/disposal of loans	(29.3)	(16.9)
	Operating income	540.1	459.2
	Pre-tax income	504.8	442.5
	Net income	361.5	349.6
Profitability	Net income attributable to controlling interest	360.9	350.1
	ROE (%)	7.3	7.4
	Operating margin (%)	42.8	38.7
	SG&A/NOR ratio (%)	54.8	59.8
	Earnings per share (KRW, common stock)	1,285	1,242
	Operating profit per employee (KRW mil)	185	163
	Dividend yield (% , common stock)	3.6	3.6

* ROE= Net income of controlling interest/Average controlling interest equity

VISION

Vision

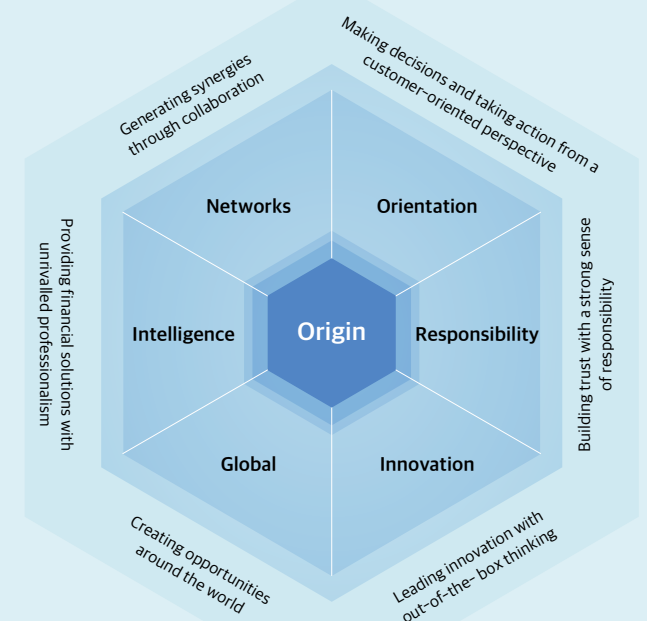


BEYOND THE FIRST
Always aiming higher

NEW HISTORY
Making history in the capital market

WE ARE NHIS
Korea's leading financial investment firm NH Investment & Securities

Origin



NH Investment & Securities



CEO
JEONG YOUNG-CHAE

CEO Message

To our esteemed shareholders and customers,

I would like to begin by expressing my gratitude for your steadfast support and trust in NH Investment & Securities. Since our establishment in 1969, we have embraced challenges and grown steadily through mergers and consolidations. The 50-year history of NH Investment & Securities was a special journey to create customer value and grow through innovation. We are deeply grateful to our shareholders and customers who stood by our side for the past 50 years. We now look ahead to the next 100 years. With new challenges and beginnings ahead of us, we will go beyond financial results. We will provide optimal financial solutions as Korea's leading platform player in the capital market by drawing on our expertise and sincerity in making customers the priority.

First, we will make our customers the first priority with sincerity.

Customers are the foundation of the securities industry and our reason for being. Customer relationship in our businesses is crucial to determining our profitability. We replaced the former quantitative Key Performance Indicators (KPI) with a brand-new process-centric assessment system that sets a high value on our customers. We will identify our customers' needs and deliver ideal solutions to build strong partnerships, which will lead to a solid foundation for the next 100 years of NHIS.

Second, we will get closer to our customer needs through digital transformation.

Digital technology is now a key essence of the financial industry with the potential of shifting the overall business paradigm. Digital transformation is making the business environment more efficient, creative, and productive. We provide timely solutions to satisfy a wide variety of needs using data analytics system. Customer satisfaction will be determined mainly by our unique digital services and strong IT infrastructure. Hence, we see digital transformation as a pivotal factor to lead us in a fiercely competitive market.

Third, we will seek stable growth based on strong risk management.

As the securities industry expands and grows in complexity, we are expanding the frontier of equity-driven businesses. NHIS will secure return stability with flexible and diversified strategies, and maintain stable growth through rigorous risk management.

Lastly, we will fulfill our responsibility to the farming communities as a specialized financial company for agriculture.

In addition, we carry out social and environmental responsibilities by promoting the supply of high-quality jobs and ESG-qualified product & service lines. The stock market has shown a favorable tone in early 2019, contrary to the initial concerns on the rate hikes and market volatility, which means the market is getting more unpredictable. NHIS will stand firm in this volatile market, making our way toward the goal of an ordinary income of KRW 1 trillion in the next 5 years. Year 2019 will be the remarkable start of the paradigm change - we will focus on the value-creating process and the internal innovation over the numeric performance. We ask for your unwavering trust and support forward.

Thank you.

At a Glance

As a leading platform player in Korea's capital market, each business division is focused on enhancing competitiveness and complementary capabilities to provide customers with optimal solutions.

Even in a complex and diverse investment environment, NH Investment & Securities performs its mission to generate stable returns by responding flexibly to the market and uncovering new investment trends.

It has become nearly impossible to predict the domestic as well as global capital markets. Pessimism dominated earlier predictions, but the global stock market has been stable thanks to the controlled pacing of interest rate hike in the United States and expectations for trade dispute negotiations. In a complex and diverse investment environment, we are making every effort to respond flexibly to the market and uncover new investment trends to deliver stable returns. Our crucial mission is to prepare for market fluctuations through meticulous market analysis and asset management knowhow. NH Investment & Securities will keep on generating stable performance, thereby securing our position as a leader of the Korean capital market.

We provide utmost support in all aspects so that our employees can build industry-leading expertise in financial solutions, from planning to distribution.

We are focusing on predicting customers' needs and offering superior solutions to become the top platform player in the capital market. We believe that our human resources are the core competence on the road to becoming a top platform player. We are supporting all the aspects of developing employees' expertise in order to create industry-leading financial solutions. Based on fair assessments and reasonable remuneration, we encourage our employees to produce their best performances and hone their expertise. We will also contribute to the happiness and advancement of agriculture and farming communities as a member of the NH Group.

To create the most valuable and timely financial solutions, NH Investment & Securities will be the first to grasp customers' financial needs based on its competence in customer service.

Increasing customer value is the ultimate goal of a financial company including NH Investment & Securities. As the first step toward realizing customer value, we keep questioning "what do our customers want?" Through the meticulous customer analysis based on advanced data system, we concentrate on finding customers' financial needs. To create the most valuable and timely financial solutions for the customer, every business division is working tirelessly to be the first to grasp customers' financial needs based on its competence in customer service. Going forward, we will continue our efforts in all aspects to provide innovative financial solutions that respond even to customers' unvoiced needs.

Awards

Jan. 2018	2017 2H Best Securities Firm/Analyst Awards : Top Prize, Best Securities Firm
Jan. 2018	Maekyung Economy : Ranked 4th Place, Best Research
Jan. 2018	2018 Korea Fund Awards : Top Prize, Securities Industry Investor Protection Category
Jan. 2018	Yonhap Infomax Finance Awards : IB Top Prize, Best Deal
Jan. 2018	2018 Korea Capital Markets thebell League Table Awards - Best Project Financing Deal - Best Equity Linked Bond House - Best Bond Deal - Best Equity Deal
Jan. 2018	15th Korea IB Awards : Best IB Deal-Best Syndication Loan Underwriter
Feb. 2018	2017 Best Securities Firm for Research & Best Analyst Awards : Top Securities Firm in Research

Awards

Feb. 2018	2018 Maekyung Securities Awards : Best Seller, Fund Category·Gold Prize, IT Innovation Category
Feb. 2018	9th Asia Fund Awards : Best Seller
Feb. 2018	6th Capital Market Awards : Best Research
Feb. 2018	2018 Korea Wealth Management Awards : Fund Seller of the Year·PBS of the Year
Feb. 2018	MoneyToday 2017 Best Report Awards : 2017 Top Prize
Feb. 2018	Excellence in IPO underwriting
Feb. 2018	9th Korea IB Awards : ECM Category
Mar. 2018	2017 2H Best Government Bond Dealer Awards : Ranked 1st overall
Apr. 2018	2018 edaily Financial Investment Awards : Best IB
May. 2018	2018 Herald Business Capital Markets Awards : Grand Prize
Jun. 2018	Best Analyst Award Ceremony : MTN CEO Award, Securities Sector Category
Jun. 2018	5th Korea Pension Awards : Grand Prize, Retirement Pension
Sept. 2018	2018 1H Best Government Bond Dealer Awards : Ranked 2nd in the Securities Sector
Oct. 2018	2018 Asia Today Financial Awards : Top Prize, Securities Sector Retirement Pension Category
Oct. 2018	2018 Korean Customer Satisfaction Index : Ranked 1st in the Securities Sector
Oct. 2018	8th Asia Mobile Trading System Awards : First Prize, MTS
Oct. 2018	3rd Finance Day : Prime Minister Commendation, Finance Innovation Category
Nov. 2018	6th Best MTS Awards : Top Prize, Investment Information Category
Nov. 2018	2018 Korea Securities Awards : Top Prize, IB Category
Nov. 2018	12th Anti-Money Laundering Day : Top Anti-Money Laundering Institute
Dec. 2018	2018 4Q National Customer Satisfaction Index Survey : Ranked 1st in Securities Industry Financial Product Sales Service Category
Dec. 2018	2018 Asia Capital Investment Awards : Grand Prize, Financial Consumer Protection Category
Dec. 2018	2018 Aju Business Daily Financial Securities Awards : Overall Grand Prize, Securities Sector
Dec. 2018	5th Korea Retirement Pension Awards : Excellence Award, Securities Sector
Dec. 2018	8th Market Leader of the Year Awards : Top Prize, Customer Satisfaction Category

Review of Operation

WEALTH MANAGEMENT

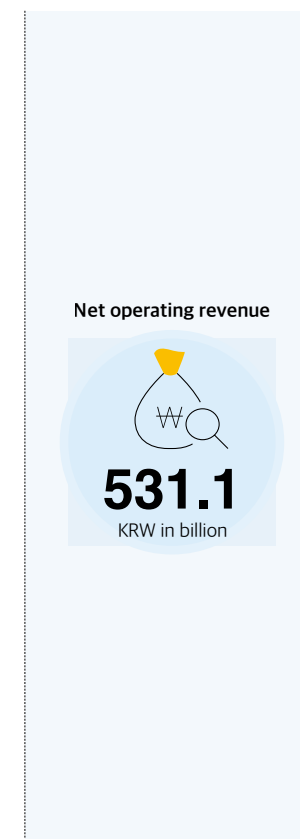
We focus on realization of customer value through better understanding of customers and client-oriented solutions.

The WM Division reinforced its wealth management competencies in 2018. NH Investment & Securities provided its clients with distinct WM services in 2018. It launched QV promissory notes on July 2018 and provided in-house financial products linked to its IB Division's real estate and alternative investments. Thanks to these distinct WM services, WM Division posted net operating revenue of KRW 531.1 billion and ordinary income of KRW 136.9 billion despite the highly volatile and difficult market environment in 2018. We solidified our long-term WM base as customer assets reached KRW 240 trillion and high net worth clients numbered 86,134.

Realization of genuine customer value is the first priority of the WM Division. Instead of numeric performance indices of past years, we implemented the new indicators that assess business processes with a focus on the customer services. We are shifting to a more customer-centric stance starting from a good understanding of our clients and ultimately providing financial solutions that best suit their needs.

Our client-oriented WM business has also gained recognition externally. In 2016, NH Investment & Securities became the first securities firm to receive CCM (Customer Centered Management) certification from the Fair Trade Commission and the Korea Consumer Agency. In 2018, we ranked the first place among the securities companies on the KCSI (Korean Customer Satisfaction Index) survey. The WM Division will continue to build long-term customer relationships and enhance our customer value.

The WM Division is expanding the in-house product lineup through its solid client network and the IB Division's deal sourcing network, thereby generating significant synergies in the market. The line-up in 2018 includes Nine One Hannam Bridge Loan-PF Fund (investment in the development of Hannam-dong foreigners' apartment site) and the Gimpo-Gochon Logistics Center development project (a private equity fund investment). In 2019, we will supply more and more in-house products through our platform expertise to present wider investment opportunities and ideal solutions to our clients.



We will keep putting our emphasis on our customers and strengthen our reputation as a premier WM service provider based on thorough customer analysis and competitive products

WM STRATEGY

The WM Strategy Division will create a distinctive product platform to enhance financial products & solutions, ultimately building a customer-oriented WM business model.

The WM Strategy Division started to boost the functions of competitive product supply and asset allocation strategy channel in order to enable stronger customer management. The WM Strategy Division set up a powerful customer analysis system to realize customer-oriented WM services. We introduced a customized marketing program based on sophisticated client data, and enhanced financial products & channels to better meet clients' needs and foster a customer-centered operating environment.

We are enhancing our portfolio solutions to bolster the stable WM business regardless of market fluctuations. Using QV Portfolio that combines our research competence and trading expertise, we provide diverse

Review of Operation

products and services such as QV Portfolio Wrap and QV ISA that reflect clients' needs. We are also expanding the in-house product lineup in cooperation with our IB Division to differentiate NH Investment & Securities' product offerings and provide greater investment opportunities to clients.

Digital innovation is the main keyword for WM at NH Investment & Securities. We took a major step in our digital transition with the launch of NAMUH in 2016, the first mobile securities service brand in Korea. NAMUH is designed to offer digital WM products and services like a Robo-advisor. Since its launch, it has been widening its client base through initiative services like 'Lifetime Commission Exemption' service and etc. As of the end of 2018, it attracted 290,000 un-tact clients and built client assets worth KRW 9 trillion.

We also launched 'QV Global Robo Wrap' and 'QV Robo Wrap (December)' that can be opened via a mobile device, which is the first in the industry. NH Investment & Securities is keeping up proactively with the constantly changing Fintech paradigm in the securities industry. Through the ground-breaking digital transformation and innovation in financial services, we will deliver unrivaled financial solutions so that customers of all generations can experience new value in wealth management.

Based on the trust from our clients, the WM Strategy Division will source diverse financial products and expand marketing channels to become the number one premier WM House for our customers.



IB League Table



No.1 in ECM

M/S **25.6** %

No.1 in rights issues

M/S **35.1** %

No.1 in lead managing bond issues (excl. ABS, FB)

M/S **28.6** %

INVESTMENT BANKING I

Absolute first IB, Investment Banking Division I will become Asia's premier investment bank that provides comprehensive financial solutions optimized for each phase of a company's growth.

Investment Banking Division I has built up a strong track record in traditional investment banking (IB), ranking the first in both corporate bond issuance business and rights offerings business. Our distinctive performance was driven up by the favorable market for bond issuance and the earnings growth from acquisition financing and M&A deals despite the slowdown of IPO business due to the unfavorable stock market. (Net operating revenue of KRW 158.1 billion)

We - the leader of rights issue business widened the gap between us and the second lead with deals worth over KRW 2 trillion including the deals of Hyundai Heavy Industries and Samsung Heavy Industries.

In addition, we also managed the rights issues of major companies including SK Discovery, Lotte Holdings, Seojin System, Kangstem Biotech, and CJ CheilJedang. We put our efforts on underwriting corporate bonds as the primary market for bonds was boosted by corporate moves to issue bonds ahead of interest rate hikes in 2018. We led the bond issuance for companies such as SK Hynix, Hotel Lotte and LG Chem, which made us reclaim the top honor in the IB League Table.

Turning to the advisory business, the division advised on corporate governance for numerous prominent companies. In addition to advice on the Hyundai Glovis-



Hyundai Mobis spinoff and merger, it also advised on governance reforms of SK, Lotte Group, Doosan Group and Jeil Holdings. By supporting resultant IPOs and tender offers afterwards, the division has been providing the client companies with total solutions for corporate finance. Investment Banking Division I will bolster its accumulated competence on advisory services as demands on governance reform from major companies are increasing. It will also concentrate on securing cross border M&A deals, given the increase of outbound investments from Korean companies.

The division will strengthen its operating network and provide corporate clients with total solutions spanning all investment and advisory areas supporting the growth of our clients as their financial partner.

INVESTMENT BANKING II

Investment Banking Division II uncovers alternative investment deals in domestic and overseas markets.

As a financial platform player, we develop structured products to connect investors and capital seekers as a financial platform player.

Korean securities industry is expanding its frontier to alternative assets such as real estate/SOC/aircraft financing over the traditional IB business in order to generate attractive returns for clients in low interest rates and low growth environments.



IB Net Operating Revenue



289.3

KRW in billion

NH Investment & Securities newly established the Investment Banking Division II to bolster the alternative investment business and nurture experts in alternative investment and acquisition.

The division strengthened its market presence with its participation in landmark real estate deals in Korea and abroad. Domestic projects include Seoul Square, Samsung C&T's building in Seocho-dong, and Gangnam N Tower. In the US, the division made investments on office buildings in Times Square, NYC and the Drew Las Vegas, a resort in Las Vegas, injecting around KRW 100 billion each. It also invested in real estate PF and mezzanine projects including development of the Yeouido MBC site (valued at KRW 1.2 trillion) and Nine One Hannam Bridge Loan-PF.

The division extended its reach on the niche markets in non-residential real estate such as industrial complex, 'Knowledge Industry Center', urban development, logistics center and park projects. It also expanded its alternative investment scope to overseas markets through investments in power plant, ship financing and SOC projects in the US and Europe.

We will fortify the monitoring and risk management process on real assets as demand for overseas alternative assets is rising with increasing concerns on a domestic real estate market slowdown while higher interest rates are expected. We will explore lucrative deals based on careful assessment of the risk-return profile.

Alternative investment deals secured by the division form the basis of structured products that are offered to individual, institutional and corporate clients. To meet clients' increasingly sophisticated investment needs, we, as a financial platform player, will uncover rewarding deals and develop structured products to match investors and capital seekers.

Review of Operation

Trading Group

The Trading Group actively manages NH Investment & Securities' assets worth KRW 30 trillion based on stringent risk management to deliver optimal solutions for clients and capital efficiency for the company with excess returns.

The Trading Group was newly set up to integrate all trading functions of NH Investment & Securities in order to construct a company-wide trading portfolio and sharpen related capabilities. In addition to traditional assets such as stocks and bonds, the group carries out trading and sales of equity derivatives and FICC derivatives. It also makes strategic capital investments and develops alternative asset products.

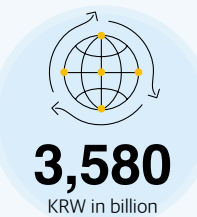
The trading environment was relatively tough in 2018 due to uncertainty over rising global interest rates and the Korean stock market downturn in the second half of the year. Nevertheless, the Trading Group posted KRW 184.8 billion in net operating revenue.

We achieved outstanding results from bond trading with active management strategies in spite of interest rate swings. Additional revenues were secured from alternative assets thanks to robust sales of overseas alternative investment products.

However, we suffered from losses on derivatives trading due to the decline in major global stock indices and increasing cost from ELS hedging.



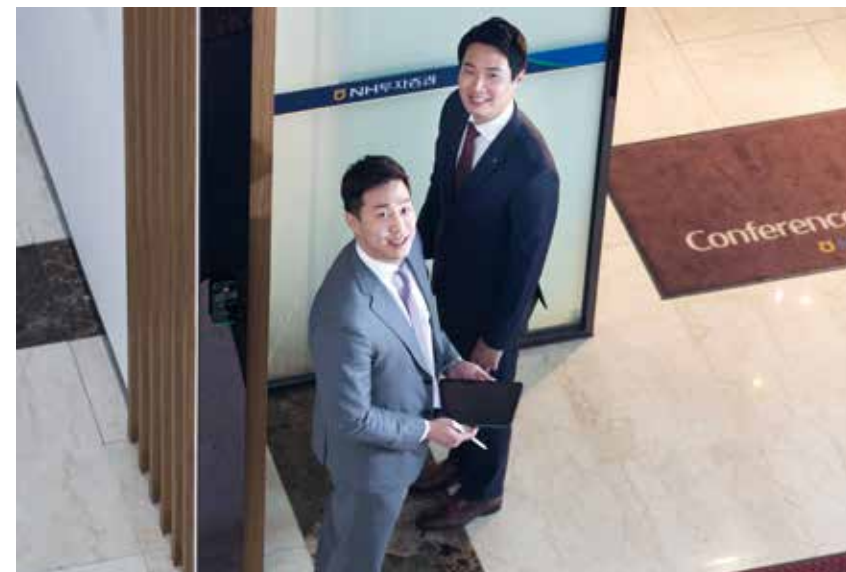
Global Bond Trading Volume



In 2019, better performance is expected from derivatives trading, owing to a rebound in global stock markets. The Trading Group's overall income will grow further driven by new business frontier and synergies from the overall group competences.

To increase returns from overseas markets, we focus on the diversification of asset classes and investment regions all over the world. We are expanding global investments over the existing domestic assets to diversify income sources and enhance returns. Moreover, we will fulfill our role as a product supplier through the development of competitive ELS/DLS, alternative investment products and overseas bond sourcing.

The unfavorable trading environment persists as uncertainties and volatility continue. As the manager of KRW 30 trillion worth of company assets, the Trading Group will address the challenges through active risk management and response to volatility. In addition to trading, it will bolster the product structuring and sales competences to generate absolute returns under any market conditions.



Wholesales

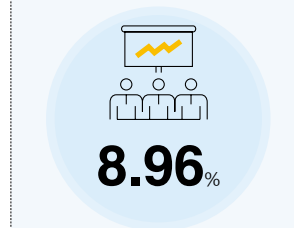
The Wholesale Division will build a strong sales platform to provide customized solutions and products to institutional clients.

The Wholesale Division was established to provide our institutional clients with more customized solutions by integrating the financial products divisions and stock brokerage operations. The division is performing its role as a service provider of institutional clients, actively assisting NH Investment & Securities to become a platform player that delivers optimal solutions to all customers.

The Institutional Sales Dept. provides stock & bond brokerage services and offers various financial products & asset management solutions for institutional investors. With diversifying investor needs from traditional assets to alternative investments such as real estate, special assets and overseas investments, the department has been sourcing and developing a wide range of products including ELS/DLS, alternative investment funds, trusts, Wrap accounts, and repurchase agreements.

In June 2018, NH Investment & Securities was selected as a manager of assets for the National Housing Fund under the Ministry of Land, Infrastructure and Transport, which made us occupy the dominant position in the OCIO (Outsourced Chief Investment Officer) market early. We are establishing a solid foothold in the rapidly growing OCIO market by stable investment performance and OCIO expertise.

Domestic Institutional Clients Brokerage M/S



The Equity Sales Dept. handles stock brokerage and derivatives including ETF for domestic institutional investors. It has built a strong relationship with clients through trust-based business. In 2018, it secured the largest share of the domestic stock brokerage market as it received favorable ratings from pension funds. It became distinguished also in the new business areas like ETF LP (Liquidity Provider). In the outbound operations, NH Investment & Securities was the only Korean firm selected to trade overseas stocks for the National Pension Fund for five consecutive half-year terms (2H of 2016~2H of 2018). We also achieved the largest market share in overseas stock brokerage.

The Wholesale Division is expanding its global sales network in cooperation with the brokerage desks of local subsidiaries in Hong Kong and New York. It is also extending its global client network through solid alliances with global securities companies. Besides, the linkage between inbound & outbound brokerage operations helps its client base grow further. As a trusted platform player, we will establish a sturdy wholesales platform and deliver industry-leading institutional services & solutions that satisfy clients' needs.

NH-Amundi Asset Management



Established in January 2003, NH-Amundi Asset Management is a joint venture between Korea's leading financial group, NongHyup Financial Group and Amundi, the largest asset management company in France. NH-Amundi Asset Management strives to offer the best investment service and performance to clients based on its extensive experience and knowledge.

Core capabilities of NH-Amundi Asset Management lie in portfolio management based on a stringent investment process, a multi-stage and constant risk management, and best-in-industry specialists. Leveraging on such capabilities, NH-Amundi Asset Management faithfully endeavors to deliver capital gains and manage investment risks. NH-Amundi Asset Management makes its best efforts to meet the clients' investment objectives, while managing investment portfolios in a transparent and prudent manner. By doing so, NH-Amundi Asset Management is also contributing to the development of the asset management industry.

FINANCIAL HIGHLIGHTS

(unit: KRW billion, %)

		FY2018	FY2017
BS	Total assets	112.2	104.4
	Total liabilities	12.2	7.8
	Total equity	100.0	96.6
IS	Operating revenue	53.1	41.2
	Operating expense	30.7	23.5
	Operating income	22.3	17.7
	Pre-tax income	22.1	17.5
	Net income	16.6	13.5
Key Ratios	Net income before agricultural assistance expenses	16.6	13.6
	Capital ratio	89.15	92.50
	Share of NH-Amundi funds at NH fund distributors	49.98	52.32

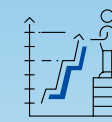
VISION



Business Philosophy
Maximum return to clients through mutual growth



Investment Philosophy
We are not just portfolio managers. We are the manager of return and risk



Management vision
Top 5 with KRW 50 trillion by 2020

NH-Amundi Asset Management



CEO
PARK KYU-HEE

CEO Message

NongHyup Financial Group with the largest financial network in Korea and European No.1, global top 10 asset manager Amundi Asset Management bear significant value in their brands.

Since its foundation in 2003, NH-Amundi Asset Management has made continuous growth with strong support of NongHyup Financial Group and Amundi and currently ranked 8th with KRW 34 trillion in asset under management.

Our investment philosophy is to faithfully serve our role as a prudent and professional manager of our clients' assets. NH-Amundi Asset Management promises that we will offer a wide range of products encompassing equity, fixed income, alternative assets, global assets to local investors, faithfully manage your assets and be your trusted partner for your successful investment.

Thank you.

At a Glance

Key Initiatives in 2018

To align our organization to deliver greater expertise per asset class and strengthen responsible investment, NH-Amundi Asset Management overhauled its investment division to have four divisions of bonds, equities, alternative investments and global investments, each headed by a Chief Investment Officer.

For new growth areas of alternative and global investments, we added more skilled professionals to maintain high growth of assets under management. We also pursued new businesses to drive growth. Our first ETF launched in March 2018, HANARO200 ETF, raised KRW 600 billion in AUM as of the end of 2018. The newly created hedge fund team is also contributing to the company's solid performance.

Review of Operation

Overview

Expanding our business scope to include ETFs and hedge funds and enhancing innovative products and solutions have helped us obtain a competitive edge as a comprehensive asset management company. We maintained high growth by further strengthening our capabilities in alternative and global investments. As such, we posted the best ever results in 2018 with KRW 34 trillion in assets under management (AUM). That's an increase of over KRW 6 trillion from the previous year. We also posted our record-high net income.

Awards

Jan. 2018	Korea Fund Awards - "Best Mid & Small Cap Fund" (KG Zeroin)
Nov. 2018	Herald Business Fund Awards - "Best Overseas Fund Prize" (Herald Business)
Nov. 2018	Seoul Economic Daily Korea Securities Awards - "Best Overseas Fund Prize" (Seoul Economic Daily)
Dec. 2018	Korea Fund Awards - "Innovative Fund of the Year" (MoneyToday)

Equities

Performance in 2018

Newly launched investment vehicles, ETFs and hedge funds raised KRW 600 billion to drive total AUM to KRW 6.7 trillion, up 27% YoY, as of the end of 2018. Management fees increased 31% from the previous year.

Plans for 2019

Our plan for 2019 is to develop a diversified portfolio of multi-strategy hedge funds like absolute-return fund and long-short fund. We will also continue to develop investment strategies using ETFs like the dynamic asset allocation model to meet the expectations and risk profiles of all our clients. With socially responsible and sustainable investments (SRI) continuing to expand across all asset classes and client segments, we plan to advance our strategies for responsible investing in which we have years of accumulated expertise.

Bonds

Performance in 2018

AUM in bond funds increased by about KRW 4 trillion thanks to successful management of funds for major institutional investors and returns in excess of the benchmarks.

Plans for 2019

We plan to maintain the AUM growth by delivering the good performance that we have generated in 2018. Also, we will strengthen product lineup and offer innovative investment solutions to respond to the complex needs of clients. To this end, we will develop diverse products like bond ETFs, retirement pension funds and leveraged bond funds.

Alternative Investment

Performance in 2018

Since the foundation of the Alternative Investment Division in 2016, AUM has continued its upward trajectory, growing from KRW 500 billion at the end of 2016 to KRW 1.8 trillion the year after and again to KRW 2.8 trillion by the end of 2018.

AUM

Equities



6.7
KRW in trillion

Bonds



4
KRW in trillion (approx.)

Alternative investment



2.8
KRW in trillion

Overseas Investments



4.5
KRW in trillion

Plans for 2019

We will open up new possibilities with alternative investments like domestic mezzanine funds and overseas investments by strengthening partnership with global asset managers as a way to build a platform for sustainable growth.

Global Investment

Performance in 2018

AUM increased nearly KRW 1.2 trillion from the previous year to KRW 4.5 trillion. Such a fast and high growth was attributable to several factors: introduction of diversified products like the "Global Disruptive Fund" and "QV Global Fund," continuous expansion of client base, creation of Global Fixed Income Team and reinforcement of skilled professionals for boosting global investment capabilities and developing new products.

Plans for 2019

To meet the growing demand for global investments, we will offer new products like TDF (Target Date Fund), dollar-denominated short-term bond funds and global fixed income funds for retirement pensions. In addition, we will launch the fund selection business to go beyond offering stand-alone funds to offer solutions that can meet the diverse and complex needs of clients.

Marketing

Performance in 2018

To step up capabilities as a comprehensive asset management company, we upgraded the product lineup with new products such as equity and bond ETFs and hedge funds while diversifying EMPs (ETF Managed Portfolios) to meet the expectations and risk profiles of all clients. In addition, we added pension specialists to gain a competitive edge in the growing retirement pension market.

Plans for 2019

In 2019, we plan to break down the marketing organization to smaller and more agile units. For institutional investors, we will classify clients based on their investment characteristics to offer tailored solutions meeting their specific needs. Retail clients will be classified according to the sales channel. We will work closely with the investment divisions to identify each client group's needs and design highly customized solutions.

NH Capital



NH Capital is a provider of comprehensive financial services with a focus on credit. Since we joined the NongHyup Financial Group in July 2008, we have been providing installment finance, lease, personal credit loans, and corporate finance and venture capital investment. As a result of continuous efforts to create sustainable growth engines such as participating the long-term car rental market, we received an 'AA-' credit rating in 2018 and are on the way to becoming leading specialized credit financial firm in Korea.

In order to achieve our ultimate goal to enhance the annual income of Korean farming households to KRW 50 million, we are actively working together along with our NH affiliates to develop diverse synergetic finance products and businesses. At the same time, we plan to fortify our business structure by strengthening risk management and ethical management, as we realize our vision of becoming a global lending specialist that enhances the value of agricultural cooperatives.

FINANCIAL HIGHLIGHTS

(unit: KRW billion, %)

		FY2018	FY2017
BS	Total assets	4,554.3	4,125.2
	Total liabilities	3,982.0	3,674.0
	Total equity	572.3	451.2
IS	Operating revenue	346.0	280.2
	Operating expense	282.2	231.7
	Operating income	63.9	48.5
	Net income before tax	63.5	47.5
	Net income	47.0	35.3
Key Ratios	Net income before agricultural assistance expenses	47.7	35.8
	Adjusted capital ratio (%)	14.09	11.72
	Substandard and below ratio (%)	2.19	1.95
	Leverage (times)	8.08	9.28

VISION

Global credit specialized finance company 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 credit specialized finance company**



Trustworthy finance
Favored by farmers, trusted by customers



Challenging the future
Lead the digital finance and pursue the global stage



Caring in action
Taking the initiative in caring for others

NH Capital



CEO
LEE KOO-CHAN

CEO Message

NH Capital is a credit specialized finance company formed with industry-leading experts. We offer various products such as installment finance, lease, corporate and personal loans and venture capital investment in order to answer the diverse needs of our customers not only the farmers, but also include ordinary individuals, startups companies and major corporations.

The year of 2018 was particularly meaningful for NH Capital.

We celebrated the 10th anniversary of joining the NongHyup Financial Group with remarkable growth. Our assets topped KRW 4.5 trillion and net income reached KRW 47 billion.

However, we are not willing to be satisfied by the recent success, but we are more than ready to strive harder to become a trustful partner that creates even greater value for our customers.

In 2019, we will lay the blueprint for the next decade and take precautionary measures to prevent any side-effects that may arise from our fast-paced growth. The focus will be on risk management and profitability. Our goal is to reach KRW 5.5 trillion in assets and KRW 55 billion in net income.

Furthermore, we will develop the competitiveness of our new products such as long-term car rental business, medium rate loans and investments. Also we will focus our capacity to expand our business to overseas market and develop our financial business even further by utilizing digital mechanism.

To all our customers and investors who have showed us steadfast support over the years, we pledge to satisfy your expectancy with unrivalled financial services.

Thank you.

At a Glance

Credit rating upgrade

In 2018, all three major credit rating agencies in Korea appraised the credit rating of NH Capital's bonds as 'AA-', one level upgrade from 'A+'. This upgrade reflected our growth over the years and showed the proof that our company has an equal position with other major industry leaders. Based upon the upgrade, NH Capital will further strengthen fundraising and sales abilities to become an industry leader.

Awards

Oct. 2018 5th Korea Big Data Awards
- KOSTAT Commissioner Award (finance category)

Review of Operation

Overview

Assets of KRW 4.5 trillion / net profit of KRW 47 billion
- Achieved 2 consecutive year of record setting performance despite challenging business environment

Made provision for the fourth industrial revolution with development of machine-learning-based credit rating model and adopting chatbot
- Made preemptive investments to swiftly respond to fast-changing market environment

Expansion of assets with a focus on asset quality
- Built up a solid asset portfolio for greater resilience against business downturns and stricter government regulations

Strengthened pre-emptive risk management
- Maintained stable indices with tighter control over credit cost through improved risk management

Credit Management/Risk

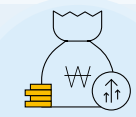
Performance in 2018
- We actively adopted new technologies including machine-learning-based models for risk management
- Asset quality indicators such as delinquency and NPL ratios remain in a favorable range

Plans for 2019
- We are investing more on credit and risk management, as we are jointly developing an AI-powered credit analysis model with NICE Information Service and adopting an electronic case filing system.

Corporate Finance

Performance in 2018
- We continuously secured stable corporate finance assets and diversified our portfolio including (overseas infrastructure project financing, and etc.)
- We are increasing our investment capabilities and were selected as General Partner of the MIFAFF fund of funds for 2 consecutive years.

Total Assets



4.5
KRW in trillion

Net Profit



47
KRW in billion

Plans for 2019

- We will simultaneously pursue the expansion of stable assets as well as greater profitability.
- Through the management of MIFAFF fund of funds, we will establish ourselves as a specialist in agri-foods investment.

Auto Financing

Performance in 2018

- In the passenger car division, we were able to reflect more diverse customer needs by entering the long-term car rental market in August 2018 and thus completed a full line-up for auto financing.
- We reduced the portion of the secondhand vehicle financing in our commercial vehicle division, and expanded new vehicle financing portion in order to minimize our exposure to slowdowns in the construction industry.
- Our unique auto financing products such as auto financing plan for agricultural/livestock cooperatives are generating synergy by providing farming communities with the lowest interest rates for passenger and commercial vehicles purchase. In this way, we are helping farming households to achieve KRW 50 million in annual income.

Plans for 2019

- We plan to nurture the newly launched long-term car rental business into a major income generator. The ratio of assets which are sensitive to economic fluctuations such as secondhand vehicles will further be reduced, while strategic alliances with famous brands will be forged to increase our lineup of good assets.

RW(retail&wholesale) Financing

Performance in 2018

- We proactively responded to the government's policy of limiting household loans by increasing mid-range interest credit loans.
- We entered the niche market of durables installment financing as part of efforts to build a diversified portfolio.

Plans for 2019

- Our plans for 2019 include extending more mid-range interest credit loans through new product launches and pursuing diverse alliances in durables installment financing.

NH Savings Bank



Since becoming an affiliate of NongHyup Financial Group in June 2014, NH Savings Bank has been fulfilling its role as a financial service provider catering to the masses. To offer top notch financing solutions to the working class and small business owners, we focus primarily on lending and deposit-taking operations in accordance with the Mutual Savings Banks Act. In addition, we are committed to providing financial products and services that cater to the unbanked and underbanked populations, maintain sound credit order and revive the economy.

NH Savings Bank is also working towards achieving balanced development and synergy among NH affiliates by attracting and locking in customers whose needs cannot be met by services available at NongHyup Bank and other affiliates. We will continue to practice fair, ethical and transparent management and tighten risk management policies as we strive to build trust and credibility with our customers.

FINANCIAL HIGHLIGHTS

(unit: KRW billion, %)

		FY2018	FY2017
BS (based on IFRS)	Total assets	1,387.2	1,216.6
	Total liabilities	1,228.9	1,072.8
	Total equity	158.3	143.8
IS (based on IFRS)	Operating revenue	87.3	64.4
	Operating expense	74.0	54.0
	Operating income	13.3	10.4
	Pre-tax income	13.4	10.3
	Net income	12.8	9.6
	Net income before agricultural assistance expenses	13.0	9.8
Key Ratios	Capital adequacy ratio	16.02	16.59
	Substandard & below ratio	3.94	4.04
	NPL coverage ratio	136.20	123.63

VISION



NH Savings Bank



CEO
KIM GUN-YOUNG

CEO Message

Ever since being incorporated into NongHyup Financial Group in June 2014, NH Savings Bank has been doing its utmost to provide the best possible financial services to the working class and to SMEs. Leveraging credibility of NongHyup Financial Group as well as its vast sales network and wide range of businesses, we were able to acquire healthy assets and secure a stable foundation for growth. Rigorous management of asset quality has also propelled us to become one of the most reputable savings banks in Korea. Now, we are readying for another leap forward as an innovative digital savings bank with advanced mobile and online banking services.

As a staunch supporter of farmers and the working class, our goal is to grow with and create value for the communities and customers we serve. To this end, we will always put our customer first and work towards earning their trust.

Thank you for your continued interest and support.

At a Glance

Build mobile platform to promote digital banking

In step with digital transformation sweeping the financial sector, NH Savings Bank is building a mobile platform as a long-term growth strategy to embrace digital innovation and secure digitally savvy customers. The mobile platform, slated to open in August 2019, will offer easy and simple financial solutions with many user-friendly features all integrated into a single app. The plan is detailed in the below table.

In September 2018, we finalized and submitted our digital banking plan to NHFG's IT Investment Council and made a related briefing to the Board of Directors. Since then, we have completed selecting the contractor to develop the mobile app.

To facilitate building a mobile platform, an 8-person digital banking taskforce met twice a week to analyze the digital financial market, discuss implementation scope and business requirements, review the development process, and conduct beta testing. Everyone at NH Savings Bank also took active part in the testing process to detect areas for improvements and give feedback to successfully launch innovative and user-friendly digital banking.

Category	Details
Develop mobile app	Introduce mobile platform
	Integrate services into one app
	Improve user convenience with increased scope of non-face-to-face services
	Offer easy and simple financial solutions
	Improve accessibility for people in their 40-50s, who are the main customers of savings bank
	Simplify authentication process through easy authentication with heightened security
Advance online banking	Build brand image as an affiliate of NHFG and increase scope of cooperation
	Improve online banking and strengthen security
	Enhance user satisfaction through better customer accessibility
	Improve security vulnerability of web service
	Provide customer-oriented services

Awards

Jan. 2018	edaily Korea Finance Grand Awards (Korea Inclusive Finance Agency Prize)
Jan. 2019	Customer Satisfaction+ Management Awards (top prize, savings bank category)
Feb. 2019	Add Happiness CSR Awards (Health and Welfare Minister Award)

Review of Operation

Performance in 2018

Bolstering interest and non-interest income and effective management of non-performing loans remained our top priority for 2018. As a result, we posted net income of KRW 11.8 billion, exceeding our target by KRW 2.3 billion.

Our emphasis on expanding healthy loans drove substantial growth. As of the end of 2018, the loan balance stood at KRW 1.2580 trillion, up KRW 171.1 billion from a year ago. As a financial firm for the working class, we increased extension of our key microcredit products, Haetsal Loan and Saiddol II Loan, which led to a balance of KRW 216.1 billion. In addition, we offered financial products linked to affiliates of NHFG, NH Together Loan (expanded in Feb. 2018) and NH Middle Loan (launched in Mar. 2018), and posted growth of KRW 28.9 billion (51%) from the previous year to take the accumulated total to KRW 85.3 billion.

Profitability-focused management helped us to both achieve 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 3.94% and 3.75%, respectively, as of end of 2018.

Plans for 2019

Changes in the business environment such as tougher regulations on savings bank loans, higher provisioning requirements and economic downturn are expected to make growth difficult in 2019. As such, we will need to concentrate our resources on expanding sales channels.

We plan to lay a solid foundation for growth through loan portfolio diversification and advanced marketing capabilities focusing on profitability. We will also secure core competitiveness through digital banking, maximize synergies with affiliates and strengthen organizational competencies. A strong emphasis on improving asset quality through preemptive risk management will help us with long-term growth.

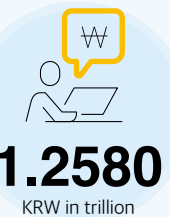
For loan portfolio diversification, we will pursue niche products that reflect unique characteristics of savings banks like loans for transportation business and real estate mortgage loans. We also plan to strengthen collaboration with NongHyup Bank and expand synergy across NHFG affiliates by designating RMs and organizing seminars. Moreover, we will turn our attention to expanding sales channels and boosting marketing efforts by building a banking platform amid stiff competition and deteriorating market conditions. We also plan to solidify our brand as a financial firm for the working class. To this end, we signed a MOU with Korea Inclusive Finance Agency to offer tailored microloans and develop medium rate loan products in line with the government policy.

Preemptive risk management through monitoring of vulnerable areas and managing total and industry specific exposures is another key area of focus as we strive to strengthen our asset quality. We will give our employees a sales edge through performance-based assessments and expanded 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.

Net Income



Loan balance



NongHyup REITs Management



NongHyup REITs Management was established on July 2, 2018 with KRW 30 billion in capital invested fully by NongHyup Financial Group to reinforce its expertise in real estate. The company's purpose is to establish REITs (Real Estate Investment Trusts) and gather funds from multiple investors, acquire real estate and manage the estate, and then sell the asset for profits that are distributed to the investors.

Our investment objective is "Maximizing value for investors and partners." To realize this goal, we have adopted the following three management strategies. First, we plan to launch listed REITs to provide small-sum investors with indirect investment opportunities. Second, we will develop stable REITs products that combine NongHyup's financial capabilities and real estate. Third, we will continue to introduce customized REITs that satisfy investor needs by creating investment portfolios with diverse sectors of real estate.

NongHyup REITs Management will ceaselessly develop products with market competitiveness to emerge as Korea's premier REITs brand and a market-leading real estate investment management firm.

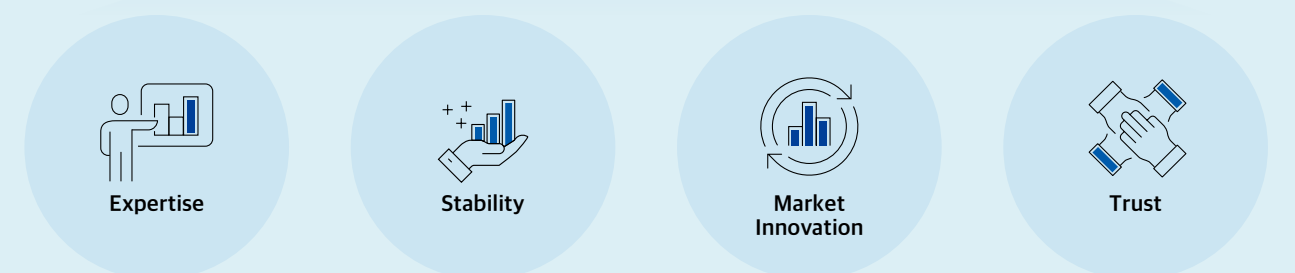
FINANCIAL HIGHLIGHTS

(unit: KRW billion, %)

		FY2018	FY2017
BS	Total assets	28.8	-
	Total liabilities	0.3	-
	Shareholders' equity	28.5	-
	Operating income	(1.8)	-
	Operating revenue	-	-
IS	Operating expense	(1.8)	-
	Non-operating income	0.3	-
	Non-operating revenue	0.3	-
	Non-operating expense	-	-
	Pre-tax income	(1.5)	-
	Corporate income tax rebate	0.2	-
	Net income	(1.3)	-
	Net income before agricultural assistance expenses	(1.3)	-
Key Ratios	Capital adequacy ratio	9.895	-

VISION

To emerge as the premier, market-leading real estate investment management firm



Expertise
We will recruit and retain experts with experience and knowhow to enable proactive and swift responses in the fast-changing REITs market. Employee training and education programs will also be implemented to maintain industry-leading capabilities.

Stability
We will introduce diverse portfolio-based real estate products to provide clients with stable dividend returns. This will enable us to secure the competitiveness needed to lead the future market.

Market Innovation
We will strengthen our pioneering role in indirect investments in real estate by fostering a market environment where individual investors can make small-sum investments in profitable real estate.

Trust
We will enhance credibility in the market by holding the trust of our clients and partners as the ultimate value guiding us in launching reliable products founded on responsible management.

NongHyup REITs Management



CEO
SEO CHEOL-SU

CEO Message

NongHyup REITs Management was established on July 2, 2018 as the eighth subsidiary of the NongHyup Financial Group. Our main objective is to deliver stable returns to investors and we will spare no effort to grow into a premier, market-leading real estate investment management firm.

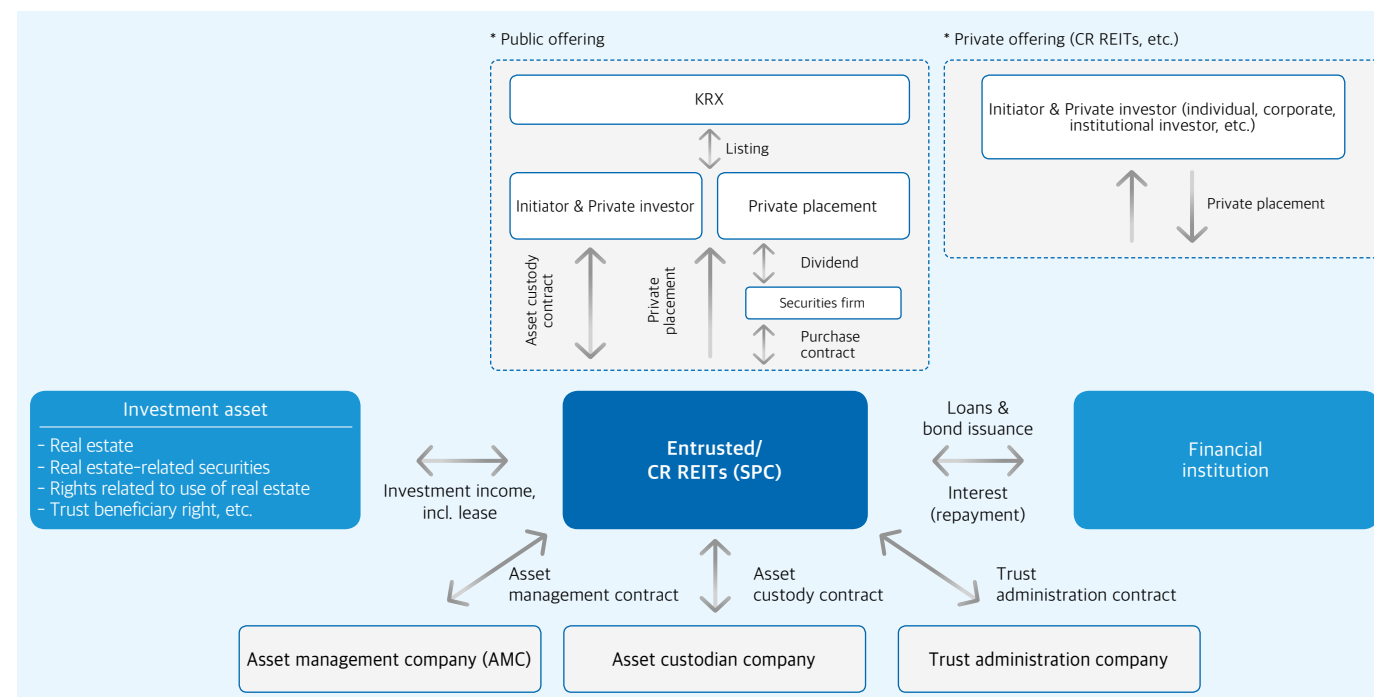
We will maximize profits through industry-leading expertise in real estate investment and management and exercise pre- and post-risk management. Furthermore, we will continue to develop stable products that have solid real estate as underlying assets, thus providing even the small-sum investors with a wide array of indirect investment opportunities.

In our first year of establishment, we readied the necessary organizational structure by recruiting experts in real estate investment and management. During the year, we successfully launched our first REITs product with the strength of internal and external marketing. In 2019, our plan is to continue launching stable investment products as well as developing new REITs products based on innovative models, and in the process raise the profile of NongHyup Financial Group in alternative investments.

NongHyup REITs Management pledges to always be with our clients by practicing responsible management and earning the trust of the market.

Thank you.

REITs Investment Process



At a Glance

According to Article 2, Item 1 of the Real Estate Investment Company Act, REITs are incorporated companies that act as indirect investment tools for the real estate market. REITs gather funds from multiple investors, invest those funds in real estate and real estate-related securities, and return the profits to investors.

Our first REIT was established on December 31, 2018. The underlying asset offered stability with the seller guaranteeing seven years of lease. To underscore our commitment to responsible management of the NH No.1 REIT, we also invested KRW 28.5 billion, which enabled us to secure stable dividend income as an investor in addition to the management fees.

Review of Operation

Sustainable management

Since our launch in July 2018 we have been operating a small but strong organization with two teams each under the Investment Management Division and Management Strategy Division. We also formed the Investment Assessment Committee to examine the appropriateness of purchase prices before entering a bid and to conduct preliminary checks of operational risks as part of efforts to protect investors. We set up the Risk Management Committee to ensure sustainable management and stability.

Experts in alternative investment

Our professionals are unrivalled in their fields. From our CEO who retains a plethora of knowhow and insights as a first-generation expert in alternative investments to the CIO, a lawyer with multiple on-site experiences in alternative investments, our team includes a wide range of real estate investment experts including public accountants, appraisers and PhD economists.

Business foundation

NongHyup REITs Management has formed a network with various business partners such as institutional

investors, asset management companies and leasing service companies for deal sourcing of premium real estate and to ensure stable asset management. With this solid foundation, we continue to participate in the bidding of promising real estate.

Launch of NH No.1 REIT

With the establishment of NH No.1 REIT, we purchased an office building with total floor area of 6,965m² in the Gangnam Business District (GBD) of Seoul for KRW 32.0 billion. The seller guaranteed seven years of leasing and currently, a government institution is occupying all floors. With no vacancies, NH No.1 REIT is a solid investment product capable of producing 7.8% in annual dividend returns. The management period for NH No.1 REIT is set for three years, after which profits from the liquidation will be distributed to investors.

Plans for 2019

Our business objective for 2019 is "Making the leap into a leading premier real estate investment management firm." To achieve this goal, we will focus our efforts on the following four tasks.

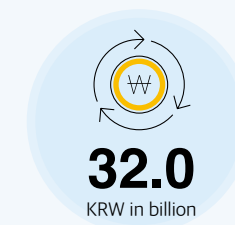
First, we will provide stable supply of investment products. We will expand deal-sourcing channels to preemptively secure superior office buildings and continue to supply products to the market by developing REITs products that utilize real estate beneficiary certificates.

Second, we will strengthen market competitiveness. While adhering to responsible management, we will conduct detailed analyses and examinations to launch REITs products that combine stability and profitability to strengthen our market position.

Third, we will reinforce capabilities to capture business opportunities. In addition to office buildings, we will actively uncover REITs products that use diverse real estate such as retail and logistics buildings as underlying assets, and review highly profitable development REITs to introduce products that meet the diverse needs of investors.

Fourth, we will cultivate future growth drivers. To secure competitiveness in the fast-changing investment market, we will actively invest in nurturing the capabilities of our employees to secure the engines for future growth.

Establishment of
NH No.1 REIT



NH Futures



NH Futures was launched in July 1992 when the Korean futures market was virtually nonexistent. Thanks to the ceaseless support of our clients, we have built up a strong position in the market over the years.

Today, as a member of NongHyup Financial Group, we continue to lead the local derivatives sector. Our skilled professionals and cutting-edge system enabled us to set up a 24-hour global network that meets our clients' diverse investment needs by linking domestic and overseas futures markets around the clock. We also earned favorable reviews from clients by ensuring greater stability in transactions through our industry-leading IT systems including local and international trading platform, HTS.

Despite the rapid changes in the market environment, NH Futures will continue to build on the steady trust and support of our clients. We are committed to growing quantitatively and qualitatively - reaching beyond Korea to become a global futures leader.

FINANCIAL HIGHLIGHTS

(unit: KRW billion, %)

		FY2018	FY2017
BS	Total assets	955.4	674.5
	Total liabilities	846.4	566.6
	Total equity	109.0	107.9
IS	Operating revenue	37.9	33.7
	Operating income	7.8	6.8
	Pre-tax income	7.6	6.5
	Net income	5.9	5.2
	Net income before agricultural assistance expenses	6.0	5.4
Financial Soundness	NCR	636.9	627.5
	ROE	5.4	4.7
	ROA	0.7	0.7

VISION



NH Futures



CEO
LEE SEONG-GWEON

CEO Message

Allow me first to extend my deepest gratitude to our valued clients. Your continued support has been pivotal to our growth into Korea's leading futures firm. Since our establishment in 1992, we have been proud to play an important role in growing the local derivatives market. By securing top talents and the latest IT systems, we provide clients with a solid global network that covers both domestic and overseas futures markets.

In particular, active investments and efforts to upgrade IT systems resulted in our securing industry-leading system competitiveness. This has played a significant part in solidifying NH Futures' unshakeable position as the preferred choice for overseas clients in Korea Exchange's derivatives trade.

The global economy and financial environment changes incessantly and with great speed. Amid such fluctuations, all of us at NH Futures aim to remain focused on providing new solutions and innovative processes to maximize returns for our clients.

You have my word that every employee at NH Futures will spare no effort for your success.

Thank you.

At a Glance

Expanded base of overseas investors

NH Futures has been actively investing in IT to secure the fastest order speed and trading stability among brokerages in Korea Exchange. We have the biggest presence among futures companies in Busan IDC and are striving to improve the trading environment by upgrading hardware such as servers and switches to the latest models. Furthermore, we introduced ultra-low latency equipment (Metamako products) and added IMECO equipment for enhanced competitiveness in DMA systems.

As a result of these efforts, we further solidified our leadership in brokering foreign investors' transactions with approximately 25% share in 3-year KTB futures and 45% share in index block trade. By proactively brokering products that are attractive to overseas clients such as index futures/options, currency futures and single-stock futures, we are continuing to extend our market dominance.

Dramatic improvement in retail trading platform

While HTS and phone orders form the majority of order platforms for retail customers in the financial investment industry, we have seen an accelerating shift to MTS using mobile phones. In answer to this recent trend, NH Futures developed an industry-leading MTS that enables one-stop services from registering client info to placing orders. Opened to clients in September of 2018, the MTS contributed to our securing over a 15% market share in currency futures, a major product for retail clients.

To increase our non-price competitiveness and maintain our industry-leading position, we also provide clients with useful investment information through seminars and other avenues to enhance investment returns.

Awards

Korea Exchange 20th Anniversary of the Korea Treasury Bond (KTB) Market Awards, Contribution Award (No. 1 in brokering KTB futures)

Review of Operation

Overview

In 2018, NH Futures was the best performing company in the KTB futures sector and we maintained our top 5 status among the roughly 40 brokerage firms in the Korean derivatives market. As a market leader, we make diverse IT investments to ensure a stable trading environment and improve our system speed, in addition to providing clients with education services and diverse investment analyses.

We are continuously striving to attract new clients by utilizing our non-face-to-face channel which is unrivalled among futures specialists and by drawing on NH affiliate branches in both local and overseas markets. To drive sustainable growth, we will reinforce sales for retail and overseas clients and are pursuing related tasks.

Performance in 2018

Since the launch of NH Futures in 2015 following the merger of NongHyup Futures and Woori Futures, customer satisfaction has always been our top priority. Our commitment to produce the best returns for clients drove us to post our best performance to date in 2018. We were able to develop a stable profit model by diversifying income sources beyond our traditional strength in the institutional investor segment to include overseas and retail clients. In particular, we harnessed our solid base in institutional and foreign clients in growing block trades as a major source of income.

Ranking in the KTB futures sector



Plans for 2019

First, we will reinforce the inbound business for foreign customers. To this end, we will actively market new products that are due to be listed on the Korea Exchange. At the same time, we will continue to improve the speed of our order system and raise the transaction rate by upgrading to the latest hardware and developing a customized IT system for DMA customers. We also plan to reinforce our network with institutional clients such as leading securities firms and banks to expand block trades.

Second, to expand the retail customer base, we will pursue customized marketing for premium clients such as boutique retail firms and DMA customers. For regular individual customers, continuous updates and improvements will be made in MTS to increase transactions. We also plan to reach out to customers living in remote areas where they have limited access to financial institutions and information. By providing them with diverse information through seminars on foreign exchange and currency hedge strategies, NH Futures will implement all inclusive and compact finance.

Finally, we will continue to hone our main strength—our sales network targeting institutional investors such as banks and securities firms, to reinforce our market presence. Through these activities, NH Futures will further distance itself from the competition and maintain a dominant position as Korea's leading futures firm.

Social Contribution

At every moment, NongHyup 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.

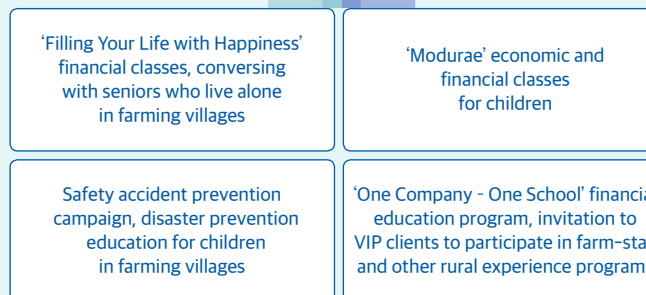
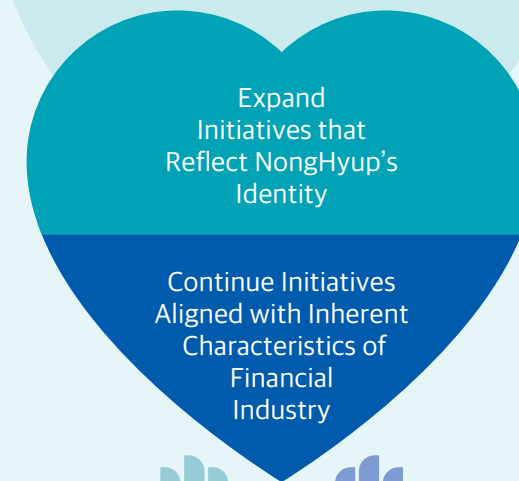




As Korea's leading social contributor among financial institutions, NongHyup Financial Group is guided by the fundamental philosophy of 'customers and employees sharing and filling happiness via finance' in carrying out diverse social contribution activities that reflect the changing needs of the times. NongHyup Financial Group is the only financial organization to share the entirety of its profits with customers, farmers and local communities. We are committed to giving back to society and consider social contribution a core value of our identity and raison d'être. We are constantly thinking of new ways to realize socially responsible management, to further develop the execution, scope and value of our philanthropic endeavors.

Social Contribution Scope

Our social contribution activities are largely divided into two groups: 'Initiatives that reflect the identity of NongHyup (National Agricultural Cooperation Federation)' and 'Initiatives aligned with inherent characteristics of the financial industry.'



Initiatives that reflect the identity of NongHyup - working for farmers and farming communities

NHFG conducts a diverse range of social contribution activities for farmers and farming communities, in line with our NongHyup roots and desire for continuity in related activities. Our representative 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.' As NongHyup's very reason for existence is to contribute to the balanced development of the country's life industries and regional communities such as farms and rural villages, NHFG will spare no effort in extending support to the many isolated groups in our society as befitting its role as Korea's representative social contribution financial company.

Initiatives aligned with inherent characteristics of financial industry - bridging finance and social contribution

NHFG's social contribution initiatives are linked with our business to ensure the continuity and commitment of related programs. The social-giving activities highlight the characteristics of the financial industry, such as those related to banking, insurance and credit operations.

The free financial education program 'Filling Your Life with Happiness,' 'One Company One School' financial education, and 'Modurae' economic and financial classes for children are customized for their intended audience - usually financially isolated classes such as youths and the elderly. We also make use of employees' talents, for example our consultants engage in regular conversations with senior citizens who live alone.

Additionally, we invite customers to directly or indirectly experience our social contribution activities through public good products and public funds. This promotes public interest and participation in social issues. Financial products and consultation counters exclusive to low-income customers and small to mid-sized companies are designed to enhance the convenience of financially-marginalized classes. We will continue to reinforce our socially responsible management through diverse schemes that combine our specialty in finance and social contribution.



Major Social Contribution Activities

Promoting public interests is a driving force behind our activities as we execute various policy finance and return the majority of profits to communities. The employees of the Group's eight affiliates including those of NongHyup Bank have been taking the lead in growing the sharing culture by proactively engaging in various activities to benefit agriculture, farming communities, farmers and regular customers.

In particular, we are committed to socially responsible management that is sustainable and sincere, and has therefore developed programs that reflect the unique identity of NongHyup and the finance industry.

During 2018, NHFG employees volunteered a total of 176,765 hours and once again ranked first among financial firms for social contribution for the seventh year in a row. Major social contribution programs undertaken by NHFG and subsidiaries are as follows.

Support for Agriculture and Farming Communities

We contribute to enhancing the quality of life for people from both farming communities and cities by promoting mutual prosperity between the two communities through programs such as 'Helping Farming Communities During Planting and Harvesting Seasons' and 'Building Another Town.'

'Building Another Town' involves appointing a corporate CEO or the head of an organization to become the honorary head of a rural community. This prompts employees of the company or members of the organization to automatically become honorary citizens of the village. Their presence and activities help form another 'town' and inject new vigor into the aging communities. The nationwide initiative is helping to create a new model of urban and rural cooperation.

All NHFG affiliates participate in the movement to support agriculture and farming communities through a diverse range of activities. Employees lend a helping hand during the busy farming season, make and share kimchi during the kimchi-making season, spend holidays at farms, promote consumption of agricultural goods through direct transactions, and assist villages in completing long-planned projects.

Giving Back to Local Communities

NHFG provided NACF with KRW 385.8 billion from business profits in 2018 to support farmers, farming villages, local communities and underprivileged classes. The funds are used for various public projects including scholarships, promoting farming villages' welfare, supporting multicultural families, raising interest in farms and operating the NongHyup Welfare Foundation. We return and re-invest in local communities to contribute to the balanced economic development of rural areas and the entire country.

Along with indirect financial assistance, employees at NHFG willingly create volunteer groups in their own communities to carry out programs to meet needs required by the local residents. This occurs at a nationwide level and in 2018, the per capita volunteer hour for each NHFG employee increased to 10.4 hours.

Health/Medical Service Support

NHFG works with NongHyup Life Insurance to bring free medical services to farming villages and other isolated groups that suffer from poor access to basic health and medical assistance. We partner with Seoul National University Hospital to visit medically marginalized farming villages and provide residents with medical services, along with first-aid kits and emergency medication. Since we launched the program in 2006, we have donated approximately KRW 13.7 billion toward health and medical support, and provided 60,000 individuals with services through 137 visits.

Talent Development (Education Donation)

Nurturing talents to lead communities at the local and national level is another part of our social contribution activities. NHFG engages in such talent development through employees' talent donations and scholarship programs.

The scholarship program provides farmers and underprivileged youths with a chance to further their education by relieving their financial burden. In 2018, we provided 40 individuals with KRW 110 million in scholarships. Employees also directly take part in talent donations through the 'Filling Your Life with Happiness' financial classes and 'Modurae' economic and financial classes for children. The programs provide the general public in addition to North Korean defectors, multicultural families, the elderly and underprivileged youths with the tools they need to become smarter financial consumers, and contribute to fostering a healthier financial consumption culture and greater financial literacy.

Support for Seniors

NHFG also takes a keen interest in promoting welfare for seniors amid a rapidly aging and fast-growing elderly population.

In 2008, we introduced a service that offers conversational partners at least once a week to senior citizens living alone in farming villages, or are single national patriots and veterans. NHFG employees help combat the seniors' loneliness as well as help protect them from falling prey to financial fraud, and inform them of emergency phone numbers. This unique social contribution program enabled us to serve as caring neighbors to some 1,500 seniors in 2018.

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

We invest a portion of profits generated from the sale of public products into public funds. This enables us to offer our customers a meaningful way to partake in and expand the culture of sharing. The sale of various financial products, donation of credit card points, and small loan financing comprise NHFG's social-giving activities that highlight our inherent role as a financial institution.

The year 2018 saw us expanding our lineup of singular social contribution activities. We launched a new time deposit called 'NH Plus Nanum' which supports the fund for promoting consumption and price stabilization of agricultural goods. The 'NH Farmers' Heart' bankbook, 'Love Our Law' bankbook, 'Cousin' bankbook, and 'Make Korea Happy' bankbook also enable customers to set aside more than 0.1% of their deposits on average per year to extend support for local communities and socially disadvantaged classes. In 2018, customers donated KRW 2.2 billion through such products.

Meanwhile the 'Love Our Farming Village' credit card allows users to donate 0.1% of their purchases to the One Company-One Village initiative. Some 19 credit cards that support public endeavors, such as the 'Dokdo Keeper' card, provided KRW 985 million in funds during 2018.

Other Initiatives

Alongside the mentioned systematic and sustained social contribution initiatives, NHFG carries out diverse activities to help those in need throughout society.

In addition to donations, we provide meals, books and basic necessities to impoverished neighborhoods, children's welfare centers and senior homes.

But it is our employees who comprise the main pillar of our efforts in social giving by willingly creating groups within their department or headquarters for volunteering. In this way, their activities drive the momentum behind our social contribution.



Management's Discussion & Analysis

Overview

Uncertainty increased over the global economy in 2018 amid the US-China trade dispute and interest rate hikes. The domestic economy was also clouded by dwindling corporate investment in the wake of higher interest rates, restructuring and rising unemployment.

Regardless of the difficulties, NHFG delivered remarkable results, with FY2018 net income surpassing the target of KRW 1 trillion.

Total assets increased by 7.3% to KRW 417.0 trillion, while total assets including AUM(*) amounted to KRW 549.3 trillion. Total shareholders' equity stood at KRW 22.4 trillion.

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

Net income was recorded at KRW 1,218.9 billion. Net income excluding agricultural assistance expenses levied by the National Agricultural Cooperative Foundation (NACF) was KRW 1,489.9 billion.

The total capital ratio was 13.86%, the common equity tier 1 ratio was 11.08% and the tier 1 ratio was 12.05%.

The substandard and below ratio was 0.91%, an improvement by 0.14%p over the previous year. The NPL (non-performing loan) coverage ratio improved by 17.56%p to 97.27%.

Highlights

(unit: KRW billion, %, %p)

	2018	2017	YoY	%
Profitability				
Operating income	2,325.0	1,716.5	608.5	35.45%
Net income	1,404.7	1,052.5	352.2	33.46%
Net income attributable to controlling interests	1,218.9	859.8	359.1	41.76%
Net income attributable to controlling interests before agricultural assistance expenses	1,489.9	1,127.2	362.7	32.17%
RoA	0.35	0.28	0.07	
RoE	7.48	5.87	1.61	
RoA before agricultural assistance expenses	0.42	0.35	0.07	
RoE before agricultural assistance expenses	8.96	7.41	1.55	
Business volume (KRW trillion)				
Total assets	417.0	388.7	28.3	7.27%
Total assets including AUM	549.3	490.6	58.7	11.96%
Shareholders' equity	22.4	21.1	1.3	6.26%
Attributable to controlling interests	19.4	18.2	1.2	6.77%
Loan assets	252.1	236.1	16.0	6.78%
Deposit liabilities	228.9	209.3	19.6	9.35%
Capital adequacy				
Total capital ratio	13.86	13.47	0.39	
Common equity tier 1 ratio	11.08	10.49	0.59	
Tier 1 ratio	12.05	11.49	0.56	
Asset quality				
Substandard and below ratio	0.91	1.05	(0.14)	
NPL coverage ratio	97.27	79.71	17.56	

* Agricultural assistance expenses: Expenses levied on NongHyup 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

For the fiscal year 2018, net income grew 41.76% YoY to KRW 1,218.9 billion (or KRW 1,489.9 billion before agricultural assistance expenses).

Net income was boosted by a decrease in provisions for NPLs as well as concurrent growth of interest income and commission income.

Consolidated Income Statement

(unit: KRW billion)				
	2018	2017	YoY	%
Gross operating income (a=b+c)	7,211.0	6,649.2	561.8	8.4
Interest income (b)	7,910.4	7,194.9	715.5	9.9
Non-interest income (c)	(699.5)	(545.7)	(153.8)	28.2
Provision for credit loss (d)	735.5	943.9	(208.4)	(22.1)
Operating income before SG&A expenses (e=a-d)	6,475.4	5,705.4	770.0	13.5
SG&A expenses (f)	4,150.4	3,988.9	161.5	4.0
Operating income (g=e-f)	2,325.0	1,716.5	608.5	35.5
Agricultural assistance expenses (h)	385.8	362.8	23.0	6.3
Other non-operating income (i)	(26.0)	(9.7)	(16.3)	168.2
Income before income taxes (j=g-h+i)	1,913.2	1,344.0	569.2	42.4
Income tax expenses (k)	508.5	291.5	217.0	74.5
Consolidated net income (m=j-k+l)	1,404.7	1,052.5	352.2	33.5
Net income attributable to controlling interests	1,218.9	859.8	359.1	41.8
Net income attributable to non-controlling interests	185.8	192.7	(6.9)	(3.6)
Net income before agricultural assistance expenses (attributable to controlling interests)	1,489.9	1,127.2	362.7	32.2

Interest income rose 9.9% to KRW 7,910.4 billion, driven by steady growth in won-denominated loans.

Provision for credit loss was KRW 735.5 billion, declining by 22.1%. The decrease is attributed to improvement in asset quality indicators resulting from tighter risk management such as regular monitoring of high-risk assets and industries.

SG&A expenses increased 4.0% to KRW 4,150.4 billion.

Operating income went up by KRW 608.5 billion (35.5%) over the previous year to KRW 2,325.0 billion.

Agricultural assistance expenses rose by 6.3% YoY to KRW 385.8 billion. Net income attributable to controlling interests grew 41.8% to KRW 1,218.9 billion, while the figure before agricultural assistance expenses was KRW 1,489.9 billion.

NongHyup Bank, NongHyup Life Insurance, NongHyup Property & Casualty Insurance and NH Investment & Securities posted consolidated net income attributable to controlling interests of KRW 1,222.6 billion, -KRW 114.1 billion, KRW 2.0 billion and KRW 360.9 billion, respectively.

NH-Amundi Asset Management, NH Capital and NH Savings Bank respectively posted standalone net income of KRW 16.6 billion, KRW 47.0 billion and KRW 12.8 billion.

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

Income by Subsidiary

FY2018

(unit: KRW billion)

	Bank		Non-bank					Subtotal	Adjustment	Consolidated profit/loss
	NongHyup Bank	NongHyup Life Insurance	NongHyup Property & Casualty Insurance	NH Investment & Securities	NH-Amundi Asset Management	NH Capital	NH Savings Bank			
Interest income	5,199.1	1,718.3	211.0	639.3	1.5	133.1	56.1	2,759.3	(48.0)	7,910.4
Commission income	546.5	-	-	639.3	51.5	(13.9)	(1.0)	676.0	(143.6)	1,078.9
Other operating gain/loss	(3,761.5)	(1,797.4)	(199.8)	(738.4)	(30.6)	(55.4)	(41.9)	(2,863.6)	(39.2)	(6,664.3)
Operating income	1,984.1	(79.1)	11.2	540.1	22.3	63.9	13.3	571.8	(230.9)	2,325.0
Equity method gain/loss	8.0	-	-	(14.8)	-	0.8	-	(14.0)	25.7	19.7
Other non-operating gain/loss	(328.6)	(69.8)	(8.8)	(20.5)	(0.2)	(1.2)	0.1	(100.4)	(2.5)	(431.5)
Net income before income taxes	1,663.6	(148.9)	2.4	504.8	22.1	63.5	13.4	457.3	(207.6)	1,913.2
Income tax expenses	441.0	(34.8)	0.5	143.3	5.6	16.5	0.6	131.6	(64.1)	508.5
Net income	1,222.6	(114.1)	2.0	361.5	16.6	47.0	12.8	325.7	(143.6)	1,404.7
Controlling interests	1,222.6	(114.1)	2.0	360.9	16.6	47.0	12.8	325.1	(328.8)	1,218.9
Non-controlling interests	-	-	-	6	-	-	-	6	185.2	185.8

FY2017

(unit: KRW billion)

	Bank		Non-bank					Subtotal	Adjustment	Consolidated profit/loss
	NongHyup Bank	NongHyup Life Insurance	NongHyup Property & Casualty Insurance	NH Investment & Securities	NH-Amundi Asset Management	NH Capital	NH Savings Bank			
Interest income	4,587.9	1,710.3	198.0	583.0	1.2	174.3	45.5	2,712.3	(105.3)	7,194.9
Commission income	573.5	(27.2)	(52.7)	568.5	36.8	(9.3)	(2.2)	513.9	(55.3)	1,032.1
Other operating gain/loss	(3,969.6)	(1,545.2)	(108.2)	(692.3)	(20.3)	(118.5)	(32.9)	(2,517.4)	(23.5)	(6,510.5)
Operating income	1,191.8	137.9	37.1	459.2	17.7	46.5	10.4	708.8	(184.1)	1,716.5
Equity method gain/loss	2.0	-	-	(1.0)	-	-	-	(1.0)	10.2	11.2
Other non-operating gain/loss	(335.5)	(25.7)	(2.2)	(15.7)	(0.2)	1.0	(0.1)	(42.9)	(5.3)	(383.7)
Net income before income taxes	858.3	112.2	34.9	442.5	17.5	47.5	10.3	664.9	(179.2)	1,344.0
Income tax expenses	206.2	26.8	8.4	92.9	4.0	12.2	0.7	145.0	(59.7)	291.5
Net income	652.1	85.4	26.5	349.6	13.5	35.3	9.6	519.9	(119.5)	1,052.5
Controlling interests	652.1	85.4	26.5	350.1	13.5	35.3	9.6	5,204	(312.7)	859.8
Non-controlling interests	-	-	-	(0.5)	-	-	-	(0.5)	193.2	192.7

Commission income increased KRW 46.8 billion and gain on FX transactions/financial derivatives improved by KRW 1,843.5 billion. Gains related to securities and insurance decreased KRW 2,093.7 billion and KRW 4.2 billion, respectively. Accordingly, non-interest income dropped KRW 153.8 billion from the previous year.

Non-interest Income

(unit: KRW billion)

	2018	2017	YoY
Commission income	1,078.9	1,032.1	46.8
Gain/loss on securities	55.8	2,149.5	(2,093.7)
FX transactions/financial derivatives	249.2	(1,594.3)	1,843.5
Insurance	(1,250.8)	(1,247.7)	(3.1)
Others	(832.5)	(885.4)	52.9
Total non-interest income	(699.5)	(545.7)	(153.8)

SG&A Expenses

(unit: KRW billion)

	2018	2017	YoY	%
Employee expenses	2,701.1	2,610.0	91.1	3.5
Wages	1,822.9	1,791.2	31.7	1.8
Severance benefits	266.2	268.3	(2.1)	(0.8)
Layoff payments	79.7	51.9	27.8	53.6
Fringe benefit expenses	532.3	498.6	33.7	6.8
Depreciation	425.0	418.6	6.4	1.5
Others	1,024.4	960.3	64.1	6.7
Total SG&A expenses	4,150.4	3,988.9	161.5	4.0

Financial Position

As of the end of 2018, NHFG's total assets stood at KRW 417 trillion, total liabilities at KRW 394.6 trillion, and shareholders' equity at KRW 22.4 trillion. Compared to 2017, total assets increased by KRW 28.3 trillion and shareholders' equity grew by KRW 1,321.3 billion.

(unit: KRW billion)

	2018		2017	
	Amount	As % of Total	Amount	As % of Total
Cash & cash equivalents	12,777.5	3.06	13,716.0	3.53
Short-term trading financial assets	-	-	31,232.5	8.03
Financial assets at fair value through profit or loss	58,560.9	14.05	-	-
Designated financial assets at fair value through profit/loss	-	-	1,201.3	0.31
Available-for-sale financial assets	-	-	42,889.8	11.03
Financial assets at fair value through other comprehensive income	32,037.0	7.68	-	-
Held-to-maturity investments	-	-	46,767.5	12.03
Securities at amortized cost	45,655.9	10.95	-	-
Loans & receivables	-	-	243,309.6	62.59
Loans & receivables at amortized cost	259,258.7	62.17	-	-
Tangible & intangible assets	3,843.8	0.92	3,829.9	0.99
Other assets	4,868.0	1.17	5,795.1	1.49
Total assets	417,001.8	100.00	388,741.7	100.00
Deposit liabilities	228,894.7	58.01	209,328.0	56.94
Borrowings/debentures	55,575.1	14.09	57,234.4	15.57
Other liabilities	110,091.5	27.90	101,060.1	27.49
Total liabilities	394,561.3	100.00	367,622.5	100.00
Total shareholders' equity	22,440.5	-	21,119.2	-
Liabilities & total shareholders' equity	417,001.8	-	388,741.7	-

Note 1) K-IFRS 1109 was applied in preparing the consolidated statement of financial position for FY2018, but it was not applied retrospectively for the FY2017 figures which are shown for comparison purpose.

NHFG's loan assets and deposit liabilities are shown below.

(unit: KRW billion)

	2018	2017	YoY	%
Loan assets	252,061.2	236,051.6	16,009.6	6.8
Won-denominated loan assets	223,464.9	212,693.0	10,771.9	5.1
(Household loans)	103,934.6	97,788.9	6,145.7	6.3
(Corporate loans)	109,531.8	100,224.0	9,307.8	9.3
(Public financing)	9,334.5	13,886.4	(4,551.9)	(32.8)
(Integrated)	664.0	793.7	(129.7)	(16.3)
Foreign currency-denominated loan assets	1,614.9	1,486.7	128.2	8.6
Credit card receivables	7,047.4	6,389.2	658.2	10.3
Other loan assets	19,934.0	15,482.7	4,451.3	28.8
Deductibles such as loan loss provisions	1,635.3	1,447.8	187.5	12.9
Net book value of loan assets	250,426.0	234,603.9	15,822.1	6.7

(unit: KRW billion)

	2018	2017	YoY	%
Deposit liabilities	228,894.7	209,328.0	19,566.7	9.3
Demand deposits	32,988.6	36,153.5	(3,164.9)	(8.8)
Time deposits	191,233.8	169,724.2	21,509.6	12.7
Certificates of deposit	634.0	373.8	260.2	69.6
Customer deposits for securities trading	4,038.4	3,076.5	961.9	31.3

Capital Adequacy

On consolidated basis, NHFG's risk-weighted assets stood at KRW 143.67 trillion and total shareholders' equity at KRW 19.92 trillion as of the end of 2018, translating to a total capital ratio of 13.86%, up by 0.39%p YoY. The common equity tier 1 ratio was 11.08%, up by 0.59%p YoY.

(unit: KRW billion, %, %p)

	2018	2017	YoY
Risk-weighted assets (a)	143,671.7	138,091.6	5,580.1
Total shareholders' equity (b)	19,919.7	18,598.6	1,321.1
Common equity tier 1 capital (c)	15,918.0	14,490.6	1,427.4
Tier 1 capital (d)	17,308.3	15,866.5	1,441.8
Total capital ratio (b/a)	13.86	13.47	0.39
Common equity tier 1 ratio (c/a)	11.08	10.49	0.59
Tier 1 ratio (d/a)	12.05	11.49	0.56

The capital adequacy indicators of the subsidiaries are shown in the table below.

(Unit: %, %p)

Indicator (% , %p)	2018		2017		YoY
NongHyup Bank ^{Note 1)}	Total capital ratio	15.54	14.72	0.82	
	Common equity tier 1 ratio	12.49	11.60	0.89	
	Tier 1 ratio	12.75	11.92	0.83	
NongHyup Life Insurance	Risk-based capital ratio ^{Note 2)}	194.98	217.92	(22.94)	
NongHyup Property & Casualty Insurance	Risk-based capital ratio ^{Note 2)}	176.63	190.59	(13.96)	
NH Investment & Securities	Net capital ratio	1,365.22	1,811.22	(446.00)	
NH-Amundi Asset Management	Shareholders' equity (KRW billion)	100.0	96.6	3.4	
	Minimum net operating capital (KRW billion)	17.9	16.5	1.4	
NH Capital	Adjusted capital adequacy ratio	14.09	11.72	2.37	
NH Savings Bank	BIS capital adequacy ratio ^{Note 3)}	16.02	16.59	(0.57)	

Note 1) NongHyup 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 2018, NHFG's consolidated ROA and ROE were 0.35% and 7.48%, respectively.

(unit: %)

	2018		2017	
	ROA	ROE	ROA	ROE
NongHyup Financial Group (consolidated)	0.35	7.48	0.28	5.87
NongHyup Bank	0.45	8.03	0.25	4.54
NongHyup Life Insurance	(0.19)	(3.23)	0.16	2.61
NongHyup Property & Casualty Insurance	0.02	0.30	0.29	4.05
NH Investment & Securities	0.70	6.63	0.85	7.55
NH-Amundi Asset Management	15.94	17.51	13.71	14.64
NH Capital	1.05	8.81	0.98	8.49
NH Savings Bank	0.97	8.53	0.97	6.91
NongHyup REITs Management	(4.37)	(4.41)	-	-

Asset Quality

As of the end of 2018, NHFG's consolidated SBL ratio stood at 0.91% and the NPL coverage ratio at 97.27%.

(unit: KRW billion)

	2018		2017		YoY
Total loans ^{Note 1)}	241,872.3	227,234.9	14,637.4		
Substandard and below loans (SBL)	2,194.3	2,383.4	(189.1)		
SBL ratio (%)	0.91	1.05	(0.14)		
Non-performing loans (NPL)	1,878.0	2,188.6	(310.6)		
NPL ratio (%)	0.78	0.96	(0.18)		
NPL coverage ratio (A/B, %)	97.27	79.71	17.56		
Balance of loan loss provision (A) ^{Note 2)}	2,134.4	1,899.7	234.7		
SBL (B)	2,194.3	2,383.4	(189.1)		

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

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

(unit: %)

	2018			2017		
	SBL ratio	NPL ratio	NPL coverage ratio	SBL ratio	NPL ratio	NPL coverage ratio
NongHyup Bank	0.89	0.75	93.67	1.03	0.95	78.55
NongHyup Life Insurance	0.23	0.23	219.12	0.13	0.13	322.61
NH Investment & Securities	0.34	0.34	170.01	0.58	0.58	59.99
NH Capital	2.23	1.63	125.59	1.96	1.38	97.50
NH Savings Bank	3.94	4.44	136.09	4.05	3.90	123.41

Financial Statements

INDEPENDENT AUDITORS' REPORT

The Shareholder and Board of Directors
NongHyup Financial Group Inc.

Opinion

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 of December 31, 2018 and 2017, 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 the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as of December 31, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (KIFRS).

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with KIFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KGAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KGAAS we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

March 7, 2019



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This audit report is effective as of March 7, 2019, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's 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

as of December 31, 2018 and 2017

(Korean won in millions)

	December 31, 2018 (*1)		December 31, 2017 (*1)	
Assets				
Cash and due from banks	₩	12,777,491	₩	13,716,039
Held-for-trading financial assets		-		31,232,489
Financial assets at fair value through profit or loss (FVTPL) (KIFRS 1109)		58,560,908		-
Financial assets designated at FVTPL (KIFRS 1039)		-		1,201,273
Derivative assets		1,368,537		2,432,355
Available-for-sale (AFS) financial assets		-		42,889,771
Financial assets at fair value through other comprehensive income (FVOCI)		32,036,959		-
Held-to-maturity (HTM) financial assets		-		46,767,505
Securities at amortized cost		45,655,855		-
Loans and receivables		-		243,309,585
Loans and receivables at amortized cost (AC)		259,258,654		-
Investments in associates and joint ventures		286,004		242,063
Tangible assets		3,336,819		3,304,521
Investment properties		868,303		878,397
Intangible assets		506,976		525,379
Current income tax assets		28,759		4,161
Deferred tax assets		457,100		641,230
Other assets		1,859,461		1,596,915
Assets classified as held for sale		15		15
Total assets	₩	417,001,841	₩	388,741,698
Liabilities and equity				
Liabilities				
Deposits	₩	228,894,697	₩	209,328,015
Held-for-trading financial liabilities		-		962,144
Financial liabilities at FVTPL (KIFRS 1109)		5,742,604		-
Financial liabilities designated at FVTPL (KIFRS 1039)		-		12,642,298
Financial liabilities designated at FVTPL (KIFRS 1109)		15,164,790		-
Derivative liabilities		2,548,514		2,196,840
Borrowings		27,223,436		27,751,286
Debentures		28,351,665		29,483,147
Provisions		530,980		488,332
Net defined benefit liabilities		475,236		375,614
Insurance contract liabilities		69,414,069		67,548,940
Current income tax liabilities		37,226		84,552
Deferred tax liabilities		-		811
Other liabilities		16,178,061		16,760,546
Total liabilities		394,561,278		367,622,525

(Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2018 and 2017

(Korean won in millions)

	December 31, 2018 (*1)	December 31, 2017 (*1)
Equity		
Equity attributable to equity holders of the parent	19,404,175	18,173,603
Capital stock	1,414,095	1,414,095
Other paid-in capital	14,367,123	14,149,916
Retained earnings	4,390,064	3,121,822
Accumulated other comprehensive income (loss)	(767,107)	(512,230)
Non-controlling shareholder's equity	3,036,388	2,945,570
Total equity	22,440,563	21,119,173
Total liabilities and equity	₩ 417,001,841	₩ 388,741,698

(*1) The consolidated statement of financial position as of December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative consolidated statement of financial position as of December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

(Korean won in millions, except per share amounts)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Net interest income		
Interest income	₩ 10,968,364	₩ 9,780,114
Interest income calculated using the effective interest method	701,885	532,681
Interest income on financial instruments at FVTPL (KIFRS 1109)	11,670,249	10,312,795
Interest expenses	(3,759,812)	(3,117,868)
	7,910,437	7,194,927
Net commission income		
Commission income	1,930,650	1,766,827
Commission expenses	(851,783)	(734,689)
	1,078,867	1,032,138
Gain (loss) on held-for-trading financial instruments, net	-	2,481,156
Gain (loss) on financial instruments at FVTPL, net		
Net gain before adjustment under overlay approach	264,896	-
Net gain adjusted under overlay approach	(27,866)	-
	237,030	-
Gain (loss) on financial instruments designated at FVTPL, net (KIFRS 1039)	-	(792,958)
Gain (loss) on financial instruments designated at FVTPL, net (KIFRS 1109)	(201,358)	-
Gain (loss) on financial investment assets, net	20,084	461,301
Gain (loss) from insurance compensation, net	(1,250,766)	(1,247,702)
Other operating income (expenses), net	(583,341)	(2,479,646)
Operating income before credit losses and general and administrative expenses	7,210,953	6,649,216
Provision of allowances for expected credit losses	(735,526)	(943,852)
Operating income before general administrative expenses	6,475,427	5,705,364
General and administrative expenses		
Employee benefits	2,701,056	2,609,980
Depreciation and amortization expenses	424,986	418,600
Other general and administrative expenses	1,024,356	960,290
	4,150,398	3,988,870
Operating income	2,325,029	1,716,494
Share of net income of associates	19,684	11,242
Other expenses, net	(431,474)	(383,734)
Income (loss) before income tax expense	1,913,239	1,344,002
Income tax expense	(508,533)	(291,500)
Net income	1,404,706	1,052,502
Equity holders of the parent	1,218,858	859,784
Non-controlling interests	185,848	192,718

(Continued)

(Korean won in millions, except per share amounts)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit liabilities plan	(57,987)	(73,449)
Gain (loss) on valuation of financial assets at FVOCI (Equity securities)	(79,148)	(73,449)
Gain (loss) on valuation of financial assets at FVOCI (Equity securities)	20,860	-
Gain (loss) on translation of financial assets at FVOCI (Equity securities)	301	-
Items that may be reclassified subsequently to profit or loss:		
Gain (loss) on valuation of financial liabilities designated at FVTPL (KIFRS 1109)	160,175	(106,243)
Gain (loss) on valuation of financial assets at FVOCI (Debt securities)	7,949	-
Gain (loss) on valuation of financial assets at FVOCI (Debt securities)	127,226	-
Gain (loss) on valuation of investments in associates	(176)	433
Adjustment amount under overlay approach	27,871	-
Gain (loss) on translation of AFS financial assets	-	(8,156)
Gain (loss) on valuation of AFS financial assets	-	(71,013)
Gain (loss) on valuation of HTM financial assets	-	180
Gain (loss) on valuation of cash flow hedge	(16,161)	28,432
Gain (loss) on overseas business translation	13,466	(56,119)
	102,188	(179,692)
Total comprehensive income	₩ 1,506,894	₩ 872,810
Equity holders of the parent	1,307,544	701,443
Non-controlling interests	199,350	171,367
Earnings per share (Korean won)		
Basic earnings per share	₩ 4,294	₩ 3,040
Diluted earnings per share	₩ 4,294	₩ 3,040

(*1) The consolidated statement of comprehensive income for the year period ended December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative consolidated statement of comprehensive income for the year period ended December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2018 and 2017

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Hybrid equity securities	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling shareholders' equity	Total
As of January 1, 2017 (*1)	₩ 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)
Gain (loss) on valuation of available-for-sale financial assets	-	-	-	-	-	(60,640)	(10,373)	(71,013)
Gain (loss) on translation of available-for-sale financial assets	-	-	-	-	-	(8,156)	-	(8,156)
Gain (loss) on valuation of held-to-maturity financial assets	-	-	-	-	-	180	-	180
Gain (loss) on overseas business translation	-	-	-	-	-	(29,814)	(26,305)	(56,119)
Gain (loss) on valuation of cash flow hedge	-	-	-	-	-	9,553	18,879	28,432
Gain (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 of December 31, 2017 (*1)	₩ 1,414,095	₩ 15,345,605	₩ (1,195,689)	₩ -	₩ 3,121,822	₩ (512,230)	₩ 2,945,570	₩ 21,119,173

(Continued)

(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Hybrid equity securities	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling shareholders' equity	Total
As of January 1, 2018 (*1)	₩ 1,414,095	₩ 15,345,605	₩ (1,195,689)	₩ -	₩ 3,206,756	₩ (855,793)	₩ 2,936,745	₩ 20,851,719
Net income for the year	-	-	-	-	1,218,858	-	185,848	1,404,706
Dividends	-	-	-	-	-	-	(81,512)	(81,512)
Remeasurements of the defined benefit plan	-	-	-	-	-	(77,505)	(1,643)	(79,148)
Gain (loss) on valuation of financial liabilities designated at FVTPL (KIFRS 1109)	-	-	-	-	-	3,670	4,279	7,949
Gain (loss) on valuation of financial assets at FVOCI	-	-	-	-	-	136,914	11,172	148,086
Gain (loss) on translation of financial assets at FVOCI	-	-	-	-	-	301	-	301
Gain (loss) on disposal of financial assets at FVOCI	-	-	-	-	(31,177)	-	-	(31,177)
Gain (loss) on foreign currency translation of foreign operation	-	-	-	-	-	7,106	6,360	13,466
Gain (loss) on valuation of cash flow hedge	-	-	-	-	-	(9,577)	(6,584)	(16,161)
Gain (loss) on valuation of investments in associates	-	-	-	-	-	(94)	(82)	(176)
Amount of ownership changes in subsidiaries	-	-	-	-	-	-	(29)	(29)
Ownership changes in subsidiaries	-	(862)	(16)	-	(19)	-	(1,086)	(1,983)
Increase in paid-in capital in subsidiaries	-	-	(388)	-	-	-	-	(388)
Adjustment amount under overlay approach	-	-	-	-	-	27,871	-	27,871
Issuance of hybrid equity securities	-	-	-	218,473	-	-	-	218,473
Dividends on hybrid equity securities	-	-	-	-	(4,354)	-	(17,080)	(21,434)
As of December 31, 2018 (*1)	₩ 1,414,095	₩ 15,344,743	₩ (1,196,093)	₩ 218,473	₩ 4,390,064	₩ (767,107)	₩ 3,036,388	₩ 22,440,563

(*1) The consolidated statement of changes in equity for the year period ended December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative consolidated statement of changes in equity for the year period ended December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2018 and 2017

(Korean won in millions)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Operating activities		
Income before income tax expense	₩ 1,913,239	₩ 1,344,002
Adjustments to reconcile net income before income tax expense to net cash flows provided by operating activities:	(4,814,308)	(1,082,177)
Net interest income	(7,910,437)	(7,194,927)
Dividend income	(200,918)	(334,981)
Net gain of held-for-trading financial assets	-	(425,048)
Net loss on financial instruments at FVTPL	(297,645)	-
Net gain adjusted under overlay approach	(27,866)	-
Net loss of financial instruments designated at FVTPL (KIFRS 1039)	(96,973)	95,160
Net gain of AFS financial assets	-	(189,328)
Net loss of financial assets at FVOCI	11,223	-
Net gain of HTM financial assets	-	(77)
Net gain of securities at AC	(2,129)	-
Net loss (gain) of hedging derivatives	388,373	(334,099)
Net gain of investments in associates	(19,684)	(11,242)
Depreciation and amortization	432,753	427,147
Other loss of tangible and intangible assets	1,918	(12,378)
Provision of allowance for expected credit losses	712,069	943,852
Provision of insurance contract liabilities	1,437,669	2,994,376
Net loss (gain) on foreign currency translation	(571,253)	1,871,504
Retirement expenses	345,906	268,251
Other losses	982,686	819,613
Changes in operating assets and liabilities:	799,120	(1,099,535)
Due from banks	1,447,889	716,017
Held-for-trading financial assets	-	2,729,809
Financial assets at FVTPL (KIFRS 1109)	(7,947,004)	-
Financial assets designated at FVTPL (KIFRS 1039)	-	(60,884)
Financial assets designated at FVTPL (KIFRS 1109)	38,393	-
Derivatives assets	1,792,257	849,652
Loans	(17,024,641)	(16,442,901)
Other assets	(1,654,629)	(331,067)
Deposits	19,477,845	12,544,375
Financial liabilities at FVTPL (KIFRS 1109)	6,631,201	-
Financial liabilities designated at FVTPL (KIFRS 1039)	-	3,136
Held-for-trading financial liabilities	-	(3,725,094)
Derivative liabilities	(1,340,023)	(1,391,366)
Net defined benefit obligation	(138,789)	73,537
Other liabilities	(483,379)	3,935,251

(Continued)

(Korean won in millions)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Interest receipts	11,340,458	9,923,217
Interest payments	(3,394,650)	(3,068,217)
Dividend receipts	343,735	318,075
Payment of tax expense	(376,323)	(245,382)
Net cash flows provided by operating activities	5,811,271	6,089,983
Investing activities		
Acquisition of financial assets at FVTPL (KIFRS 1109)	₩ (29,957,107)	₩ -
Disposal of financial assets at FVTPL (KIFRS 1109)	27,738,366	-
Acquisition of AFS financial assets and HTM financial assets	-	(66,818,724)
Acquisition of financial assets at FVOCI and securities at amortized cost	(30,198,735)	-
Disposal of AFS financial assets and HTM financial assets	-	57,956,151
Disposal of financial assets at FVOCI and securities at amortized cost	29,396,045	-
Acquisition of investment in associates	(86,683)	(35,891)
Disposal of investment in associates	44,337	47,682
Acquisition of investment properties	(7,431)	(5,835)
Disposal of investment properties	680	38,464
Acquisition of tangible assets	(256,360)	(339,092)
Disposal of tangible assets	9,395	55,971
Acquisition of intangible assets	(185,378)	(207,457)
Disposal of intangible assets	3,642	10,403
Increase in guarantee deposits paid	(8,635)	(20,336)
Decrease in guarantee deposits paid	9,253	25,662
Cash inflow from hedging derivatives	156,607	-
Cash outflow by hedging derivatives	(101,086)	-
Others	6,470	90,861
Net cash flows used in investing activities	(3,436,620)	(9,202,141)
Financing activities		
Increase in paid-in capital	₩ (388)	₩ -
Dividends paid	(102,947)	(118,278)
Issuance of hybrid equity securities	218,473	-
Net increase in borrowings	(639,835)	625,919
Increase in debentures	84,355,580	21,042,352
Decrease in debentures	(85,681,112)	(18,004,560)
Cash outflow by hedging derivatives	(1,221)	-
Others	681,138	176,451
Net cash flow provided by (used in) financing activities	(1,170,312)	3,721,884
Net increase in cash and cash equivalents	1,204,339	609,726
Cash and cash equivalents at the beginning of the period	3,719,545	3,230,769
Effect of exchange rate changes on cash and cash equivalents	(44,079)	(120,950)
Cash and cash equivalents at the end of the period	₩ 4,879,805	₩ 3,719,545

(*1) The consolidated statement of cash flows for the year period ended December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative consolidated statement of cash flows for the year period ended December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

INDEPENDENT AUDITOR'S REPORT

The Shareholder and Board of Directors
NongHyup Financial Group Inc.

Opinion

We have audited the separate financial statements of NongHyup Financial Group Inc. (the Company), which comprise the statements of financial position as of December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (KIFRS).

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the separated financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with KIFRS, 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.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's separated financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KGAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with KGAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

March 7, 2019



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This audit report is effective as of March 7, 2019, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's 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

as of December 31, 2018 and 2017

(Korean won in millions)

	December 31, 2018 (*1)		December 31, 2017 (*1)	
Assets				
Cash and due from banks	₩	417	₩	58,271
Financial assets measured at FVTPL		276,749		-
Investments in subsidiaries and associates		21,063,081		20,733,081
Tangible assets		262		350
Intangible assets		6,158		6,200
Receivables		173,062		214,610
Deferred tax assets		3,500		2,638
Other assets		133		-
Total assets	₩	21,523,362	₩	21,015,150
Liabilities and equity				
Liabilities				
Debentures		3,856,230		3,666,200
Net defined benefit liabilities		10,426		7,439
Provisions		395		327
Current income tax liabilities		37,226		77,868
Other financial liabilities		17,469		16,283
Other non-financial liabilities		138,810		137,094
Total liabilities		4,060,556		3,905,211
Equity				
Capital stock		1,414,095		1,414,095
Other paid-in capital		15,408,926		15,190,453
Retained earnings		643,709		507,899
Accumulated other comprehensive income (loss)		(3,924)		(2,508)
Total equity		17,462,806		17,109,939
Total liabilities and equity	₩	21,523,362	₩	21,015,150

(*1) The separate statement of financial position as of December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative separate statement of financial position as of December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2018 and 2017

(Korean won in millions, except per share amounts)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Net interest income		
Interest income	₩ -	₩ 1,151
Interest expenses	(105,301)	(105,497)
	(105,301)	(104,346)
Net commission income		
Commission income	-	-
Commission expenses	(21)	(22)
	(21)	(22)
Gain on financial instruments measured at FVTPL	3,998	-
Net other operating income		
Other operating income	278,798	75,088
Other operating expenses	59	-
	278,739	75,088
Selling and administrative expenses		
Employee benefits	19,760	18,296
Depreciation and amortization expenses	1,947	2,186
Other selling and administrative expenses	13,230	11,943
	34,937	32,425
Operating income (loss)	142,478	(61,705)
Net non-operating income		
Non-operating income	100	1,013
Non-operating expenses	(82)	(178)
	18	835
Net income (loss) before income tax expense	142,496	(60,870)
Income tax expense (benefit)	3,973	(506)
Net income (loss)	138,523	(60,364)
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit liabilities plan	(1,416)	13
Items that may be reclassified subsequently to profit or loss:		
	(1,416)	13
Total comprehensive income (loss)	₩ 137,107	₩ (60,351)
Earnings per share (Korean won)		
Basic earnings (loss) per share	₩ 474	₩ (213)
Diluted earnings (loss) per share	₩ 474	₩ (213)

(*1) The separate statement of comprehensive income for the year period ended December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative separate statement of comprehensive income for the year period ended December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2018 and 2017

(Korean won in millions)

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

(Korean won in millions)

	Other paid-in capital				Accumulated other comprehensive income (loss)	Retained earnings	Total
	Capital stock	Capital surplus	Hybrid equity securities	Total			
As of January 1, 2018 (*1)	₩ 1,414,095	₩ 15,190,453	₩ -	₩ 15,190,453	₩ (2,508)	₩ 507,899	₩ 17,109,939
Net income for the period	-	-	-	-	-	138,523	138,523
Remeasurements of the net defined benefit liabilities	-	-	-	-	(1,416)	-	(1,416)
Issuance of hybrid equity securities	-	-	218,473	218,473	-	-	218,473
Dividend of hybrid equity securities	-	-	-	-	-	(4,355)	(4,355)
Separate tax effect	-	-	-	-	-	1,642	1,642
As of December 31, 2018 (*1)	₩ 1,414,095	₩ 15,190,453	₩ 218,473	₩ 15,408,926	₩ (3,924)	₩ 643,709	₩ 17,462,806

(*1) The separate statement of changes in equity for the year period ended December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative separate statement of changes in equity for the year period ended December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

SEPARATE STATEMENTS OF CASH FLOWS

for the years ended December 31, 2018 and 2017

(Korean won in millions)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Operating activities		
Income (loss) before income tax expense	₩ 142,496	₩ (60,870)
Adjustments to reconcile income (loss) before income tax expense to net cash flows used in operating activities:	109,311	109,776
Interest expense	105,301	105,497
Retirement expense	1,792	1,949
Redundancy payments	213	144
Depreciation	199	337
Amortization of intangible assets	1,748	1,849
Transfer in provision for restoration	58	-
Adjustments (deduction) to reconcile net income to net cash flows:	(278,798)	(76,239)
Interest income	-	(1,151)
Dividend income	(278,798)	(75,078)
Reversal of provision for restoration	-	(10)
Changes in operating assets and liabilities:	(277,533)	(220)
Accounts receivable	(11)	(29)
Prepaid expenses	(133)	-
Guarantee deposits paid	-	450
Net defined benefit obligation	(760)	(455)
Accrued expenses	258	11
Payables	(110)	(222)
Other deposits	26	3
Taxes withheld	(54)	22
Acquisition of financial assets measured at FVTPL	(276,749)	-
Cash received from operating activities:	278,805	76,232
Interest receipts	7	1,154
Dividend receipts	278,798	75,078
Cash payment for operating activities	(102,853)	(104,938)
Interest payments	(102,853)	(104,938)
Net cash flows used in operating activities	(128,572)	(56,259)

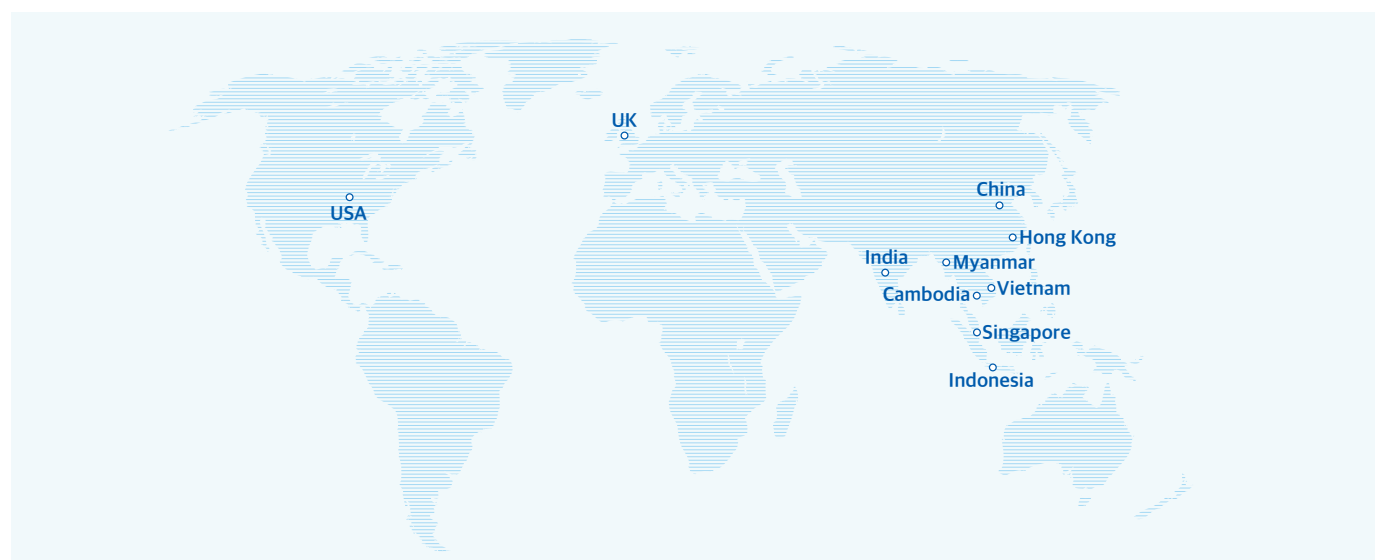
(Continued)

(Korean won in millions)

	For the years ended December 31,	
	2018 (*1)	2017 (*1)
Investing activities		
Cash inflows related to investing activities	₩ -	₩ -
Cash outflows related to investing activities:	(331,817)	(101,494)
Acquisition of tangible assets	(111)	(107)
Acquisition of investments in subsidiaries	(330,000)	(100,000)
Acquisition of intangible assets	(1,706)	(1,387)
Net cash flows used in investing activities	(331,817)	(101,494)
Financing activities		
Cash inflows related to financing activities:	1,036,890	738,564
Issuance of debentures	818,417	738,564
Issuance of hybrid equity securities	218,473	-
Cash outflows related to financing activities:	(634,355)	(665,800)
Redemption of debentures	(630,000)	(630,000)
Dividends paid	-	(35,800)
Payment of the distribution of hybrid equity securities	(4,355)	-
Net cash flows provided by financing activities	402,535	72,764
Net decrease in cash and cash equivalents	(57,854)	(84,989)
Cash and cash equivalents at the beginning of the year	58,271	143,260
Cash and cash equivalents at the end of the year	₩ 417	₩ 58,271

(*1) The separate statement of cash flows for the year period ended December 31, 2018 is prepared in accordance with KIFRS 1109; however, the comparative separate statement of cash flows for the year period ended December 31, 2017 was not retrospectively restated to apply KIFRS 1109.

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