

## **IMPORTANT NOTICE**

**NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES EXCEPT TO PERSONS THAT ARE BOTH QUALIFIED INSTITUTIONAL BUYERS AND QUALIFIED PURCHASERS.**

**IMPORTANT: You must read the following notice before continuing.** The following notice applies to the attached offering circular dated 3 July 2024 (the “**Offering Circular**”), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Circular. In reading, accessing or making any other use of the Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Offering Circular, including any modifications made to them from time to time, each time you receive any information from us as a result of such access.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE OFFERING CIRCULAR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE ISSUER HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER AS AN INVESTMENT COMPANY UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”), IN RELIANCE ON THE EXEMPTION PROVIDED IN SECTION 3(c)(7) THEREOF. ACCORDINGLY, THE SECURITIES MAY ONLY BE OFFERED AND SOLD (1) IN THE UNITED STATES TO PERSONS THAT ARE BOTH (A) “QUALIFIED INSTITUTIONAL BUYERS” (“QIBs”) AS DEFINED IN RULE 144A OF THE SECURITIES ACT (“RULE 144A”) AND (B) “QUALIFIED PURCHASERS” (“QPs”) AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND THE RULES AND REGULATIONS THEREUNDER, IN EACH CASE ACTING FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PERSON THAT IS BOTH A QIB AND A QP AND (2) OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) TO PERSONS OTHER THAN U.S. PERSONS (AS DEFINED IN REGULATION S) AND U.S. RESIDENTS (DEFINED AS “U.S. PERSONS” UNDER REGULATION S AS SUCH TERM HAS BEEN INTERPRETED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION STAFF IN THE CONTEXT OF SECTION 7(D) OF THE INVESTMENT COMPANY ACT) (ANY SUCH PERSON, A “U.S. INVESTOR”). THE SECURITIES MAY ONLY BE RESOLD OR TRANSFERRED IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH UNDER “SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS” IN THE ATTACHED OFFERING CIRCULAR.**

**IN ORDER TO BE ELIGIBLE TO ACCESS THE OFFERING CIRCULAR OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU AND ANY ENTITY THAT YOU REPRESENT MUST BE EITHER (A) BOTH A QIB AND A QP THAT IS ACTING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PERSON THAT IS BOTH A QIB AND A QP OR (B) NOT A U.S. INVESTOR PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.**

**WITHIN THE UNITED KINGDOM, THE OFFERING CIRCULAR IS DIRECTED ONLY AT PERSONS WHO (1) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS OR (2) ARE PERSONS FALLING WITHIN ARTICLES 49(2)(A) TO (D) (HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THE OFFERING CIRCULAR MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO**

**ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE OFFERING CIRCULAR RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.**

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

**THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, DELIVERED, OR SOLD, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA (“KOREA”) OR TO ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA AND RULES AND REGULATIONS PROMULGATED THEREUNDER) OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.**

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

The Offering Circular is being sent at your request and by accepting the email and accessing the Offering Circular, you shall be deemed to have made certain acknowledgements, representations and agreements, as set forth under “*Subscription and Sale and Transfer and Selling Restrictions*” in the Offering Circular, including that you and any entity that you represent are either (i) not a U.S. Investor purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S and that the electronic mail address you gave us and to which this email has been delivered is not located in the United States or (ii) a person that is both a QIB and a QP that is acting for its own account or for the account of another person that is both a QIB and a QP and, in each case, that you consent to delivery of the Offering Circular by electronic transmission. You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the managers or any affiliate of the managers is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of Korea Housing Finance Corporation (the “**Issuer**”) in such jurisdiction.

## Notes issued as Green Bonds, Social Bonds or Sustainability Bonds

The final terms relating to a specific tranche of Notes may provide that it is the Issuer's intention to apply an amount equal to the net proceeds of those Notes for projects which finance and/or refinance specified green, social or sustainability projects in accordance with certain prescribed eligibility criteria set out in the Issuer's Sustainable Financing Framework ("**Eligible Projects**"). A prospective investor should have regard to the information set out in the section "Use of Proceeds" and determine for itself the relevance of such information for the purpose of an investment in such Notes together with any other investigation it deems necessary.

No assurance is given by the Issuer or any Dealer that such use of proceeds will satisfy any present or future investment criteria or guidelines with which an investor is required, or intends, to comply, in particular with regard to any direct or indirect environmental or sustainability impact of any project or uses, the subject of or related to, the Issuer's Sustainable Financing Framework. In addition, while it is the intention of the Issuer to apply an amount equal to the net proceeds of any Notes issued as Green Bonds, Social Bonds or Sustainability Bonds for Eligible Projects, there is no contractual obligation to do so. There can be no assurance that any such Eligible Projects will be available or capable of being implemented in the manner anticipated and, accordingly, that the Issuer will be able to use the proceeds for such Eligible Projects as intended.

No assurance can be given that Eligible Projects will meet investor expectations or requirements regarding such "green", "sustainable", "social" or similar labels (including Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the "**EU Taxonomy**") or Regulation (EU) 2020/852 as it forms part of domestic law in the United Kingdom by virtue of the European Union (Withdrawal) Act 2018). Each prospective investor should have regard to the factors described in the Issuer's Sustainable Financing Framework and the relevant information contained in this Offering Circular and seek advice from their independent financial adviser or other professional adviser regarding its purchase of the Notes before deciding to invest.

DNV Business Assurance Korea Ltd. has issued an independent opinion, dated 7 September 2022, on the Issuer's Sustainable Financing Framework (as amended, the "**Second Party Opinion**"). The Second Party Opinion provides an opinion on certain environmental and related considerations is a statement of opinion, not a statement of fact. No representation or assurance is given as to the suitability or reliability of any opinion or certification of any third party made available in connection with an issue of Notes issued as Green Bonds, Social Bonds or Sustainability Bonds. The Second Party Opinion and any other such opinion or certification is not intended to address any credit, market or other aspects of any investment in any Note, including without limitation market price, marketability, investor preference or suitability of any security or any other factors that may affect the value of the Notes. Any such opinion or certification is not a recommendation to buy, sell or hold any such Notes and is current only as of the date it was issued. As at the date of this Offering Circular, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein. The Second Party Opinion and any other such opinion or certification does not form part of, nor is incorporated by reference, in this Offering Circular.

In the event that any such Notes are listed or admitted to trading on a dedicated "green", "sustainable", "social" or other equivalently-labelled segment of a stock exchange or securities market, no representation or assurance is given that such listing or admission satisfies any present or future investment criteria or guidelines with which such investor is required, or intends, to comply. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. No representation or assurance is given or made by that any such listing or admission to trading will be obtained in respect of any such Notes or that any such listing or admission to trading will be maintained during the life of the Notes.

## **Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors**

Prospective investors should be aware that certain intermediaries in the context of certain offerings of the Notes (as defined in this Offering Circular) pursuant to this Programme (as defined in this Offering Circular), each such offering, a “**CMI Offering**”, including certain Dealers, may be “capital market intermediaries” (“**CMIs**”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “**SFC Code**”). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as “overall coordinators” (“**OCs**”) for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association (an “**Association**”) with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealer and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission. Consequently, none of BNP Paribas, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., J.P. Morgan Securities PLC, KB Securities Co., Ltd., Merrill Lynch International, Natixis, Nomura

Singapore Limited, Société Générale, Standard Chartered Bank and UBS AG Hong Kong Branch (the “Dealers”) and the Agents (each as defined in the Offering Circular), nor any person who controls any such entity nor any director, officer, employee, representative, agent, adviser or affiliate of any such entity accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format herewith and the hard copy version available to you on request from the Dealers.

**The distribution of the Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Circular comes are required by the Dealers and the Issuer to inform themselves about, and to observe, any such restrictions.**



## Korea Housing Finance Corporation

(a statutory juridical corporation organised under the laws of the Republic of Korea)

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

### Global Medium Term Note Programme

Under the U.S.\$15,000,000,000 Global Medium Term Note Programme (the “**Programme**”), Korea Housing Finance Corporation (the “**Issuer**”) may from time to time issue notes in accordance with the KHFC Act (as defined in “*Overview of the Programme*”) (the “**Notes**”) denominated in any currency agreed between the Issuer, the Arranger and the relevant Dealer(s) (as defined below). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$15,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), the securities laws of any state of the United States or the securities laws of any other jurisdiction, and the Issuer has not registered and does not intend to register as an “investment company” under the United States Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in reliance upon the exemption provided by Section 3(c)(7) thereof. The Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of any person that is a “**U.S. Person**” within the meaning of Regulation S under the Securities Act (“**Regulation S**”) or a “**U.S. Resident**” (defined as a “**U.S. Person**” under Regulation S, as such term has been interpreted by the U.S. Securities and Exchange Commission Staff in the context of Section 7(d) of the Investment Company Act) (any such person, a “**U.S. Investor**”) unless the purchaser is both (1) a “**qualified institutional buyer**” (a “**QIB**”) within the meaning of Rule 144A under the Securities Act (“**Rule 144A**”) and (2) a “**qualified purchaser**” (a “**QP**”) within the meaning of Section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder, acting for its own account or for the account of another QIB that is a QP (and meets the other requirements set forth herein) (such persons, “**QIB/QPs**”). Notes offered to persons that are not U.S. Investors (“**Non-U.S. Investors**”) will be offered and sold in “offshore transactions” within the meaning of Regulation S not subject to the registration requirements of the Securities Act pursuant to Rule 903 of Regulation S. Notes may not be reoffered, resold, pledged, exchanged or otherwise transferred except in accordance with the restrictions described under “*Subscription and Sale and Transfer and Selling Restrictions*”. The Notes may be issued on a continuing basis to one or more Dealers specified under “*Overview of the Programme*” below and any additional Dealers appointed under the Programme from time to time, which appointment may be for a specific issue (each, a “**Dealer**” and together, the “**Dealers**”). References in this offering circular (this “**Offering Circular**”) to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in connection with the Programme and application will be made for the listing and quotation of any Notes that may be issued pursuant to the Programme and which are agreed, at or prior to the time of issue thereof, to be so listed and quoted on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. There is no assurance that any application to the Official List of the SGX-ST will be approved. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle, admission to the Official List of, and listing and quotation of any of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in the pricing supplement (the “**Pricing Supplement**”).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer, the Arranger and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Notes issued under the Programme are expected on issue to be assigned a rating of “AA” by S&P Global Ratings, a division of S&P Global, Inc. (“**S&P**”) and a rating of “Aa2” by Moody’s Investor Services, Inc. (“**Moody’s**”). The rating of the Notes will be specified in the applicable Pricing Supplement. S&P and Moody’s are established in the European Union and are registered under Regulation (EC) No. 1060/2009, as amended (the “**CRA Regulation**”). As such, each of S&P and Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority (the “**ESMA**”) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

The Issuer may agree with the Arranger and any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes (the “**Conditions**”) herein, in which event an Offering Circular supplement, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes

See “**Risk Factors**”, beginning on page 6, for a discussion of certain factors to be considered in connection with an investment in the Notes.

**THE “RISK FACTORS” SECTION CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE NOTES. PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARIZED IN THAT SECTION.**

#### Arranger

Citigroup

#### Dealers

BNP PARIBAS

Citigroup

HSBC

J.P. Morgan

Natixis

Société Générale Corporate & Investment Banking

BofA Securities

Crédit Agricole CIB

ING

KB Securities

Nomura

Standard Chartered Bank

UBS Investment Bank

**The Notes have not been and will not be registered under the Securities Act, the securities laws of any state of the United States or the securities laws of any other jurisdiction, and the Issuer has not registered and does not intend to register as an “investment company” under the Investment Company Act in reliance upon the exemption provided by Section 3(c)(7) thereof.**

The Issuer accepts responsibility for the information contained in this Offering Circular and the Pricing Supplement (as defined herein) for each Tranche (as defined herein) of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular and the Pricing Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. Certain information relating to exchange rates, the Korean financial industry, the Korean stock markets and the Korean residential mortgage industry has been extracted from public sources such as the Financial Supervisory Service (the “FSS”), the Bank of Korea (the “BOK”), the KRX KOSPI Market of the Korea Exchange (“KRX KOSPI Market”), the Ministry of Land, Infrastructure and Transport and the World Bank, and has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by such public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Citigroup Global Markets Inc. (the “Arranger”), the Dealers or the Agents (as defined in the Conditions) or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, the information or statements contained or incorporated in this Offering Circular or any supplement hereto or any other information provided by the Issuer in connection with the Programme. None of the Arranger, the Dealers or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them accepts any liability in relation to the information provided by the Issuer in connection with the Programme.

To the fullest extent permitted by law, none of the Dealers or the Arranger accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer, the Programme or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorized by the Issuer, any of the Dealers or the Agents to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Arranger, any of the Dealers or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit, taxation or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Arranger, any of the Dealers or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, any of the Dealers or the

Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Arranger, the Dealers or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, any of the Dealers or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required.

Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom (the “UK”), Japan, the Republic of Korea (“Korea”), Singapore, Hong Kong and Canada. See “*Subscription and Sale and Transfer and Selling Restrictions*”.

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (each, a “**Relevant State**”) will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make any offer in that Relevant State of Notes which are the subject of the offering contemplated in this Offering Circular as contemplated by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer, the Arranger, any of the Dealers or the Agents to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. None of the Issuer, the Arranger, the Agents or any of the Dealers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Arranger, the Agents or any of the Dealers to publish or supplement a prospectus for such offer. The expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129.

This Offering Circular has been prepared on the basis that any offer of Notes in the UK will be made pursuant to an exemption under the UK Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make any offer in the

UK of Notes which are the subject of the offering contemplated in this Offering Circular as contemplated by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer, the Arranger, any of the Dealers or the Agents to publish a prospectus pursuant to Article 3 of the UK Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation, in each case, in relation to such offer. None of the Issuer, the Arranger or any of the Dealers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Arranger, the Agents or any of the Dealers to publish or supplement a prospectus for such offer. The expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of domestic law in the UK by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”).

#### **IMPORTANT – EEA RETAIL INVESTORS**

If the Pricing Supplement, in respect of any Notes, includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### **IMPORTANT – UK RETAIL INVESTORS**

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to UK Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (“**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Arranger, the Dealers, the Agents or the Issuer or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. The contents of this Offering Circular should not be construed as providing legal, business or tax advice. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

## **MiFID II Product Governance/Target Market**

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

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

## **UK MIFIR PRODUCT GOVERNANCE/TARGET MARKET**

The Pricing Supplement in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

## **U.S. Information**

This Offering Circular may be distributed on a confidential basis in the United States to a limited number of QIB/QPs in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Global Notes may be offered, sold or delivered within the United States only to QIB/QPs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Registered Global Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.

Each purchaser or holder of Notes represented by a Rule 144A Global Note (as defined in the Agency Agreement) or any Notes issued in registered form in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale and Transfer and Selling Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Summary of Provisions Relating to the Notes While in Global Form*”.

## **Notice to Persons in the United Kingdom**

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Articles 49(2)(a) to (d) of the Order (each such person being referred to as a “**relevant person**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

## **Service of Process and Enforcement of Civil Liabilities**

The Issuer is a corporation organized under the laws of Korea. All of the executive officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may be difficult for investors to effect service of process upon the Issuer or such persons within the United States, or to enforce judgments against them obtained in U.S. courts predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Kim & Chang, its counsel, that there is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

## **Stabilisation**

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

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKET ACT OF KOREA. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED IN KOREA OR TO ANY RESIDENT OF KOREA (AS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE) OR TO ANY OTHER PERSON FOR OFFER, RESALE OR RE-DELIVERY DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA, EXCEPT AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

## **Presentation of Financial and Other Information**

The Issuer maintains its financial books and records and prepares its financial statements in Won in accordance with International Financial Reporting Standards as adopted by Korea (“**Korean IFRS**”), which differ in certain important respects from generally accepted accounting principles in other countries, including the generally accepted accounting principles in the United States (“**U.S. GAAP**”).

As a result, the Issuer’s results under Korean Government-controlled Corporation Accounting Standards as of and for the years ended 31 December 2023 and 2022 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

Unless otherwise stated, the financial data contained in this Offering Circular as of and for the years ended 31 December 2023 and 2022 are derived from the Issuer’s audited annual consolidated financial statements included herein which have been prepared in accordance with Korean IFRS.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

All references in this document to “Won”, “KRW” and “₩” refer to the currency of Korea, those to “U.S. dollars”, “US\$” and “\$” refer to the currency of the United States of America, those to “S\$” refer to the currency of Singapore, those to “Hong Kong dollar” and “HK\$” refer to the currency of the Hong Kong Special Administrative Region of the People’s Republic of China, those to “Tenge” refer to the currency of the Republic of Kazakhstan, those to “Sterling” and “£” refer to the currency of the United Kingdom and those to “€” and “euro” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the functioning of the European Union, as amended.

For convenience only, certain Won amounts in this Offering Circular have been translated into U.S. dollars. The table below sets out, for the periods and dates indicated, information concerning the base rate under the market average exchange rate system, announced by the Seoul Money Brokerage Services, Ltd., between U.S. dollars and Won rounded to the nearest tenth of one Won (the “**Market Average Exchange Rate**”). Unless indicated otherwise, the translations of Won into U.S. dollars in this Offering Circular have been made at the rate of ₩1,289.4 to US\$1.00, which was the Market Average Exchange Rate as of 31 December 2023. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Year ended 31 December	Low	High	Average <sup>(1)</sup>	Period-end
			(Won per U.S.\$1.00)	
2019 .....	1,111.6	1,218.9	1,165.7	1,157.8
2020 .....	1,082.7	1,280.1	1,180.1	1,088.0
2021 .....	1,083.1	1,199.1	1,144.4	1,185.5
2022 .....	1,185.5	1,436.6	1,292.0	1,267.3
2023 .....	1,219.3	1,360.6	1,305.4	1,289.4
2024 (through 2 July) .....	1,289.4	1,395.3	1,350.0	1,380.8
January .....	1,289.4	1,343.2	1,323.6	1,330.6
February .....	1,325.1	1,337.9	1,331.7	1,334.0
March .....	1,311.1	1,346.8	1,330.7	1,346.8
April .....	1,346.8	1,395.3	1,367.8	1,378.7
May .....	1,349.4	1,378.5	1,365.4	1,376.5
June .....	1,366.9	1,390.1	1,380.1	1,389.2
July (through 2 July) .....	1,380.8	1,382.4	1,381.6	1,380.8

Source: Seoul Money Brokerage Services, Ltd.

Note:

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

### Forward-Looking Statements

The Issuer has included statements in this Offering Circular which contain words and phrases such as “aim”, “anticipate”, “assume”, “believe”, “contemplate”, “continue”, “estimate”, “expect”, “future”, “goal”, “intend”, “may”, “objective”, “plan”, “predict”, “positioned”, “project”, “risk”, “seek to”, “shall”, “should”, “will likely result”, “will pursue”, “plan” and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Issuer’s expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings “*Risk Factors*” and “*Korea Housing Finance Corporation*” regarding the Issuer’s financial condition and other future events or prospects are

forward-looking statements. All forward-looking statements are the Issuer's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to the Issuer's business discussed under "*Risk Factors*", other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- the Issuer's ability to successfully implement its strategy;
- future levels of non-performing loans;
- the Issuer's growth and expansion;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- the Issuer's exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Issuer's income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realised.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular could include, but are not limited to:

- general economic and political conditions in Korea or other countries that have an impact on the Issuer's business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- unanticipated volatility in interest rates;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;

- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Offering Circular. Except as required by law, the Issuer is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to the Issuer or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Offering Circular.

### **Offering Circular Supplement**

The Issuer will, in connection with the listing and quotation of the Notes on the SGX-ST, so long as the rules of the SGX-ST so require, in the event of any material change which is not reflected in this Offering Circular, prepare a further supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the SGX-ST.

The Issuer has given an undertaking to the Arranger that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Offering Circular which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Offering Circular is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer shall prepare a supplement to this Offering Circular or publish a replacement Offering Circular for use in connection with any subsequent offering of the Notes and shall supply to the Arranger and each Dealer such number of copies of such supplement hereto as the Arranger and such Dealer may reasonably request.

### **Available Information**

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated 4 August 2023 (the “**Deed Poll**”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

### **Benchmarks Regulation**

Amounts payable under the Notes may be calculated by reference to the Euro Interbank Offered Rate (“**EURIBOR**”) which is provided by the European Money Markets Institute (“**EMMI**”) or any other benchmark, in each case as specified in the applicable final terms. As at the date of this Offering Circular, the administrator of EURIBOR, EMMI, is included on the register of administrators and benchmarks (the “**ESMA Benchmarks Register**”) established and maintained by the ESMA pursuant to Article 36 of Regulation (EU) No. 2016/1011 (as amended, the “**Benchmarks Regulation**”).

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## OVERVIEW OF THE PROGRAMME

The following description does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Offering Circular have the same meanings in this overview.

<b>Issuer</b> . . . . .	Korea Housing Finance Corporation (the “ <b>Issuer</b> ”) is wholly owned, directly and indirectly, by the Government of Korea and was established pursuant to the Korea Housing Finance Corporation Act No. 7030, 31 December 2003 (the “ <b>KHFC Act</b> ”). KHFC is, as stated above, rated “AA” by S&P and “Aa2” by Moody’s. For further information about the Issuer, see “ <i>Korea Housing Finance Corporation</i> ”.
<b>Description</b> . . . . .	U.S.\$15,000,000,000 Global Medium Term Note Programme.
<b>Arranger</b> . . . . .	Citigroup Global Markets Inc.
<b>Dealers</b> . . . . .	BNP Paribas, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., J.P. Morgan Securities PLC, KB Securities Co., Ltd., Merrill Lynch International, Natixis, Nomura Singapore Limited, Société Générale, Standard Chartered Bank, UBS AG Hong Kong Branch and others as appointed by the Issuer for a specific issue of Notes.
<b>Principal Paying Agent, Transfer Agent, Calculation Agent and Paying Agent</b> . . . . .	Citibank, N.A., London Branch.
<b>Registrar</b> . . . . .	Citicorp International Limited.
<b>CMU Lodging and Paying Agent</b> . . . . .	Citicorp International Limited.
<b>Programme Size</b> . . . . .	The aggregate principal amount of Notes outstanding at any time will not exceed U.S.\$15,000,000,000 (or its equivalent in another currency calculated as described herein). The Programme size may be increased from time to time without the consent of the holders of Notes.
<b>Currencies</b> . . . . .	Any currency agreed between the Issuer, the Arranger and the relevant Dealer(s), subject to any applicable legal or regulatory restrictions (a “ <b>Specified Currency</b> ”).
<b>Status</b> . . . . .	The Notes will constitute direct, unconditional, and (subject to Condition 4) unsecured obligations of the Issuer which will rank <i>pari passu</i> among themselves and will rank at least <i>pari passu</i> with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.
<b>Maturities</b> . . . . .	Such maturities as may be agreed between the Issuer, the Arranger and the relevant Dealer(s), subject to such minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

**Issue Price.** . . . . . The Notes may be issued at par, or at a discount to, or at a premium over, par as specified in the relevant Pricing Supplement. The price and amount of the Notes to be issued will be determined by the Issuer, the Arranger and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

**Form of Notes** . . . . . The Notes may be issued in bearer (the “**Bearer Notes**”) or registered form (the “**Registered Notes**”). Registered Notes will not be exchangeable for Bearer Notes and vice versa.

Unless otherwise specified in the applicable Pricing Supplement, the Notes offered in the United States to QIB/QPs in reliance on Rule 144A will be represented by one or more Rule 144A Global Notes (as defined in the Agency Agreement) and the Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes (as defined in the Agency Agreement), if in registered form, or Bearer Global Notes (as defined in the Agency Agreement), if in bearer form. Copies of the Rule 144A Global Notes, Regulation S Global Notes and Bearer Global Notes will be available for inspection at the specified office of the Paying Agent.

Rule 144A Global Notes and Regulation S Global Notes (together, the “**Registered Global Notes**”) representing the Notes will either (i) be held by or on behalf of Euroclear Bank SA/NV (“**Euroclear**”), Clearstream Banking S.A. (“**Clearstream, Luxembourg**”), Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (“**CMU**”) and/or Depository Trust Company (“**DTC**”) for the benefit of participants in Euroclear, Clearstream, Luxembourg, CMU and/or DTC or (ii) be registered in the name of a nominee for, and deposited with, the Common Depository. Bearer Global Notes representing the Notes will be deposited with the Common Depository, each as specified in the relevant Pricing Supplement.

**Denomination of Notes** . . . . . The Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to: (i) a minimum denomination of U.S.\$200,000 (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof in such foreign currency, rounded down to the nearest 1,000 units of such foreign currency, but so that in no event will the minimum denomination be lower than €100,000 or its equivalent at the date of issue of the relevant Notes) and integral multiples of U.S.\$1,000 (or, in the case of Notes not denominated in U.S. dollars, 1,000 units of such foreign currency) in excess thereof; and (ii) compliance with all applicable legal and/or regulatory and/or central bank requirements.

**Interest** . . . . . The Notes may be issued at fixed rate, floating rate or zero coupon, as provided in the relevant Pricing Supplement.

**Yield to Maturity Date (Fixed Rate Notes only)** . . . . . The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**Interest Payments** . . . . . Interest may be paid monthly, quarterly, semi-annually, annually or at such other intervals as are described in the applicable Pricing Supplement.

<b>Redemption . . . . .</b>	<p>The applicable Pricing Supplement will indicate the scheduled maturity date of the Notes (the “<b>Maturity Date</b>”). The Notes are redeemable at par.</p> <p>The Notes may, or in certain cases must, be redeemed by the Issuer prior to the Maturity Date. Early redemptions of the Notes will be made without premium or penalty.</p> <p>For further information about the early redemption of the Notes, see “<i>Terms and Conditions of the Notes – Condition 7 (Redemption and Purchase)</i>”.</p> <p>Early redemption at the option of the Issuer will be permitted only to the extent specified in the relevant Pricing Supplement. Notes denominated in Sterling may not be redeemed prior to one year and one day from the date of issue unless the redemption value of each such Note is not less than £100,000.</p>
<b>Taxation . . . . .</b>	<p>All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction (as defined in the Conditions) unless such withholding or deduction is required by law. If such withholdings or deductions are required by law, the Issuer will in certain circumstances pay certain additional amounts as described in, and subject to exceptions set out in, the Conditions.</p>
<b>Further Issues . . . . .</b>	<p>Subject as provided in the Conditions and the Transaction Documents (as defined in “<i>General Information</i>” of this Offering Circular), the Issuer may from time to time, without the consent of the Noteholders of Notes of any Series, create and issue further securities having the same terms and conditions as any Series of Notes in all respects (or in all respects except for the amount of the first payment of interest, if any, on them), which will be consolidated and form a single Series with the outstanding Notes of such Series.</p>
<b>Negative Pledge . . . . .</b>	<p>The terms of the Notes will contain a negative pledge provision as further described in Condition 4.</p>
<b>Cross-Acceleration . . . . .</b>	<p>The terms of the Notes will contain a cross-acceleration provision as further described in Condition 10.</p>
<b>Listing and Admission to Trading . . . . .</b>	<p>Approval in-principle has been received from the SGX-ST in connection with the Programme and application will be made for the listing and quotation of any Notes that may be issued pursuant to the Programme and which are agreed, at or prior to the time of issue thereof, to be so listed and quoted on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. There is no assurance that any application to the Official List of the SGX-ST will be approved. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle, admission to the Official List of, and listing and quotation of any of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.</p>

The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000 (or its equivalent in foreign currencies).

Notes may also be issued under the Programme on an unlisted basis or be admitted to listing, trading and/or quotation by other stock exchanges, listing authorities and/or quotation by other stock exchanges, listing authorities and/or quotation systems, and the Pricing Supplement applicable to a Series will specify whether or not the Notes of such Series will be admitted for listing and quotation on the SGX-ST or admitted to listing, trading and/or quotation by any other stock exchange, listing authority and/or quotation system.

**Use of Proceeds . . . . .** The Issuer expects to use the net proceeds from each issue of Notes for its general corporate purposes or as otherwise described by the Issuer at the time of offering. See “*Use of Proceeds*”.

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

**Selling Restrictions . . . . .** The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold, directly or indirectly within the United States or to or for the benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, there are certain restrictions on the offer, sale and transfer of the Notes in the European Economic Area and the United Kingdom, and such other restrictions as may be required in connection with the offer and sale of a particular Series of Notes. See “*Subscription and Sale and Transfer and Selling Restrictions*”.

Bearer Notes will be issued in compliance with U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (“**TEFRA D**”) unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with U.S. Treas. Reg. § 1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of section 4701 of the Code) (“**TEFRA C**”) or (ii) other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Bearer Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the applicable Pricing Supplement as a transaction to which TEFRA is not applicable.

<b>ERISA Considerations . .</b>	Except as otherwise set forth in the relevant Pricing Supplement, the Notes may generally be acquired by an “employee benefit plan” (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ <b>ERISA</b> ”)) subject to Title I of ERISA, a “plan” as defined in and that is subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “ <b>Code</b> ”), any entity or account whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, “plan assets” by reason of such employee benefit plan or plans’ investment in the entity or account, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to Section 406 of ERISA or Section 4975 of the Code (“ <b>Similar Law</b> ”), provided that such purchase and holding of the Notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, a violation of any such Similar Law). Each purchaser and/or holder of the Notes and each transferee thereof will be deemed to have made certain representations regarding these matters. Potential purchasers should read the sections entitled “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ” and “ <i>United States ERISA Considerations</i> ”.
<b>Government Loss Absorption . . . . .</b>	The KHFC Act provides that the Government will, at the end of KHFC’s fiscal year, cover any losses incurred by KHFC and not otherwise covered by other financial reserves of KHFC. For further information, see “ <i>The Korea Housing Finance Corporation Act</i> ”.
<b>Terms and Conditions . .</b>	The terms and conditions applicable to each Series will be as agreed between the Issuer, the Arranger and the relevant Dealer(s) at or prior to the time of issuance of such Series and will be specified in the relevant Pricing Supplement. The terms and conditions applicable to each Series will therefore be those set out in this Offering Circular, as supplemented, modified or replaced by the relevant Pricing Supplement in relation to each Series.
<b>Risk Factors . . . . .</b>	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes. These are set out under the heading “ <i>Risk Factors</i> ”. Investors should carefully consider these risk factors and all of the information in this Offering Circular before deciding to buy Notes.

## **RISK FACTORS**

### **Risks Relating to the Issuer**

#### ***The nature of the Issuer***

The Issuer is a Government-controlled financial enterprise, engaged in the business of, among other things, acquiring and securitising mortgage loans. As such, the Issuer has numerous financial counterparties who owe obligations to it and to whom it owes obligations. The Issuer may, from time to time, have disputes with these counterparties, as would be the case for any other commercial enterprise, and as such faces the possibility of loss, liability or disruption of its operations, all of which could have a bearing on its ability to pay interest on or repay the principal of the Notes. The Issuer is not a special purpose vehicle which has been established and structured for the purpose of the issuance of Notes, and so there can be no assurance that these losses, liabilities and disputes will be limited as they would typically be in the context of a special purpose vehicle.

#### ***The economic conditions in Korea***

The commercial operations of the Issuer are undertaken almost exclusively in Korea, though the Issuer does raise some of its funding outside Korea. As such, these commercial operations are influenced by the performance of the Korean economy. Particular factors that could have a bearing on the Issuer are the level of interest rates and the level of unemployment in Korea. An increase in interest rates could diminish the value of the Issuer's mortgage loans. Rising interest rates could also result in greater delinquencies and defaults by borrowers with other, floating rate, debt service obligations and it could affect the demand for mortgage loans. An increase in unemployment could also result in greater delinquencies and defaults by borrowers.

As a significant part of the Issuer's funding is raised in the Korean capital markets, any material decline in available liquidity could also have a bearing on the commercial operations of the Issuer, in particular its ability to purchase additional mortgage loans.

There can be no assurance that the economic environment in Korea will not change adversely during the term of the Notes, with a simultaneous impact on the Issuer's commercial operations, particularly since the Korean economy is highly dependent on exports of various goods and its performance depends, to a significant extent, on the economic performance of its trading partners.

#### ***Real estate market impact***

The Issuer is particularly exposed to fluctuations in performance of the Korean residential real estate market.

Residential real estate prices in Korea rose significantly from 2018 to 2021 but have recently started falling in response to inflation and actions by the Government in an effort to cool the housing market in the last few years. Based on the Korean Statistical Information Service, as of the end of December 2018, house prices were up 1.1% compared to the end of 2017. As of the end of December 2019, house prices were up down 0.4% compared to the end of 2018. As of the end of December 2020, house prices were up 5.4% compared to the end of 2019. As of the end of December 2021, house prices were up 9.9% compared to the end of 2020. Due to policy rate hikes by the Bank of Korea in response to inflationary pressures, the upward trend was compromised in 2022 as house prices were down 4.7% as of the end of December 2022, compared to the end of 2021. As of the end of December 2023, house prices were down 3.5% compared to the end of 2022.

Declines in demand for, or falls in the price of, residential real estate in Korea could have a significant impact on the business of the Issuer, reducing both its income from collections of interest and principal payments and the value of the properties securing the Issuer's mortgage loans.

### ***Changes in liquidity***

In addition to its equity capital, which is contributed by its shareholders, the Issuer currently funds its commercial operations substantially through the issuance of debt instruments to investors in the Korean capital markets. Such debt instruments include both MBS and, to a lesser extent, corporate debt securities and mortgage-backed bonds in the nature of the Notes. The investors include investment funds, financial institutions, such as insurance companies and private pension providers, and other institutional investors. The amount of funding that such investors have for investment purposes fluctuates from time to time, as does their appetite for particular investments, such as the debt instruments issued by the Issuer. There can be no assurance that, in the future, the Issuer will have access to the same levels of liquidity from investors as it has in the past, which would have a bearing on its commercial operations.

### ***Future changes in market conditions as well as other factors may lead to increases in delinquency levels of the Issuer's loan portfolio***

In recent years, consumer debt has increased rapidly in Korea. The average principal balance of mortgage loans held by the Issuer significantly increased from 2006 to December 2022. The Issuer's portfolio of mortgage loans increased from ₩151.7 trillion as of 31 December 2021 to ₩156.0 trillion as of 31 December 2022 and to ₩179.7 trillion as of 31 December 2023. The growth of the Issuer's portfolio of mortgage loans contributed significantly to its interest income and profitability in 2006 to December 2022.

The Issuer's large exposure to mortgage loans means that it is, as described above, exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that hurt consumers could result in a deterioration in the credit quality of the Issuer's retail loan portfolio. For example, the severe impact of the global COVID-19 pandemic on the Korean economy has disrupted the business, activities and operations of consumers, which in turn could result in a significant decrease in the number of financial transactions or the inability of the Issuer's customers to meet existing payment or other obligations to the Issuer. In addition, a rise in unemployment, an increase in interest rates, a reduction in consumer income, a downturn in the real estate market, or a general contraction or other difficulties in the Korean economy that have an adverse effect on Korean consumers could result in reduced growth and deterioration in the credit quality of the Issuer's mortgage loan portfolio. Any such adverse changes in the market conditions, as well as other factors, may lead to the credit quality of the Issuer's mortgage loan portfolio deteriorating, which may have a material adverse effect on its financial condition and results of operations, including its ability to pay interest on and repay the principal of the Notes.

### ***The Issuer is exposed to the credit worthiness of counterparties that are financial institutions***

A number of the Issuer's commercial counterparties are financial institutions. Its dealings with these financial institutions involve both funding and risk management transactions, specifically various types of derivatives transactions, which expose the Issuer to the creditworthiness of these counterparties. The extent of the resulting credit exposure depends on the structure and terms of the particular transaction. The credit exposure of derivative financial instruments, in particular, corresponds to the potential replacement costs that could arise from having to acquire an equivalent position in the event of a counterparty default. Whilst the Issuer seeks to manage these risk exposures through both its selection of counterparties and contractual protections typically provided in derivatives documentation by means of collateralisation, netting and selective termination, as well as by placing concentration limits on particular counterparty exposures, there can be no assurance that the cost of these exposures to the Issuer will not be significant, which could negatively affect the ability of the Issuer to pay interest on and repay the principal of the Notes.

***Volatility in interest rates such as a considerable increase in interest rates could raise the Issuer's funding costs while reducing loan demand, which, as a result, could adversely affect the Issuer***

On 26 August 2021, the Bank of Korea raised its policy rate to 0.75% from 0.50% to 1.00% on 25 November 2021, to 1.25% on 14 January 2022, to 1.50% on 14 April 2022, to 1.75% on 26 May 2022, to 2.25% on 13 July 2022, to 2.50% on 25 August 2022, to 3.00% on 12 October 2022, to 3.25% on 24 November 2022 and to 3.50% on 13 January 2023, in response to rising levels of household debt and inflationary pressures.

There can be no assurance that interest rates will not increase further in the future. The majority of mortgage loans that the Issuer holds pay interest at a fixed rate, either at the outset or after a certain period of time. A considerable increase in market interest rates would lead to a decline in the value of the mortgage loans in the Issuer's portfolio as well as the value of any fixed rate debt securities either issued or held by the Issuer.

Further, volatility in interest rates such as an increase in interest rates could raise the Issuer's own funding costs, while reducing demand among potential borrowers for new loans. A considerable rise in interest rates may therefore require the Issuer to rebalance its assets and liabilities in order to minimise the risk of potential mismatches and maintain the Issuer's profitability.

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

Pursuant to the capital adequacy requirements of the Financial Services Commission of Korea (the "FSC"), the Issuer is required to maintain a minimum core capital adequacy ratio of 6% of its risk-weighted assets. The core capital is equivalent to the common equity Tier I capital under Basel III capital adequacy requirements primarily consisting of common stock, capital surplus, retained earnings and other comprehensive income. As at each of 31 December 2022 and 2023, the Issuer's core capital adequacy ratio exceeded the minimum levels required by the FSC. However, the Issuer's capital base and capital adequacy ratio may deteriorate in the future if its results of operations or financial condition deteriorate for any reason, including as a result of deterioration in the asset quality of the mortgage loans in the portfolio, or if it is not able to deploy its funding into suitably low-risk assets. Further, it is possible that the minimum capital adequacy ratio applicable to the Issuer may be increased as a result of regulatory developments.

If the Issuer's capital adequacy ratio deteriorates or the minimum capital adequacy ratio is increased, the Issuer may need to increase its core capital in order to remain in compliance with the applicable capital adequacy requirements. The Issuer may not be able to obtain additional capital on favourable terms, or at all. The Government is the principal source of equity capital for the Issuer and it is therefore dependent on the ability and the willingness of the Government to make such capital contributions. The Issuer cannot seek equity capital from private sources.

***Government Control and Support***

The Issuer is, as described above, a Government-controlled entity which has been established and operates under the provisions of the KHFC Act. One of the provisions of the KHFC Act requires that the Government covers any losses that the Issuer may incur if the Issuer's reserves are insufficient to cover such losses. While this level of support from the Government provides comfort that the Issuer will be able to meet its liabilities relating to the issuance of the Notes, there can be no assurance that this level of support will not be reduced in the future. That said, the Issuer plays an important public policy function in helping to provide housing finance to low- and middle-income households in Korea and it is not aware, as of the date of this Offering Circular, of any proposals to reduce the level of support that it receives under the existing provisions of the KHFC Act.

As a Government-controlled entity with a distinct public policy mandate, there can be no assurance that the Issuer will make decisions in the same way as a privately-owned entity, and its commercial decision-making may be subject to consideration of its public policy mandate, which is to increase the availability of housing finance to low- and middle-income households in Korea. Government mandated changes to its underwriting standards, for example, could lead to deterioration in the quality of its mortgage portfolio, potentially impacting its ability to pay interest on and repay the principal of the Notes.

#### **Other risks relating to the Issuer's business**

*The Issuer is generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries*

Companies in Korea, including the Issuer, are subject to Korean corporate governance standards which may differ in some respects from standards applicable in other countries, including the United States. There may also be less publicly available information about Korean companies than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less informative and transparent than those in other countries.

*The Issuer's consolidated financial statements prepared under Korean IFRS in accordance with Korean Government-controlled Corporation Accounting Standards in this Offering Circular may differ from those prepared under U.S. GAAP and the Issuer does not prepare interim financial information in accordance with Korean Government-controlled Corporation Accounting Standards or any financial information under U.S. GAAP*

The Issuer has included consolidated financial statements prepared under Korean IFRS in accordance with Korean Government-controlled Corporation Accounting Standards in this Offering Circular. In addition, the Issuer is not required to, and it does not, prepare interim financial information in accordance with Korean Government-controlled Corporation Accounting Standards or any financial information under U.S. GAAP. U.S. GAAP differs in certain material respects from Korean Government-controlled Corporation Accounting Standards, particularly with respect to the establishment of loan loss allowance. As a result of those differences, the Issuer's financial results under Korean Government-controlled Corporation Accounting Standards as of and for the years ended 2022 and 2023 may differ significantly from comparable figures under U.S. GAAP for these and future periods. The Issuer has made no attempt to quantify the impact of those differences.

This Offering Circular does not contain a reconciliation of the financial statements of the Issuer to U.S. GAAP, and there can be no assurance that such reconciliation would not reveal material differences between Korean Government-controlled Corporation Accounting Standards and U.S. GAAP.

#### **Risks Relating to the Notes**

*The Notes are unsecured obligations*

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

- the Issuer enters into bankruptcy, liquidation, rehabilitation or other winding-up proceedings;
- there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events occurs, the Issuer's assets may not be sufficient to pay amounts due on any of the Notes. In addition, any secured indebtedness incurred by the Issuer would have priority over the Issuer's unsecured indebtedness to the extent of the assets securing such indebtedness.

***The Korea Finance Housing Corporation Act is untested***

The KHFC Act provides that the Government will cover losses that may be incurred by KHFC at the end of each year, if reserves otherwise available to KHFC are not sufficient to cover such losses. The provisions of Article 51 of the KHFC Act do not, however, constitute a direct guarantee by the Government of KHFC's obligations and the scope of the provision has not been tested in the Korean courts.

In addition, there can be no certainty that the terms of the KHFC Act will not in the future be amended by the National Assembly of Korea or whether any such amendment would have a negative effect on the Issuer.

***The Notes may not be a suitable investment for all investors***

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement to this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such potential investor's financial activities are principally denominated;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Notes, which are complex financial instruments, unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***The ratings assigned to the Notes may be lowered or withdrawn in the future***

The Notes issued under the Programme are expected to be rated "AA" by S&P and "Aa2" by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. The Issuer cannot assure investors that a rating assigned to the Notes will remain for any given period of time or that a rating assigned to the Notes will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. The Issuer has no obligation to inform holders of Notes of any such revision, suspension or withdrawal. A revision, suspension, or withdrawal at any time of a rating assigned to the Notes may adversely affect the market price of the Notes.

### ***Notes are not in physical form***

Unless the Registered Global Notes are exchanged for Notes in definitive form (“**Definitive Notes**”), which exchange will only occur in the limited circumstances set out therein, the beneficial ownership of the Notes will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg, CMU and/or DTC. The fact that the Notes are not represented in physical form could, among other things:

- (a) result in payment delays on the Notes because distributions on the Notes will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg, CMU or DTC instead of directly to Noteholders;
- (b) make it difficult for Noteholders to grant security over the Notes as if Notes in physical form are required or necessary for such purposes; and
- (c) hinder the ability of Noteholders to resell the Notes because some investors may be unwilling to buy the Notes that are not in physical form.

### ***Notes are subject to Early Redemption***

The principal amount of the Notes is scheduled to be repayable only on their Maturity Date. Notwithstanding this, the Conditions allow or require the Issuer to repay the Notes prior to their scheduled maturity under certain circumstances without premium or penalty. These circumstances include:

- (a) where the Issuer becomes obliged to make increased payments on the Notes because of the imposition of withholding or other tax-related reasons;
- (b) where a change of control occurs in relation to the Issuer; and
- (c) where certain changes occur to the KHFC Act.

There can be no assurance that the circumstances permitting or requiring such early redemption will not occur. An early redemption would result in Noteholders receiving their principal prior to scheduled maturity.

### ***The Issuer may issue Fixed/Floating Rate Notes***

Fixed/Floating Rate Notes (as defined in the Conditions) may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on the rest of the Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on the rest of the Notes.

### ***The Notes are subject to transfer restrictions***

The Notes have not been and will not be registered under the Securities Act, the securities laws of any state of the United States or the securities laws of any other jurisdiction and are being issued and sold in reliance on exemptions from registration provided by such laws and may only be transferred in a transaction that does not make the Issuer subject to the registration requirements of the Investment Company Act. Therefore, no Note may be sold or transferred unless such sale or transfer is in compliance with the transfer restrictions described under “*Subscription and Sale and Transfer and Selling Restrictions*”.

For a further discussion of the transfer restrictions applicable to the Notes, see “*Subscription and Sale and Transfer and Selling Restrictions*”.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor in the Notes should consult its own legal advisers to determine whether and to what extent (i) the Notes are investments that it may lawfully make, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of, or grant of security over, any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

***The Notes are obligations of the Issuer only***

The Notes will constitute obligations of the Issuer. An investment in the Notes involves a reliance on the creditworthiness of the Issuer. The Notes are not guaranteed by any member of KHFC or any other person. In particular, the Notes will not represent an obligation or be the responsibility of any of the Arranger, the Dealers, the Agents or any other party to the Transaction Documents, their respective affiliates, directors, employees, agents, representatives, officers or advisers or any person who controls any of them, other than the Issuer.

In addition, an investment in the Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value or ratings of the relevant Notes.

***The Notes may have limited liquidity***

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Issuer’s results of operations, financial condition and credit ratings;
- political and economic developments in and affecting Korea;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial sector.

Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

*Notes issued as Green Bonds, Social Bonds or Sustainability Bonds may not be a suitable investment for all investors seeking exposure to green assets, social assets or sustainability assets*

The Issuer may issue Notes under the Programme which are specified to be “Green Bonds,” “Social Bonds” or “Sustainability Bonds” in the applicable Pricing Supplement (any such Notes, “**Green Bonds**”, “**Social Bonds**” or “**Sustainability Bonds**”, respectively), in accordance with the Issuer’s Sustainable Financing Framework. In connection with an issue of Green Bonds, Social Bonds or Sustainability Bonds, the Issuer may request a sustainability rating agency or sustainability consulting firm to issue an independent opinion (a “**Second Party Opinion**”) confirming that the Sustainable Financing Framework and any Green Bonds, Social Bonds or Sustainability Bonds are in alignment with the International Capital Market Association’s Green Bond Principles 2021 (the “**ICMA Green Bond Principles**”), Social Bond Principles 2021 (the “**ICMA Social Bond Principles**”) or Sustainability Bond Guidelines 2021 (the “**ICMA Sustainability Bond Guidelines**”). The ICMA Green Bond Principles, the ICMA Social Bond Principles and the ICMA Sustainability Bond Guidelines are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond, social bond and sustainability bond markets. The contents of the Sustainable Financing Framework do not form part of this Offering Circular or the applicable Pricing Supplement and are not incorporated by reference in this Offering Circular or the applicable Pricing Supplement.

There is currently no market consensus on what precise attributes are required for a particular project to be defined as “green,” “social” or “sustainability,” and therefore no assurance can be provided to potential investors that the eligible green projects under the Eligible Green Project Categories in the Sustainable Financing Framework (the “**Eligible Green Projects**”), the eligible social projects under the Eligible Social Project Categories in the Sustainable Financing Framework (the “**Eligible Social Projects**”) or the eligible projects under a combination of the two categories in the case of Sustainability Bonds (the “**Eligible Sustainability Projects**”) will continue to meet the relevant eligibility criteria. Accordingly, no assurance can be given to investors that any adverse environmental, social and/or other impacts will not occur during the operation of any Eligible Green Projects, Eligible Social Projects or Eligible Sustainability Projects. Although applicable green projects, social projects or sustainability projects are expected to be selected in accordance with the categories recognized by the ICMA Green Bond Principles, the ICMA Social Bond Principles or the ICMA Sustainability Bond Guidelines and are expected to be developed in accordance with applicable legislation and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such green projects, social projects or sustainability projects. Where any negative impacts are insufficiently mitigated, green projects, social projects or sustainability projects may become controversial, and/or may be criticized by activist groups or other stakeholders.

Potential investors should be aware that any Second Party Opinion will not be incorporated into, and will not form part of, this Offering Circular or the applicable Pricing Supplement. Any such Second Party Opinion may not reflect the potential impact of all risks related to the structure of the relevant Series of Green Bonds, Social Bonds or Sustainability Bonds, their marketability, trading price or liquidity or any other factors that may affect the price or value of the Green Bonds, Social Bonds or Sustainability Bonds. Any such Second Party Opinion is not a recommendation to buy, sell or hold securities and is only current as of its date of issue and may be updated, suspended or withdrawn at any time. Currently, the providers of second-party opinions and certifications are not subject to any regulatory regime or oversight. Furthermore, investors will have no recourse against the provider of the second party opinion.

Furthermore, although the Issuer may agree at the relevant issue date of any Green Bonds, Social Bonds or Sustainability Bonds to allocate the amount equal to the net proceeds towards the financing and/or refinancing of Eligible Green Projects, Eligible Social Projects or Eligible Sustainability Projects in accordance with certain prescribed eligibility criteria as described under the Issuer’s Sustainable Financing Framework, it would not be an event of default under the Green Bonds, Social Bonds or

Sustainability Bonds if (i) the Issuer were to fail to comply with such undertaking or were to fail to allocate the proceeds in the manner specified in the applicable Pricing Supplement and/or (ii) any Second Party Opinion issued in connection with such Green Bonds, Social Bonds or Sustainability Bonds were to be withdrawn. A withdrawal of such Second Party Opinion or any failure to allocate the net proceeds of any Series of Green Bonds, Social Bonds or Sustainability Bonds in connection with green projects, social projects or sustainability projects and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally or socially focused investors with respect to such Green Bonds, Social Bonds or Sustainability Bonds may affect the value and/or trading price of the Green Bonds, Social Bonds or Sustainability Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green assets, social assets or sustainability assets.

No assurance can be provided that the use of the proceeds of any Series of Green Bonds, Social Bonds or Sustainability Bonds will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects, Eligible Social Projects or Eligible Sustainability Projects. In the event that any Series of Green Bonds, Social Bonds or Sustainability Bonds are included in any dedicated “green”, “environmental”, “sustainable” or other equivalently-labelled index, no assurance is given by the Issuer or any other person that such listing or admission, or inclusion in such index, satisfies any present or future investor expectations or requirements as regards to any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable laws or regulations or by its own constitutive documents or other governing rules or investment portfolio mandates. Each potential investor should have regard to the factors described in the Sustainable Financing Framework.

None of the Issuer or the Dealers make any representation as to the suitability for any purpose of any Second Party Opinion or whether any Green Bonds, Social Bonds or Sustainability Bonds fulfil the relevant environmental, social or sustainable criteria. Moreover, no assurance can be provided with respect to the suitability or reliability of any Second Party Opinion or that any Green Bonds, Social Bonds or Sustainability Bonds will fulfil the criteria to qualify as green, social or sustainability bonds. The Dealers have not undertaken, nor are responsible for, any assessment of the eligibility of the assets within the definition of Eligible Green Projects, Eligible Social Projects or Eligible Sustainability Projects or the monitoring of the use of proceeds from the offering of any Green Bonds, Social Bonds or Sustainability Bonds. Prospective investors should have regard to the relevant Eligible Green Projects, Eligible Social Projects or Eligible Sustainability Projects and the use of proceeds described in the applicable Pricing Supplement. Each potential purchaser of any Series of Green Bonds, Social Bonds or Sustainability Bonds should determine for itself the relevance of the information contained in this Offering Circular and in the applicable Pricing Supplement regarding the use of proceeds and its purchase of any Green Bonds, Social Bonds or Sustainability Bonds should be based upon such investigation as it deems necessary.

***The Notes may be represented by Bearer Global Notes or Registered Global Notes and holders of a beneficial interest in a Bearer Global Note or a Registered Global Note must rely on the procedures of the relevant Clearing System(s)***

Notes issued under the Programme may be represented by one or more Bearer Global Notes or Registered Global Notes. Such Bearer Global Notes or Registered Global Notes will be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg and/or a sub-custodian for the Hong Kong Monetary Authority (the “HKMA”) as operator of the CMU and/or DTC (each of Euroclear, Clearstream, Luxembourg, CMU and DTC, a “**Clearing System**”). Except in the circumstances described in the relevant Bearer Global Note or Registered Global Note, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the

beneficial interests in the Bearer Global Notes or Registered Global Notes. While the Notes are represented by one or more Bearer Global Notes or Registered Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Bearer Global Notes or Registered Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Bearer Global Note or a Registered Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Bearer Global Notes or Registered Global Notes.

***Fixed Rate Notes are subject to interest rate risks***

Investment in Fixed Rate Notes (as defined in the Conditions) involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Notes issued at a substantial discount or premium are subject to greater price volatility.

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

***The Notes may be treated as issued with original issue discount for U.S. federal income tax purposes***

The Notes may be issued with original issue discount (“OID”) for U.S. federal income tax purposes. If the stated principal amount of the Notes exceeds their “issue price” by an amount that is equal to or greater than the statutory de minimis amount, the Notes will be treated as issued with OID for U.S. federal income tax purposes in an amount equal to such difference. If the Notes are treated as issued with OID for U.S. federal income tax purposes, U.S. investors in such Notes will generally be required to include OID in their gross income as it accrues in advance of the receipt of cash payments attributable to such income using the constant yield method. See “*Taxation – Certain U.S. Federal Income Tax Considerations – Original Issue Discount*”.

***Investors who purchase Notes in denominations that are an integral multiple of the Specified Denomination may be adversely affected if Definitive Notes are subsequently required to be issued***

In relation to any issue of Notes that have denominations consisting of a minimum specified denomination (“**Specified Denomination**”) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds an amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination. If such Notes in definitive form are issued, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Notes are subject to exchange rate risks and exchange controls***

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

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

***The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks"***

The Programme allows for the issuance of Notes that reference certain interest rates or other types of rates or indices which are deemed to be "benchmarks", in particular with respect to certain Floating Rate Notes where the Reference Rate (as defined in the Conditions) may be HIBOR, EURIBOR, SONIA Benchmark, SOFR Benchmark or SORA Benchmark or another such benchmark. The Pricing Supplement for the Notes will specify whether HIBOR, EURIBOR, SONIA Benchmark, SOFR Benchmark or SORA Benchmark or another such benchmark is applicable.

Interest rates and indices which are deemed to be or used as "benchmarks" are the subject of recent international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely or to have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Note linked to or referencing such a benchmark.

More broadly, any of the international reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, The Association of Banks in Singapore ("**ABS**") and Singapore Foreign Exchange Market Committee ("**SFEMC**") have proposed to discontinue SIBOR and to transition from SOR to an alternative interest rate benchmark, which has been identified as SORA.

The elimination of any benchmarks, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks:

- (i) discourage market participants from continuing to administer or contribute to the benchmark;
- (ii) trigger changes in the rules or methodologies used in the benchmark; or
- (iii) lead to the disappearance of the benchmark.

Any of the above changes or any other consequential changes as a result of international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest (as defined in the Conditions) in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest shall be determined by reference to the relevant screen page or website depending on whether the Reference Rate is specified as being (or derived from) HIBOR, EURIBOR, SONIA Benchmark, SOFR Benchmark or SORA Benchmark. In the case of any discontinuation or disapplication of such Reference Rate in accordance with the Conditions, which may include circumstances where the regulatory supervisor of the administrator of the original Reference Rate makes a public statement that such Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market, Condition 4.9 sets out more details on the mechanics for determining the Rate of Interest in the absence of the original applicable Reference Rate. Such mechanics may involve the determination of a replacement Reference Rate and a spread adjustment to be applied to such replacement Reference Rate. The use of any replacement Reference Rate and application of a spread adjustment determined in accordance with Condition 4.9 to determine the Rate of Interest is likely to result in Notes initially linked to or referencing the original applicable Reference Rate performing differently (which may include payment of a lower Rate of Interest, as applicable) than they would do if the original Reference Rate were to continue to apply in its current form. Any such determination which involves the exercise of discretion by the Issuer or, if the designated person is an affiliate of the Issuer, such affiliate, may also present the Issuer or such affiliate with a conflict of interest.

Furthermore, if a replacement Reference Rate has been determined by the Issuer (or its designated person, as the case may be) in accordance with Condition 5(g), the Conditions provide that the Issuer may vary the Conditions and/or the Agency Agreement, as necessary to ensure the proper operation of such replacement Reference Rate, without any requirement for consent or approval of the Noteholders.

Where Condition 4.9 is specified in the relevant Pricing Supplement as the applicable mechanics for determining a replacement Reference Rate, there may be circumstances in which a new replacement Reference Rate may not be able to be determined before the next Interest Determination Date (as defined in the Conditions). In such event, the Rate of Interest for the next succeeding Interest Period (as defined in the Conditions) will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the discontinuation or disapplication of the original Reference Rate in accordance with the Conditions. This is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a replacement Reference Rate could be determined. The initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the discontinuation or disapplication of the original applicable Reference Rate in accordance with the Conditions, could, as a result, continue to apply to maturity, which would lead to the floating rate Notes, in effect, becoming fixed rate Notes.

Where ISDA Determination (as defined in the Conditions) is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Floating Rate Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any international reforms, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

***The Notes are subject to prescription regulations in Korea***

Failure to exercise a right of action for more than a certain period of time may operate as a bar to exercise of such right. Under Korean laws, claims against the issuer in respect of the payment of principal of notes or bonds are prescribed upon the expiry of 10 years, and claims for payment of interest in respect of notes or bonds are prescribed upon the expiry of five years, in each case, from the relevant due date as adjusted by any acceleration or otherwise, in respect thereof. If the Holders fail to exercise his or her right of payment for more than the period set forth above, the Korean courts may not enforce a claim for payment for principal or interest in respect of the Notes.

***The Notes contain limited restrictive covenants and will not restrict the Issuer's ability to make investments or incur unsecured indebtedness***

The Notes contain limited restrictive covenants and will not restrict the Issuer's ability to:

- invest in affiliates, associate or subsidiaries;
- issue preferred securities or incur unsecured indebtedness; or
- make capital expenditures.

The Issuer's taking such actions could adversely affect the Issuer's ability to pay amounts due on the Notes.

**Risks Relating to Korea**

***If economic conditions in Korea deteriorate, the Issuer's current business and future growth could be materially and adversely affected***

The economic indicators in Korea in recent years have shown mixed signs of deterioration and recovery. Following a period of deterioration due to the debilitating effects of the COVID-19 pandemic on the Korean economy as well as on the economies of Korea's major trading partners in 2020, the overall Korean economy showed some signs of recovery in 2021. However, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices, supply chain disruptions and the increasing weakness of the global economy, mainly due to Russia's invasion of Ukraine and ensuing sanctions against Russia and, more recently, difficulties faced by several banks in the United States and Europe, and, more recently, the escalation of hostilities in the Middle East following the Israel-Hamas war as well as rapid increases in policy interest rates globally to combat rising inflationary pressures, have contributed to the uncertainty of global economic prospects in general and have adversely affected the Korean economy, which has been characterized by high levels of uncertainty resulting from high inflation rates, a rise in interest rates and a depreciation of the Won against the U.S. dollar. As a result, future growth of the Korean economy is subject to many factors beyond the Issuer's control, including developments in the global economy.

Other developments that could have an adverse impact on the Korean economy include:

- declines in consumer confidence and a slowdown in consumer spending, including as a result of the global COVID-19 pandemic and increases in market interest rates;
- rising inflationary pressures leading to increases in the costs of goods and services and a decrease in purchasing power;
- the occurrence of severe health epidemics in Korea and other parts of the world (such as the global COVID-19 pandemic);

- adverse conditions or developments in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, including as a result of deteriorating economic and trade relations between the United States and China and increased uncertainties in the global financial markets and industry;
- hostilities, political or social tensions involving Russia (including the invasion of Ukraine by Russia and the ensuing actions that the United States and other countries have taken or may take in the future) and the resulting adverse effects on the global supply of oil and other natural resources and the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the Won against the U.S. dollar, Euro or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;
- increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- deterioration in the financial condition or performance of small- and medium-sized enterprises and other companies in Korea due to the Government's policies to increase minimum wages and limit working hours of employees;
- investigations of large Korean business groups and their senior management for possible misconduct;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small-and medium-sized enterprise borrowers in Korea;
- shortages of imported raw materials, natural resources, rare earth minerals or component parts, including semiconductors, due to disruptions to the global supply chain;
- social and labour unrest;
- substantial changes in the market prices of Korean real estate;
- a substantial decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programmes, in particular in light of the Government's efforts to provide emergency relief payments to households and emergency loans to corporations in need of funding in light of the COVID-19 pandemic, as well as recent interest rate increases, which, together, would likely lead to a national budget deficit as well as an increase in the Government's debt;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities, allegations of corruption and corporate governance issues concerning certain Korean companies;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving countries in the Middle East (including those resulting from the escalation of hostilities in the Middle East following the Israel-Hamas war) and Northern Africa and any material disruption in the global supply of oil or sudden increase in the price of oil; and
- an increase in the level of tensions or an outbreak of hostilities between the Democratic People's Republic of Korea ("**North Korea**") and Korea or the United States.

***Escalations in tensions with North Korea could have an adverse effect on the Issuer and the market price of the Bonds***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon, ballistic missile and satellite programmes as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. North Korea has increased the frequency of such activities since the beginning of 2022, firing numerous ballistic missiles, including intercontinental ballistic missiles, and in November 2023, successfully launched its first spy satellite. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaeseong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on the Issuer's business, financial condition and results of operations and the price of the Notes, including a downgrade in our credit rating or the credit ratings of the Notes.

***Unfavourable financial and economic developments in Korea may have an adverse effect on the Issuer***

The Issuer is incorporated in Korea, and a significant portion of the Issuer's revenue is generated in Korea. As a result, the Issuer is subject to economic, political, legal and regulatory risks specific to Korea, and our business, financial condition and results of operations, as well as the successful execution of our operational strategies, are substantially dependent on developments relating to the Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

***Labour unrest in Korea may adversely affect the Issuer's operations***

Economic difficulties in Korea or increases in corporate reorganisations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programmes. According to statistics from the Korea National Statistical Office, the unemployment rate decreased from 2.9% in 2022 to 2.7% in 2023. However, further increases in unemployment and any resulting labour unrest in the future could adversely affect the Issuer's operations, as well as the operations of many of the Issuer's customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on the Issuer's financial condition and results of operations.

***Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact the Issuer's business***

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia, including China. Financial turmoil in Asia, Russia and elsewhere in the world in the past has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. The Issuer cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again in Asia or in other markets that may have an adverse effect on its business. In addition, the loss of investor confidence and increased uncertainty in the global financial markets as a result of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favour of leaving the European Union, may also cause increased volatility in Korean financial markets.

***Exchange controls and other circumstances beyond the control of the Issuer may result in the Issuer being unable to obtain sufficient amount in the currency/currencies in which the Notes are denominated on favourable terms or when necessary***

All of the debt obligations under the Issuer's mortgage loans are payable in Won. The payment of amounts due under the Notes denominated in a currency/currencies other than Won (each, a "Note Currency") will depend upon the ability of the Issuer to convert payments made by the Issuer in Won

into a sufficient amount in the relevant currency/currencies to meet payments due under the Notes and to pay in such currency/currencies outside Korea. There can be no assurance that future governmental policies of Korea (including the imposition of exchange controls or remittance restrictions) would not adversely affect the ability of the Issuer to obtain the Note Currency/Note Currencies or the ability of the Issuer to transfer amounts in such currency/currencies abroad. Furthermore, delays in the conversion of Won amounts into a Note Currency coupled with a devaluation of the Won could reduce the amount in such Note Currency received by the Issuer which could have an adverse effect on its ability to pay the amounts due under the Notes when they become due for payment.

## **General Risks**

### ***Unfavourable changes in the global financial markets could adversely affect the Issuer's results of operations and financial condition***

The overall prospects for the Korean and global economy remain uncertain. In recent years and in 2023, the global financial markets have experienced significant volatility as a result of, among other things:

- the occurrence of severe health epidemics, such as the global COVID-19 pandemic;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- uncertainty regarding the timing and method of Brexit;
- financial and social difficulties affecting many countries worldwide, in particular in Latin America and Europe;
- escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East (including those resulting from the escalation of hostilities in the Middle East following the Israel-Hamas war);
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as changes in policy rates, or other monetary and fiscal policies set forth, by the U.S. Federal Reserve and other central banks; and
- political and social instability in various countries in the Middle East, including Syria, Iraq and Yemen, as well as in Eastern Europe, including Russia and Ukraine.

In light of the high level of interdependence of the global economy, unfavourable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets. In addition, in certain circumstances of emergency affecting domestic and global economic conditions, the Government may impose certain restrictions or obligations on banks, including the Issuer, pursuant to the Foreign Exchange Transactions Act of Korea in an effort to stabilise the Korean economy. Such restrictions or obligations may also have a material adverse effect on the Issuer's business, financial condition and results of operations.

## **THE KOREA HOUSING FINANCE CORPORATION ACT**

*The following describes elements of the KHFC Act that relate to the issuance of the Notes. It is not a complete summary of the KHFC Act.*

KHFC was established by the KHFC Act in 2004 in order to provide mortgage loan finance and related funding to low- and moderate-income households in Korea. As a primary means to achieve this goal, KHFC is authorised to purchase mortgage loans from Korean mortgage lenders and to raise funding by originating MBS and mortgage-backed bonds. In addition to establishing KHFC, the KHFC Act sets out: the scope of KHFC's business; its management structure; the methods by which KHFC funds its activities (including the issuance of mortgage-backed bonds); and the financial support provided to KHFC by the Government. For further information in respect of KHFC, see "*Korea Housing Finance Corporation*".

Articles 51 and 59 of the KHFC Act prescribe the financial support to be provided to KHFC by the Government. Article 51 provides that the Government will, at the end of KHFC's fiscal year, cover any losses incurred by KHFC and not otherwise covered by other financial reserves of KHFC in respect of KHFC's core business of acquiring and securitising mortgage loans. Article 59 of the KHFC Act separately covers losses arising from the HFCGF which supports KHFC's credit guarantee business and RMGA. For further information in respect of KHFC, see "*Korea Housing Finance Corporation*".

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Conditions endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes.

This Offering Circular and any supplement will only be valid for the offering of Notes during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$15,000,000,000 or its equivalent in other currencies.

For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Interest Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes) and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## FORM OF PRICING SUPPLEMENT

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

[Date]

### KOREA HOUSING FINANCE CORPORATION

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

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. The terms and conditions of the Notes (the “Conditions”) shall consist of the terms and conditions set out under the heading “*Terms and Conditions of the Notes*” in the Offering Circular dated July 3, 2024 (the “Offering Circular”), as amended or supplemented, as the case may be, in this Pricing Supplement. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular.

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, delivered, or sold, directly or indirectly, in the Republic of Korea (“Korea”) or to any resident of Korea (as defined in the Foreign Exchange Transaction Act of Korea and the rules and regulations promulgated thereunder) or to others for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations.

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

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the “Conditions”) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated July 3, 2024, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

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

UK MiFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“COBS”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“UK MiFIR”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person

subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “UK MiFIR Product Governance Rules”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

*[The following legend should be included where item 16 below is marked as “Applicable”.]*

**[PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [MiFID II]/[Directive 2014/65/EU] (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[•]/[; or] [(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “Prospectus Regulation”)].] Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the [United Kingdom (“UK”)]/[UK]. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “FSMA”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA[•]/[; or] [(iii) not a qualified investor as defined in Article 2 of the [Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the “UK Prospectus Regulation”)].] Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]<sup>1</sup>

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

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

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

- |   |  |  |
|---|--|--|
| 1 | Issuer:  | Korea Housing Finance Corporation  |
| 2 | (i) Series Number:   | [•]  |
|   | (ii) Tranche Number:   | [•]  |
|   | (iii) Date on which the Notes will be consolidated and form a single Series:   | The Notes will be consolidated and form a single Series with [ <i>identify earlier Tranches</i> ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [•] below, which is expected to occur on or about [ <i>date</i> ]] [Not Applicable] |
| 3 | Specified Currency or Currencies:  | [•]  |
| 4 | Aggregate Principal Amount:  |  |
|   | (i) Series:  | [•]  |
|   | (ii) Tranche:  | [•]  |
| 5 | (i) [Issue Price:]   | [•]% of the Aggregate Nominal Amount [plus accrued interest from [ <i>insert date</i> ] (if applicable)]   |
|   | (ii) [Net Proceeds:] (Required only for listed issues)   | [•]  |
|   | (iii) [Use of Proceeds:]   | [•]  |
| 6 | (i) Specified Denominations: ( <i>in the case of Registered Notes, this means the minimum integral amount in which transfers can be made</i> ) | [•] [•] (N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities and in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Regulation in that Member State.)      |

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

*“U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$299,000. No Notes in definitive form will be issued with a denomination above U.S.\$299,000.”)*

*(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange or a United Kingdom exchange; and (ii) only offered in the European Economic Area or the United Kingdom in circumstances where a prospectus is not required to be published under the Prospectus Regulation the €100,000 minimum denomination is not required.)*

- (ii) Calculation Amount: [•] *(If there is only one Specified Denomination, insert that Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations)*
- 7 (i) Issue Date: [•]  
[Specify/Issue Date/Not Applicable]
- (ii) Interest Commencement Date: [•] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example, Zero Coupon Notes)*
- (iii) Trade Date: [•]
- 8 Maturity Date: *[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month]]*  
*(N.B.: (i) Lower Tier II Subordinated Notes shall have a minimum maturity of five years; and (ii) Upper Tier II Subordinated Notes shall have a minimum maturity of 10 years and may not be perpetual)*
- 9 Interest Basis: [[•]% Fixed Rate]  
[[Specify Reference Rate] +/- [•]% Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
*[specify other]*  
(further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
[specify other]
- 11 Change of Interest or Redemption/  
Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
- 12 Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]

- 13 Status of the Notes: [Senior/Subordinated] *[If Subordinated, specify either Upper Tier II Subordinated or Lower Tier II Subordinated]*
- 14 Listing and admission to trading: [Singapore Exchange Securities Trading Limited<sup>2</sup>/specify other/None]
- 15 Method of distribution: [Syndicated/Non-syndicated]
- 16 Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable] *[If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified]*
- 17 Prohibition of Sales to UK Retail Investors: [Applicable/Not Applicable] *[If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified]*
- 18 Use of Proceeds: [•] *[If different from the use of proceeds specified in the Offering Circular]*

**Provisions Relating to Interest (if any) Payable**

- 19 Fixed Rate Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [•]% per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [•] in each year up to and including the Maturity Date *(Amend appropriately in the case of irregular coupons)*
- (iii) Fixed Coupon Amount(s): [•] per Calculation Amount\*\*  
*(Applicable to Notes in definitive form)*

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<sup>2</sup> For Singapore Stock Exchange listing: For drawdowns based on the Offering Circular dated July 3, 2024, please note that, if the Issuer’s audited financials for FY2024 have since become available, this should be appended in full to the pricing supplement.

- (iv) Broken Amount(s): *(Applicable to Notes in definitive form)* [•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•].\* *Note that for certain Hong Kong dollar denominated Fixed Rate Notes, the Interest Payment Dates are subject to modification and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, “Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [•].”\*\* For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following wording is appropriate: “Each Fixed Coupon Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 being rounded upwards.”*
- (v) Day Count Fraction: [Actual/Actual (ICMA)/specify other]
- (vi) Determination Date[s]: [•] in each year *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon (N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration) (N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA))]*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
- 20 Floating Rate Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph.)*
- (i) Specified Period(s)/Specified Interest Payment Dates: [•]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (iii) Additional Business Centre(s): [•]

- (iv) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [•]
- (vi) Screen Rate Determination:
- Reference Rate and Relevant Financial Centre: Reference Rate: [•] month [EURIBOR/HIBOR/SOFR Benchmark/specify other Reference Rate].
  - Interest Determination Date(s): [•] (First day of each Interest Period if HIBOR and the second day on which T2 is open prior to the start of each Interest Period if EURIBOR)
  - Relevant Screen Page: [•] (*In the case of EURIBOR, if not Reuters Page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
  - SOFR Benchmark [Not Applicable/Compounded Daily SOFR/SOFR Index]  
(*Only applicable where the Reference Rate is SOFR*)
  - Compounded Daily SOFR [Not Applicable/SOFR Lag/SOFR Observation Shift]  
(*Only applicable in the case of Compounded Daily SOFR*)
  - Lookback Days [Not Applicable/[•] U.S. Government Securities Business Day(s)]  
(*Only applicable in the case of SOFR Lag*)
  - SOFR Observation Shift Days [Not Applicable/[•] U.S. Government Securities Business Day(s)]  
(*Only applicable in the case of SOFR Observation Shift or SOFR Index*)
  - SOFR Index<sub>Start</sub> [Not Applicable/[•] U.S. Government Securities Business Day(s)]  
(*Only applicable in the case of SOFR Index*)
  - SOFR Index<sub>End</sub> [Not Applicable/[•] U.S. Government Securities Business Day(s)]  
(*Only applicable in the case of SOFR Index*)

- (vii) ISDA Determination:
- Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•] *(In the case of a EURIBOR or HIBOR based option, the first day of the Interest Period)*
- (viii) Margin(s): [+/-] [•]% per annum
- (ix) Minimum Rate of Interest: [•]% per annum
- (x) Maximum Rate of Interest: [•]% per annum
- (xi) Day Count Fraction: [Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360] [30/360] [360/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
*(See Condition 5 for alternatives)*
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [Benchmark Transition Event]/[Benchmark Discontinuation (SOFR)]/[specify other if different from those set out in the Conditions]
- 21 Zero Coupon Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [•]% per annum
  - (ii) Reference Price: [•]
  - (iii) Any other formula/basis of determining amount payable: [•]
  - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [30/360]  
[Actual/360]  
[Actual/365]
- 22 Index Linked Interest Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula: [give or annex details]
  - (ii) Calculation Agent: [•]
  - (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [•]

- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [•]
  - (v) Specified Period(s)/Specified Interest Payment Dates: [•]
  - (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
  - (vii) Additional Business Centre(s): [•]
  - (viii) Minimum Rate of Interest: [•]% per annum
  - (ix) Maximum Rate of Interest: [•]% per annum
  - (x) Day Count Fraction: [•]
- 23 Dual Currency Note Provisions: [Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
  - (ii) Party, if any, responsible for calculating the principal and/or interest payable due (if not the Principal Paying Agent): [•]
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
  - (iv) Person at whose option Specified Currency(ies) is/are payable [•]

## Provisions Relating to Redemption

- 24 Issuer Call: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [•] [per Calculation Amount/specify other/see Appendix]
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [•]
    - (b) Maximum Redemption Amount: [•]
  - (iv) Notice period (if other than as set out in the Conditions): [•] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
- 25 Investor Put [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [•] [per Calculation Amount/specify other/see Appendix]
  - (iii) Notice period (if other than as set out in the Conditions): [•] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
- 26 Final Redemption Amount of each Note: [[•] per Calculation Amount/specify other/see Appendix]
- 27 Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): [[•] per Calculation Amount/specify other/see Appendix]

## General Provisions Applicable to the Notes

- 28 Form of Notes: [Bearer Notes:
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]]
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect:*
- "U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$299,000."*
- Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*
- [Registered Notes:
- Regulation S Global Note (U.S.\$[•] nominal amount)/  
Rule 144A Global Note (U.S.\$[•] nominal amount)]
- 29 Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vii) relate)*
- 30 Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]

- 31 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details] (*N.B.: A new form of Global Note may be required for Partly Paid issues*)
- 32 Details relating to Instalment Notes: [Not Applicable/The provisions [in Condition [•]] [annexed to this Pricing Supplement] apply]
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
- 33 Redenomination applicable: Redenomination [not] applicable [*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*] [*if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Pricing Supplement*]
- 34 Other terms or special conditions: [Not Applicable/give details]

#### **Distribution**

- 35 (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilizing Manager(s) (if any): [Not Applicable/give name(s)]
- 36 If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- 37 U.S. selling restrictions: [Reg. S Compliance Category [1/2]/Rule 144A/TEFRA D/TEFRA C/TEFRA not applicable]
- 38 Additional selling restrictions: [Not Applicable/give details]

#### **Operational Information**

- 39 Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- 40 Delivery: Delivery [against/free of] payment
- 41 Additional Paying Agent(s) (if any): [Not Applicable/give name]
- (i) ISIN: [•]
- (ii) Common Code: [•]
- (iii) CMU Instrument Number: [•]

- (iv) CUSIP: [•]
- (v) LEI: 9884002AAOBT56QW9B80

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

42 Provisions Relating to Green Bonds,  
Social Bonds or Sustainability Bonds

- (i) Green Bonds: [Yes/No]
- (ii) Social Bonds: [Yes/No]
- (iii) Sustainability Bonds: [Yes/No]
- (iv) [Reviewer(s):] *[Name of sustainability rating agency(ies) and name of third party assurance agent] and [give details of compliance opinion (s) and availability]]*

43 Hong Kong Securities and Futures  
Commission Code of Conduct

- (i) Rebates: [A rebate of [•] bps is being offered by the [Issuer] to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
- (ii) Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: *[Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – OCs to provide]/[Not Applicable]*
- (iii) Marketing and Investor Targeting Strategy: *[As indicated in the Offering Circular/describe if different from the programme OC]*

## **[Listing Application**

[Approval in-principle has been received from]/[Application has been or will be made to] the Singapore Stock Exchange for the listing and quotation of the Notes on the Singapore Stock Exchange.]<sup>3</sup>

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the U.S.\$15,000,000,000 Global Medium Term Note Programme of Korea Housing Finance Corporation. The Singapore Exchange Securities Trading Limited (the “Singapore Stock Exchange”) assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Pricing Supplement. Approval in-principle from, admission to the Official List of, and the listing and quotation of the Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.

[Application has been or will be made for the Notes to be recognized under the SGX Sustainable Fixed Income initiative on the Singapore Stock Exchange. There is no guarantee that such application for recognition under the SGX Sustainable Fixed Income initiative will be approved. Recognition under the SGX Sustainable Fixed Income initiative does not guarantee that the Notes will satisfy any investor’s expectations or requirements on its sustainability-related performance or impact. If approved, the Singapore Stock Exchange may remove the recognition from the Notes at its discretion. The latest list of fixed income securities that have been granted recognition under the SGX Sustainable Fixed Income initiative is available at the SGX website.]<sup>4</sup><sup>5</sup>

## **Responsibility**

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

Signed on behalf of the Issuer:

By:

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*Duly authorized*

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 2, 5, 6, 7 (except Condition 7(b)), 11, 12, 13, 14 (insofar as Notes are not listed or admitted to trading on any stock exchange) and 16, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

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<sup>3</sup> For Singapore Stock Exchange listing: For drawdowns based on the Offering Circular dated July 3, 2024, please note that if the Issuer’s audited financials for FY2024 have since become available, this should be appended in full to the pricing supplement.

<sup>4</sup> For Singapore Stock Exchange listing – To include this paragraph if the Notes are green/social/sustainability Notes and the Issuer intends to apply for recognition under SGX’s Sustainable Fixed Income initiative.

<sup>5</sup> For Singapore Stock Exchange listing.

## TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Korea Housing Finance Corporation (the “**Issuer**”).

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

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

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agreement as modified and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 4 August 2023 and made between, the Issuer, Citibank, N.A., London Branch as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor agent), transfer agent (the “**Transfer Agent**”, which expression shall include any successor agent), calculation agent (the “**Calculation Agent**”, which expression shall include any successor calculation agent) and paying agent (the “**Paying Agent**” which expression shall, unless the context otherwise requires, include any successor paying agents), Citicorp International Limited, as registrar (the “**Registrar**”, which expression shall include any successor registrar) and CMU lodging and paying agent (the “**CMU Lodging and Paying Agent**” and, together with the Principal Paying Agent and the Paying Agent, the “**Paying Agents**” which expression shall include any successor CMU lodging and paying agent) and the other agents named in it, such agents together being referred to as the “**Agents**”. For the purposes of these Terms and Conditions, all references to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Interest bearing definitive Bearer Notes have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

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

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of any Coupons, and shall, unless the context otherwise requires, include the holders of any Talons.

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

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented from time to time, the “**Deed of Covenant**”) dated 4 August 2023, and made by the Issuer. The original of the Deed of Covenant is held by the common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, a deed poll (such Deed Poll as modified and/or supplemented from time to time, the “**Deed Poll**”) dated 4 August 2023 and made by the Issuer, the applicable Pricing Supplement and the Deed of Covenant are available for inspection following written consent and satisfactory proof of holding, free of charge, during normal business hours at the specified office of the Principal Paying Agent, the Registrar and the Transfer Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Agent as to its holding of such Notes and as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

In the Conditions, euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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

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

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement, and to the extent permitted by applicable law.

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

Bearer Notes in definitive form are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

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

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

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, the CMU and DTC, as the case may be. References to Euroclear, Clearstream, Luxembourg, the CMU and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Principal Paying Agent and specified in the applicable Pricing Supplement.

## **2 Transfers of Registered Notes**

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

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

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

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorized denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 9 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), and subject to authentication by the Registrar, deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

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

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) **Costs of Registration**

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

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

Transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person (as defined in Regulation S) and a “U.S. Resident” (defined as a “U.S. Person” under Regulation S as such term has been interpreted by the U.S. Securities and Exchange Commission Staff in the context of Section 7(d) of the Investment Company Act) (any such person, a “**U.S. Investor**”) will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person who is both a QIB and a QP, purchasing the Notes for its own account or the account of another person that is both a QIB and a QP in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United State; or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Such transferee may take delivery through a Rule 144A Global Note.

(f) **Transfers of Interests in Rule 144A Global Notes**

Transfers of Rule 144A Global Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made to a person who is not a U.S. Person in accordance with Regulation S and that the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg;

- (ii) to a transferee who takes delivery of such interest through a Legended Note where the transferee is both a QIB and a QP in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States;

and in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Rule 144A Global Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Rule 144A Global Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

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

Holders of Registered Notes in definitive form may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) **Closed Periods**

No Noteholder may require the transfer of a Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest or payment on that Note.

(i) **Costs of exchange or registration**

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Republic of Korea (“**Korea**”) unless the Issuer is the counterparty directly liable for that documentary stamp tax.

(j) **Regulations**

All transfers of Notes and entries on the register of Notes will be made subject to the detailed regulations concerning transfer of Notes (the initial such regulations being set out in Schedule 9 to the Agency Agreement). The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

(k) **Definitions**

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

“**Investment Company Act**” means the United States Investment Company Act of 1940, as amended;

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

“**QP**” means a qualified purchaser within the meaning of Section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder;

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

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

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

“**Rule 144A Global Note**” means a Registered Global Note representing Notes sold in the United States to persons that are both QIBs and QPs in reliance on Rule 144A which bear a legend specifying certain restrictions on transfer (a “**Legend**”); and

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

### **3 Status of the Notes**

#### **(a) Status of the Notes**

The Notes (the “**Notes**”) and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer which rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.

### **4 Negative Pledge**

#### **(a) Negative Pledge**

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any mortgage, charge, pledge or other security interest upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities:

- (i) payment of any sum due in respect of any such International Investment Securities;
- (ii) payment under any guarantee in respect of any such International Investment Securities;  
or
- (iii) payment under any indemnity or other like obligation in respect of any such International Investment Securities,

without, in any such case and at the same time, according to the Notes either the same security as is available for the benefit of the holders of such International Investment Securities or such other security as shall be approved for the purpose by an Extraordinary Resolution (as defined in the Agency Agreement) of the holders of Notes.

#### **(b) Interpretation**

In these Conditions, “**International Investment Securities**” means notes, bonds, debentures, certificates of deposit or investment securities of any person which:

- (i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Issuer; and
- (ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea;

provided that mortgage-backed securities, mortgage-backed bonds and “Covered Bonds” (as defined below) shall not constitute International Investment Securities.

In these Conditions, “**Covered Bonds**” means debt securities (including any notes, bonds, debentures, certificates of deposit or investment securities) backed by cash flows generated from an underlying investment pool consisting of mortgage loans, public sector assets, cash, cash equivalents and/or other financial assets.

## 5 Interest

### (a) Interest on Fixed Rate Notes

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

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

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

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

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

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

In these Terms and Conditions:

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest, in accordance with this Condition 5(a):

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

In these Terms and Conditions:

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

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

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

**(i) Interest Payment Dates**

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

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

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below of this subparagraph (1) shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, any day on which the real time gross settlement system operated by the Eurosystem or any successor system (“**T2**”) is open for the settlement of payments in euro.

(ii) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (A), “**ISDA Rate for an Interest Period**” means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “**ISDA Definitions**”), and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (A), (i) “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity and Reset Date**” have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

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

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or any other such page as may replace that page on the relevant service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) (the “**Relevant Screen Page Rate**”) as at 11:00 a.m. (in the Relevant Financial Centre time) (the “**Specified Time**”) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of those quotations) and the lowest (or, if there is more than one lowest quotation, one only of those quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(2) If, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph; provided, however, that Condition 5(g) shall apply if Benchmark Transition Event is specified in the applicable Pricing Supplement and a Benchmark Transition Event (as defined in Condition 5(g)) has occurred.

(C) *Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined where the Reference Rate is SOFR Benchmark, the Rate of Interest for each Interest Period will, subject as provided below, be equal to the relevant SOFR Benchmark plus or minus the Margin (if any), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The “SOFR Benchmark” will be determined based on Compounded Daily SOFR or SOFR Index, as follows (subject in each case to Condition 5(h) as further specified hereon):

(1) If Compounded Daily SOFR (“**Compounded Daily SOFR**”) is specified in the applicable Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant Interest Period (where SOFR Lag is specified in the applicable Pricing Supplement to determine Compounded

Daily SOFR) or the SOFR Observation Period (where SOFR Observation Shift is specified in the applicable Pricing Supplement to determine Compounded Daily SOFR).

Compounded Daily SOFR shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified in the applicable Pricing Supplement:

(A) SOFR Lag:

$$\left( \prod_{i=1}^{d_o} \left( 1 + \frac{SOFR_{i-xUSBD} \times n_i}{360} \right) - 1 \right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

“**SOFR<sub>i-xUSBD</sub>**” for any U.S. Government Securities Business Day “i” in the relevant Interest Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day “i”;

“**Lookback Days**” means such number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement;

“**d**” means the number of calendar days in the relevant Interest Period;

“**d<sub>o</sub>**” for any Interest Period, means the number of U.S. Government Securities Business Days in the relevant Interest Period;

“**i**” means a series of whole numbers ascending from one to d<sub>o</sub>, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Period; and

“**n<sub>i</sub>**” for any U.S. Government Securities Business Day “i” in the relevant Interest Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day “i” up to (but excluding) the following U.S. Government Securities Business Day for which SOFR<sub>i-xUSBD</sub> applies.

(B) SOFR Observation Shift:

$$\left( \prod_{i=1}^{d_o} \left( 1 + \frac{SOFR_i \times n_i}{360} \right) - 1 \right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

“**SOFR<sub>i</sub>**” for any U.S. Government Securities Business Day “i” in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day “i”;

“**SOFR Observation Period**” means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Payment Date for such Interest Period;

“**SOFR Observation Shift Days**” means the number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement;

“**d**” means the number of calendar days in the relevant SOFR Observation Period;

“**d<sub>o</sub>**” for any SOFR Observation Period, means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

“**i**” means a series of whole numbers ascending from one to do, representing each U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period; and

“**n<sub>i</sub>**” for any U.S. Government Securities Business Day “i” in the relevant SOFR Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day “i” up to (but excluding) the following U.S. Government Securities Business Day for which SOFR<sub>i</sub> applies.

The following defined terms shall have the meanings set out below for the purpose of this Condition 5(b)(ii)(C)(1):

“**Bloomberg Screen SOFRRATE Page**” means the Bloomberg screen designated “SOFRRATE” or any successor page or service;

“**Reuters Page USDSOFR=**” means the Reuters page designated “USDSOFR=” or any successor page or service;

“**SOFR**” means, in respect of a U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

- (i) the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator’s Website;
- (ii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator’s Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator’s Website; or
- (iii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(h) shall apply as specified in the applicable Pricing Supplement;

“**SOFR Determination Time**” means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day.

- (2) If SOFR Index (“**SOFR Index**”) is specified in the applicable Pricing Supplement, the SOFR Benchmark for each Interest Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left( \frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1 \right) \times \left( \frac{360}{d_e} \right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards (e.g., 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655)) and where:

“**SOFR Index**” means, in respect of a U.S. Government Securities Business Day, the SOFR Index value as published on the SOFR Administrator’s Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day, *provided that*:

- (A) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the “SOFR Index” shall be calculated on any Interest Determination Date with respect to an Interest Period, in accordance with the Compounded Daily SOFR formula described

above in Condition 5(b)(ii)(C)(1)(B) “SOFR Observation Shift,” and the term “SOFR Observation Shift Days” shall mean five U.S. Government Securities Business Days; or

- (B) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(h) shall apply as specified in the applicable Pricing Supplement;

“**SOFR Index<sub>End</sub>**” means, in respect of an Interest Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the applicable Pricing Supplement prior to the Interest Payment Date for such Interest Period (or in the final Interest Period, the Maturity Date);

“**SOFR Index<sub>Start</sub>**” means, in respect of an Interest Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the applicable Pricing Supplement prior to the first day of such Interest Period;

“**SOFR Index Determination Time**” means, in respect of a U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

“**SOFR Observation Period**” means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Payment Date for such Interest Period;

“**SOFR Observation Shift Days**” means the number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement; and

“**d<sub>c</sub>**” means the number of calendar days in the applicable SOFR Observation Period.

The following defined terms shall have the meanings set out below for purpose of this Condition 5(b)(ii)(C):

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified, the second U.S. Government Securities Business Day prior to the last day of each Interest Period;

“**SOFR Administrator’s Website**” means the website of the Federal Reserve Bank of New York, or any successor source;

“**SOFR Benchmark Replacement Date**” means the date of occurrence of a Benchmark Event with respect to the then-current SOFR Benchmark;

“**SOFR Benchmark Transition Event**” means the occurrence of a Benchmark Event with respect to the then-current SOFR Benchmark; and

“**U.S. Government Securities Business Day**” means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

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

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

Whether or not a Minimum Rate of Interest or Maximum Rate of Interest is specified in the relevant Pricing Supplement, in no event shall the Rate of Interest (including any applicable Margin) be less than zero.

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

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

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

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

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

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

In these Terms and Conditions,

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

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

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

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D<sub>2</sub> will be 30.

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

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) **Certificates to be Final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) **Interest on Dual Currency Notes**

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

(d) **Interest on Partly Paid Notes**

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

(e) **Accrual of Interest**

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

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given in accordance with Condition 14.

(f) **Interest Rate Reset**

If Interest Rate Reset is specified in the applicable Pricing Supplement, the Rate of Interest applicable to the Notes will be reset to the Reset Interest Rate (as defined below) effective as of each Interest Reset Date (as specified in the applicable Pricing Supplement), such that the Notes will bear interest at the Reset Interest Rate during each period from (and including) an Interest Reset Date to (but excluding) the next succeeding Interest Reset Date or, if earlier, the date of redemption (each a Reset Interest Period).

The Calculation Agent will, on the Calculation Date (as defined below) for each Reset Interest Period, calculate the Reset Interest Rate for such Reset Interest Period and cause such Reset Interest Rate and the relevant Interest Reset Date to be notified to the Issuer, and the Issuer will cause notice to the Noteholders of such Reset Interest Rate and Interest Reset Date to be published in accordance with Condition 14 as soon as possible after such Calculation Date but in no event later than the fourth New York Business Day (as defined below) thereafter.

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(f) by the Calculation Agent shall (in the absence of wilful default, or manifest error) be binding on the Issuer, the Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

As used herein, unless otherwise specified in the applicable Pricing Supplement:

“**Base Rate**” means the U.S. Treasury Rate or such other rate as specified in the applicable Pricing Supplement.

“**Calculation Date**” means, in relation to a Reset Interest Period, the fifth New York Business Day (as defined below) preceding the Interest Reset Date on which such Reset Interest Period commences.

“**Comparable Treasury Issue**” means the U.S. Treasury security having a maturity comparable to the Reset Interest Period and selected by the Issuer and notified to Calculation Agent in writing as one that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to the Reset Interest Period.

“**Comparable Treasury Price**” means, with respect to a Calculation Date, the average of the three Reference Treasury Dealer Quotations selected by the Issuer (as defined below) for such Calculation Date.

“**New York Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City.

“**Reference Treasury Dealer Quotations**” means, with respect to a Calculation Date, the average, as determined by the Calculation Agent, of the bid and asked yields for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Issuer at 5:00 p.m. New York time on such Calculation Date by each of the three nationally recognized investment banking firms selected by the Issuer that are primary U.S. government securities dealers.

“**Reset Interest Rate**” means, in relation to a Reset Interest Period, a fixed percentage rate per annum equal to the sum of (x) the Base Rate for such Reset Interest Period and (y) the Spread (as specified in the applicable Pricing Supplement).

“**U.S. Treasury Rate**” means, in relation to a Reset Interest Period, the percentage rate per annum equal to the yield, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication that is published weekly by the Board of Governors of the U.S. Federal Reserve System (available on the website thereof at <http://www.federalreserve.gov/releases/h15/current/default.htm>, or any successor site), within the column that presents the average yields for the week ending immediately prior to the Calculation Date for such Reset Interest Period, under the caption “U.S. government securities – Treasury constant maturities – Nominal,” for U.S. Treasury securities having a maturity comparable to the Reset Interest Period. If such release does not appear on such website, “**U.S. Treasury Rate**” means the percentage rate per annum equal to the semi-annual or quarterly (as applicable) equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Calculation Date. If no rate is available, the previous rate shall apply.

(g) **Benchmark Discontinuation (General)**

- (i) **Independent Adviser:** If a Benchmark Transition Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(g)(ii)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with 5(g)(iv)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(g) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Paying Agents, or the Noteholders for any determination made by it, pursuant to this Condition 5(g).

If (i) the Issuer is unable to appoint an Independent Adviser, or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(g)(i) prior to the date which is 10 business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to Floating Rate Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest/determined using the Original Reference Rate last displayed on the Relevant Screen Page prior to the relevant Interest Determination Date. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(g)(i).

- (ii) **Successor Rate or Alternative Rate:** If the Independent Adviser, determines that:
  - (a) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on Floating Rate Notes (subject to the operation of this Condition 5(g)); or
  - (b) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on Floating Rate Notes (subject to the operation of this Condition 5(g)).
- (iii) **Adjustment Spread:** The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.
- (iv) **Benchmark Amendments:** If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(g) and the Independent Adviser determines (i) that amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”), and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(g)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

Notwithstanding any other provision of this Condition 5(g), the Calculation Agent or any Paying Agent is not obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5(g) which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5(g)(iv), the Issuer shall comply with the rules of any stock exchange on which the Floating Rate Notes are for the time being listed or admitted to trading.

- (v) **Notices, etc.:** Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(g) will be notified at least 10 business days prior to the relevant Interest Determination Date by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 16, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Fiscal Agent, the Calculation Agent and the Paying Agents a certificate signed by two directors of the Issuer:

- (a) confirming (i) that a Benchmark Transition Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(g); and
- (b) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Fiscal Agent, the Calculation Agent and the Paying Agents a certificate signed by two directors of the Issuer.

Each of the Fiscal Agent, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Fiscal Agent's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the Paying Agents and the Noteholders.

Notwithstanding any other provision of this Condition 5(g), if following the determination of any Successor Rate, Alternative Rate, Adjustment Spread or Benchmark Amendments (if any), in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(g), the Calculation Agent shall, as soon as reasonably practicable, notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, wilful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, wilful default or fraud) shall not incur any liability for not doing so.

- (vi) **Survival of Original Reference Rate:** Without prejudice to the obligations of the Issuer under Condition 5(g)(i), Condition 5(g)(ii), Condition 5(g)(iii) and Condition 5(g)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(i) will continue to apply unless and until a Benchmark Transition Event has occurred.

- (vii) **Definitions:** As used in this Condition 5(g):

“**Adjustment Spread**” means either (x) a spread (which may be positive, negative or zero) or (y) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

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

- (b) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);
- (c) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

“**Alternative Rate**” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with 5(g)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Floating Rate Notes;

“**Benchmark Amendments**” has the meaning given to it in 5(g)(iv);

“**Benchmark Replacement Conforming Changes**” means, with respect to the Benchmark Amendments, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Amendments in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Amendments exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

“**Benchmark Transition Event**” means:

- (a) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (b) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (c) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (d) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Floating Rate Notes; or
- (e) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

- (f) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholders using the Original Reference Rate,

provided that the Benchmark Transition Event shall be deemed to occur (i) in the case of sub-paragraphs (b) and (c) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (ii) in the case of sub-paragraph (d) above, on the date of the prohibition of use of the Original Reference Rate and (iii) in the case of sub-paragraph (e) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Transition Event shall be determined by the Issuer and promptly notified to the Fiscal Agent, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Fiscal Agent, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination;

“**Designee**” means a designee as selected and separately appointed by the Issuer in writing;

“**Independent Adviser**” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under 5(g)(i);

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

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

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

“**Successor Rate**” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body. In connection with the implementation of the Benchmark Amendments, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes (as defined herein) from time to time.

(h) **Benchmark Discontinuation (SOFR)**

The following provisions shall apply if Benchmark Discontinuation (SOFR) is specified in the applicable Pricing Supplement:

(i) **Benchmark Replacement**

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) **SOFR Benchmark Replacement Conforming Changes**

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make SOFR Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(h). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by the Agents (if required). Further, none of the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(iii) **Decisions and Determinations**

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(h), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (A) will be conclusive and binding absent manifest error, (B) will be made in the sole discretion of the Issuer or its designee, as applicable, and (C) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

(iv) **Certain Defined Terms**

As used in this Condition 5(h)

“**Benchmark**” means, initially, the relevant SOFR Benchmark specified in the applicable Pricing Supplement; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then “**Benchmark**” means the applicable Benchmark Replacement;

“**Benchmark Event**” means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

- (A) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

“**Benchmark Replacement**” means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (A) the sum of:
  - (1) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and
  - (2) the Benchmark Replacement Adjustment;
- (B) the sum of:
  - (1) the ISDA Fallback Rate; and
  - (2) the Benchmark Replacement Adjustment; or
- (C) the sum of:
  - (1) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and
  - (2) the Benchmark Replacement Adjustment;

**“Benchmark Replacement Adjustment”** means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or
- (C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

**“Benchmark Replacement Date”** means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

- (A) in the case of sub-paragraph (A) or (B) of the definition of “Benchmark Event”, the later of:
  - (1) the date of the public statement or publication of information referenced therein; and
  - (2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
- (B) in the case of sub-paragraph (C) of the definition of “Benchmark Event”, the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

**“designee”** means a designee as selected and separately appointed by the Issuer in writing;

**“ISDA Definitions”** means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;

**“ISDA Fallback Adjustment”** means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

“**ISDA Fallback Rate**” means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

“**Reference Time**” with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Simple SOFR Average or Compounded Daily SOFR is specified as applicable hereon) or SOFR Index Determination Time (where SOFR Index is specified as applicable hereon), or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the SOFR Benchmark Replacement Conforming Changes;

“**Relevant Governmental Body**” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto;

“**SOFR Benchmark Replacement Conforming Changes**” means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary); and

“**Unadjusted Benchmark Replacement**” means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

## 6 Payments

### (a) Method of Payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee; and
- (ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

References to “Specified Currency” will include any successor currency under applicable law.

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

(b) **Payments subject to fiscal and other laws**

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471 (b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto.

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

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

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

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes or Index Linked Interest Notes or Long Maturity Notes (as defined below) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

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

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

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

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

Payments of principal (other than instalments of principal (if any) prior to the final instalment) in respect of each Registered Note (whether in definitive or global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “**Register**”) (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, in respect of Notes clearing through the CMU, a day on which the CMU is open for business and in respect of Notes clearing through DTC, a day on which DTC is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. For these purposes,

“**Designated Account**” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest due on a Registered Note (whether in definitive or global form) and payments of instalments of principal (if any) due on a Registered Note (other than the final instalment) will be made by credit or transfer to an account in the relevant Specified Currency maintained by the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, in respect of Notes clearing through the CMU, a day on which the CMU is open for business and in respect of Notes clearing through DTC, a day on which DTC is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”). Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency shall be paid by transfer by the Registrar to an account in the relevant Specified Currency on behalf of DTC or its nominee for payment in such Specified Currency or conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement. In the case of a Registered Note (whether or not in global form) held in the CMU, payment will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligations of the Issuer in respect of that payment.

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

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

The holder of a Global Note (if the Global Note is not lodged with the CMU) or the CMU Accountholder at the direction of the holder of a Global Note (if the Global Note is lodged with the CMU), shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the

order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, the CMU or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, the CMU or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note. No person other than the holder of such Global Note shall have any claim against the Issuer in respect of any payments due on such Global Note.\

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

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

(g) **Payment Day**

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

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) in the case of Notes in definitive form only, the relevant place of presentation;
  - (B) each Additional Financial Centre specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, any day on which T2 is open for the settlement of payments in euro; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such

Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

**(h) Interpretation of Principal and Interest**

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

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortized Face Amount as defined in Condition 7(g); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

**7 Redemption and Purchase**

**(a) Redemption at Maturity**

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

**(b) Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which (including the cessation of tax exemptions presently applicable) change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and

- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two duly authorized officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar (which notices shall be irrevocable and shall specify the date fixed for redemption);

redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (Redeemed Notes) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear, Clearstream, Luxembourg, the CMU and/or DTC, as the case may be, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the Selection Date). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and

including) the date fixed for redemption pursuant to this sub-paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) **Redemption of the Notes at the Option of the Noteholders (Investor Put)**

If, with respect to the Notes, Investor Put is specified as being applicable in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Pricing Supplement the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

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

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

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg, DTC and the CMU given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 10.

Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which such Note will be redeemed only against provision of such indemnity as the Issuer may require. Upon the date on which any Note falls due for redemption or is purchased for cancellation, all unmatured Coupons appertaining thereto will become void and no payment will thereafter be made in respect thereto.

(e) **Redemption due to changes in the KHFC Act**

The Issuer will be obliged to redeem the Notes in whole, but not in part, if at any time in which an Event of Default shall not have occurred and is continuing, the KHFC Act is amended, repealed or judicially impaired with the effect that the obligation of the Korean government to cover losses incurred by KHFC under Article 51 of the KHFC Act is materially reduced or removed. Notes redeemed pursuant to this Condition 7(e) will be redeemed at their Early Redemption Amount referred to in Condition 7(f).

(f) **Early Redemption Amounts**

For the purposes of paragraphs (b) and (e) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at an amount (the “**Amortized Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“**RP**” means the Reference Price; and

“**AY**” means the Accrual Yield expressed as a decimal; and

“**y**” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(g) **Instalments**

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

(h) **Partly Paid Notes**

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

(i) **Purchases**

The Issuer may at any time purchase Notes (provided that, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts, Coupons and Talons appertaining thereto) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(j) **Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (j) above (together with all unmatured Receipts and Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and cannot be reissued or resold.

(k) **Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or, as the case may be, the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

(l) **Obligation to redeem**

Upon the expiry of any notice as is referred to in paragraph (b), (c) or (d) above, the Issuer shall be bound to redeem the Notes to which the notice referred to at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

## 8 Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such 30th day; or
- (iii) where such withholding or deduction is imposed pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, U.S. Treasury regulations or administrative guidance promulgated thereunder or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law, regulation, rule or practice implementing such intergovernmental approach).

As used herein:

- (A) “**Tax Jurisdiction**” means (i) Korea or any political subdivision or any authority thereof or therein having power to tax and (ii) if the Issuer is acting through an overseas branch (as specified in the applicable Pricing Supplement) the jurisdiction relating to such overseas branch or any political subdivision or any authority thereof or therein having power to tax; and
- (B) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or, as the case may be, the Registrar on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## 9 Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(c) or any Talon which would be void pursuant to Condition 6(c).

## 10 Events of Default

### (a) Issuer Events of Default

In the event of any one or more of the following (“**Events of Default**”):

- (i) *Non-payment*: default in any payment of principal in respect of any of the Notes, Receipts or Coupons of this Series (whether at maturity, upon redemption or otherwise), or in any payment of interest on any Notes, Receipts or Coupons of this Series, and the continuance of any such default for a period of 30 days; or
- (ii) *Breach of other obligations*: default in the performance of or breach of any other covenant or agreement contained in the Notes of this Series and the continuance of such default for a period of 30 days after written notice thereof shall have first been given to the Issuer at the office of the Fiscal Agent by the holders of at least 10% of the aggregate principal amount of the Notes of this Series at the time outstanding; or
- (iii) *Cross-default*: any Indebtedness of the Issuer in the aggregate principal amount of US\$30,000,000 or more either (i) becoming due and payable prior to the due date for payment thereof by reason of default by the Issuer or (ii) not being repaid at maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of Indebtedness of any other person in the aggregate principal amount of US\$30,000,000 or more not being honoured when due and called, except in any such case where such Indebtedness or guarantee is being contested in good faith by appropriate proceedings; or
- (iv) *Moratorium*: Korea declaring a moratorium on the payment of any External Indebtedness (including obligations arising under guarantees) of Korea or Korea becoming liable to repay prematurely any sums in respect of such External Indebtedness (including obligations arising under guarantees) as a result of a default under, or breach of the terms applicable to, such External Indebtedness or such obligations, or the international monetary reserves of Korea becoming subject to any lien, charge, mortgage, encumbrance or other security interest or any segregation or other preferential arrangement (whether or not constituting a security interest) for the benefit of any creditor or class of creditors; or
- (v) *Change of Control*: Korea ceasing to control (directly or indirectly) the Issuer or for any reason failing to provide the financial support to the Issuer stipulated as of the date of issue of the Notes by Article 51 of the KHFC Act, as amended; or
- (vi) *Enforcement proceedings*: if proceedings are initiated against the Issuer under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, rehabilitation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)), or a receiver and/or manager, administrative receiver, bankruptcy administrator, bankruptcy trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the Issuer or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any substantial part of its assets, or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, rehabilitation or other similar laws or shall make a conveyance or assignment on behalf of, or shall enter into any composition with, its creditors generally; or

- (vii) *Insolvency*: the Issuer being adjudicated or found bankrupt or insolvent or any order being made by a competent court or administrative agency or any resolution being passed by the Issuer to apply for the appointment of a receiver or trustee or other similar official in insolvency proceedings in relation to the Issuer or a substantial part of its assets or the Issuer being wound up or dissolved or the Issuer ceasing to carry on the whole or substantially the whole of its business; or
- (viii) *Winding-up*: an order is made or an effective resolution passed for winding-up the Issuer; or
- (ix) *Analogous event*: any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in sub-paragraphs (iv) to (viii) above,

then the holders of at least 25% in nominal amount of this Series may, by written notice addressed to the Issuer and delivered to the Issuer or to the Principal Paying Agent in accordance with Condition 14, declare this Series to be immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality. Any such notice shall specify the serial number of each Note in respect of which it is given.

(b) **Interpretation**

In these Conditions:

- (i) “**External Indebtedness**” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of Korea.
- (ii) “**Indebtedness**” means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by way of acceptances or leasing).

**11 Replacement of Notes, Receipts, Coupons and Talons**

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

**12 Principal Paying Agent, CMU Lodging and Paying Agent, Registrar, Paying and Transfer Agents**

The names of the initial Principal Paying Agent, the initial CMU Lodging and Paying Agent, the other initial Paying Agents, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent, Calculation Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars, Calculation Agents, or Transfer Agents and/or approve any change in the specified office through which any of the same acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes), and a Registrar and Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent and a Transfer Agent with a specified office in a city in continental Europe;
- (iii) there will at all times be a Registrar and a Transfer Agent each having a specified office in New York City;
- (iv) there will at all times be a Principal Paying Agent;
- (v) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (vi) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the “**Singapore Stock Exchange**”) and the rules of the Singapore Stock Exchange so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the Singapore Stock Exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 6(f). Notice of any variation, termination, appointment or change will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

In acting under the Agency Agreement, the Principal Paying Agent, the CMU Lodging and Paying Agent, the Registrar, the Calculation Agent, the Paying Agents and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or trust for or with any Noteholders.

### **13 Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 11. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

### **14 Notices**

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to the holders (or the first named of joint holders) at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes shall be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in Asia and (ii) if and for so long as the Bearer Notes are listed on the Singapore Stock Exchange and the rules of the Singapore

Stock Exchange so require, a daily newspaper of general circulation in Singapore. It is expected that such publication will be made in the *Asian Wall Street Journal* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange, the stock exchange agrees), so long as any Global Notes representing the Notes are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and (ii) the CMU, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the persons shown in the relevant CMU Instrument Position Report.

Notices through the Clearing Systems: While any Notes are held through the clearing systems, a notice will be deemed to have been given to holders of such Notes on the day following the date of its delivery to the relevant clearing system for publication or, if that is not a Clearing System Business Day, on the next succeeding Clearing System Business Day. "Clearing System Business Day" for the purposes of this paragraph means Monday to Friday inclusive, except 25 December and 1 January.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar via Euroclear and/or Clearstream, Luxembourg and/or DTC and/or, in the case of Notes lodged with the CMU, by delivery by such holder of such notice to the CMU Lodging and Paying Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU as the case may be, may approve for this purpose.

## **15 Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 5.0% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50.0% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of

the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes (except as a result of any modification contemplated in Condition 5(g) or Condition 5(h)) or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than 75.0% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing a clear majority, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agents and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of any of the provisions of the Notes, the Receipts, the Coupons, the Conditions or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons, the Conditions, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter. Any determination as to prejudice applying to the interests of the Noteholders, Receiptholders or Couponholders of any Notes pursuant to this Condition shall be made by Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determination.

## **16 Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **17 Provision of Information**

The Issuer has covenanted in the Deed Poll for the benefit of the Noteholders, Receiptholders and Couponholders that for so long as any Notes remain outstanding and are “restricted securities” (as defined in Rule 144(a)(3) under the Securities Act), the Issuer shall, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Noteholder, Receiptholder or Couponholder of, or beneficial owner of an interest in, such Notes, Receipts or Coupons in connection with any resale thereof and to any prospective purchaser designated by such Noteholder, Receiptholder or Couponholder or beneficial owner, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

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

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

## 19 Governing Law and Submission to Jurisdiction

- (a) The Agency Agreement, the Deed Poll, the Deed of Covenant, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed Poll, the Deed of Covenant, the Notes, the Receipts and the Coupons, are and shall be governed by, and construed in accordance with, English law.
- (b) The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection therewith) and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Agency Agreement, the Notes, the Receipts and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection therewith) may be brought in such courts. The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Issuer appoints Walkers at its registered office for the time being, currently at The Scalpel, 11th Floor, 52 Lime Street, London, EC3M 7AF, United Kingdom as its agent for service of process, and undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve Proceedings in any other manner permitted by law. The Issuer hereby irrevocably and unconditionally waives with respect to the Agency Agreement, the Notes, the Receipts and/or the Coupons any right to claim immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### Initial Issue of the Notes

Bearer Global Notes or Registered Global Notes may be delivered on or prior to the original Issue Date of the Tranche to the Common Depository.

Upon the initial deposit of the Bearer Global Notes with the Common Depository for Euroclear and Clearstream, Luxembourg and/or a sub-custodian for the HKMA as operator of the CMU or registration of Registered Notes in the name of any nominee for Euroclear, Clearstream, Luxembourg and CMU and delivery of the relative Registered Global Note to the Common Depository for Euroclear and Clearstream, Luxembourg and/or a sub-custodian for the HKMA as operator of the CMU, Euroclear, Clearstream, Luxembourg or CMU will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial deposit of a Registered Global Note in respect of, and registration of, Registered Notes in the name of a nominee for DTC and delivery of the relevant Registered Global Note to the custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository for Euroclear and Clearstream, Luxembourg and/or a sub-custodian for the HKMA as operator of the CMU may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear, Clearstream, Luxembourg and CMU held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg, CMU or other clearing systems.

The Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S under the Securities Act and within the United States or to, or for the benefit of, U.S. Persons (as defined in Regulation S under the Securities Act) and “**U.S. Residents**” (defined as a “U.S. Person” under Regulation S, as such term has been interpreted by the U.S. Securities and Exchange Commission Staff in the context of Section 7(d) of the Investment Company Act) (together, “**U.S. Investors**”) as described herein in reliance on Rule 144A.

### Relationship of Accountholders with Clearing Systems

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

## Exchange

### Temporary Bearer Global Notes

Each temporary bearer Global Note (the “**Temporary Bearer Global Note**”) will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Bearer Global Note is issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that is applicable for purposes of Section 4701 of the Code) or in a transaction to which United States Tax Equity and Fiscal Responsibility Act of 1982 is not applicable, in whole, but not in part, for the Definitive Note defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Bearer Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

### Permanent Bearer Global Note

Each permanent bearer Global Note (the “**Permanent Bearer Global Note**”) will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “– *Book Entry; Delivery of Notes*” below, in part for Definitive Notes if the Permanent Bearer Global Note is held on behalf of Euroclear, Clearstream, Luxembourg, CMU, or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so by such holder giving notice to the Paying Agent.

### Registered Global Notes

#### (a) Regulation S Global Notes

If the Pricing Supplement states that the Notes to be sold to non-U.S. persons in offshore transactions in reliance on Regulation S (the “**Regulation S Notes**”) are to be represented by a Regulation S Global Note on issue, the following will apply in respect of transfers of Notes held in Euroclear, Clearstream, Luxembourg, CMU, DTC, or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Registered Global Note pursuant to Condition 2.2 may only be made:

- (i) (in the case of Regulation S Global Notes that are cleared through Euroclear, Clearstream, Luxembourg, CMU or any other clearing system) in whole but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) (in the case of Regulation S Global Notes that are cleared through DTC) in whole but not in part, if such Notes are held on behalf of a custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to that Rule 144A Global Note or DTC ceases to be a “clearing agency” registered under the Exchange Act or is at any time no longer eligible to act as such, and this Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(iii) in whole or in part, with the consent of the Issuer,

provided that, in the case of a transfer pursuant to sub-paragraph (i) or (ii) above, the registered holder has given the Registrar not less than 30 days' notice at its specified office of the registered holder's intention to effect such transfer.

(b) **Rule 144A Global Notes**

If the Pricing Supplement states that the Notes to be sold in the United States to QIBs and QPs in reliance on Rule 144A (the "**Rule 144A Notes**") are to be represented by a Rule 144A Global Note on issue, the following will apply in respect of transfers of Notes held in Euroclear, Clearstream, Luxembourg, CMU, DTC or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by that Rule 144A Global Note pursuant to Condition 2.2 may only be made:

- (i) (in the case of Rule 144A Global Notes that are cleared through Euroclear and Clearstream, Luxembourg, CMU or any other clearing system) in whole but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) (in the case of Rule 144A Global Notes that are cleared through DTC) in whole but not in part, if such Notes are held on behalf of a custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Rule 144A Global Note or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and this Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (iii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to (i) or (ii) above, the relevant registered Noteholder has given the Registrar not less than 30 days' notice at its specified office of the registered Noteholder's intention to effect such transfer. Where the holding is only transferable in whole, the individual Certificates issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*".

**Exchanges Between the Regulation S Notes and the Rule 144A Notes**

Beneficial interests in the Regulation S Global Notes may be exchanged for beneficial interests in the Rule 144A Global Notes during the 40-day period commencing on the later of the closing date and the date of completion of the distribution of the securities (the "**Distribution Compliance Period**"), only if such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A and the transferor first delivers to the Registrar a written certificate to the effect that the Notes are being transferred to a person who the transferor reasonably believes is a QIB/QP, purchasing the Notes for its own account or the account of another QIB/QP in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions. Unless the Registered Global Notes have previously been exchanged for Definitive Notes, beneficial interests in the Rule 144A Global Notes may be transferred to a person who takes delivery in the form of an interest in Regulation S Global Notes, whether before or after the expiration of the Distribution Compliance Period, only if the transferor first delivers to the Registrar a written certificate to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S

and that, if such transfer occurs prior to the expiration of the Distribution Compliance Period, the book-entry interest transferred will be held immediately through Euroclear, Clearstream, Luxembourg, CMU and/or DTC.

Any beneficial interest in one of the Registered Global Notes that is transferred to a person who takes delivery in the form of an interest in another Registered Global Note will, upon transfer, cease to be an interest in such Registered Global Note and will become an interest in the other Registered Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Registered Global Note for so long as it remains such an interest.

### **Book Entry; Delivery of Notes**

The Notes offered in the United States to QIB/QPs in reliance on Rule 144A will be evidenced by a Rule 144A Global Note and the Notes offered and sold in reliance on Regulation S, which will be sold to Non-U.S. Investors outside the United States, will be evidenced by a Regulation S Global Note, each of which will be registered in the name of a nominee of, and shall be deposited with, a common depository for Euroclear and Clearstream, Luxembourg and/or a sub-custodian for the HKMA as operator of the CMU.

The Notes will be subject to certain restrictions on transfer and will bear restrictive legends as described under “*Subscription and Sale and Transfer and Selling Restrictions*”. In addition, transfer of beneficial interests in the Registered Global Notes will be subject to the applicable rules and procedures of Euroclear, Clearstream, Luxembourg and CMU and their respective accountholders, which may change from time to time.

On or after any due date for exchange, the holder of a Bearer Global Note may surrender such Bearer Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Paying Agent. In exchange for any Bearer Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note, deliver, or procure the delivery of, a Permanent Bearer Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Bearer Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Bearer Global Note to reflect such exchange or (ii) in the case of a Bearer Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes.

Definitive Notes will be security printed or in accordance with any applicable legal and stock exchange requirements. On exchange in full of each Permanent Bearer Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### **Exchange Date**

“**Exchange Date**” means, in relation to a Temporary Bearer Global Note, the day falling after the expiry of 40 days after its Issue Date and, in relation to a Permanent Bearer Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Paying Agent is located and in the city in which the relevant clearing system is located.

### **Amendment to Conditions**

The Temporary Bearer Global Notes, Permanent Bearer Global Notes and Registered Global Notes contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

## **Payments**

No payment falling due after the Exchange Date will be made on any Bearer Global Note unless exchange for an interest in a Permanent Bearer Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Bearer Global Note issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Bearer Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Bearer Global Note to or to the order of the Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Bearer Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Bearer Global Note, the relevant place of presentation shall be disregarded in the definition of “Payment Day” set out in Condition 5.9 (*Payment Day*).

All payments in respect of Notes represented by a Registered Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

## **Prescription**

Claims against the Issuer in respect of Notes that are represented by a Permanent Bearer Global Note or by a Registered Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7 (*Taxation*)).

## **Meetings**

The holder of the Notes represented by a Permanent Bearer Global Note or by a Registered Global Note shall (unless such Permanent Bearer Global Note or Registered Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, and the holder of a Permanent Bearer Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

## **Cancellation**

Cancellation of any Note represented by a Permanent Bearer Global Note or by a Registered Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Bearer Global Note or the relevant Registered Global Note, as the case may be, on its presentation to or to the order of the Paying Agent for endorsement in the relevant schedule of such Permanent Bearer Global Note or such Registered Global Note, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

## **Purchase**

Notes represented by a Permanent Bearer Global Note or by a Registered Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the right to receive all future payments of interest thereon.

**Issuer's Options**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Bearer Global Note or by a Registered Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

**Notices**

So long as any Notes are represented by a Bearer Global Note or a Registered Global Note and such Bearer Global Note or Registered Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Bearer Global Note.

**General**

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that any Bearer Global Note or Registered Global Note is exchanged for Definitive Notes, the Issuer shall appoint and maintain a paying agent in Singapore, where such Definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Bearer Global Note or a Registered Global Note is exchanged for Definitive Notes, an announcement on such exchange will be made by or on behalf of the Issuer through the SGX-ST, and such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the paying agent in Singapore.

## **USE OF PROCEEDS**

The Issuer expects to use the net proceeds from each issue of Notes for its general corporate purposes or as otherwise described by the Issuer at the time of offering in the Pricing Supplement of the relevant Series of Notes.

## SELECTED FINANCIAL AND OPERATING DATA

The selected financial information in Won presented below is derived from the audited consolidated financial statements set forth in Appendix I to this Offering Circular.

The following information should be read together with KHFC's audited consolidated financial statements and the accompanying notes set forth in Appendix I to this Offering Circular.

### Summary of Statements of Financial Position

	As of 31 December		
	2022	2023	2023
	Audited (Won in billions)		Unaudited (U.S.\$ in millions)
<b>Assets</b>			
Cash and due from banks . . . . .	2,514.0	6,138.7	4,760.9
Securities . . . . .	2,245.7	1,967.5	1,525.9
Securities at fair value through profit or loss . . . . .	1,309.2	241.9	187.6
Securities at fair value through other comprehensive income . . . . .	936.5	1,725.6	1,338.3
Other financial assets . . . . .	541.4	945.6	733.4
Derivative financial assets . . . . .	197.4	466.9	362.1
Other financial assets . . . . .	344.0	478.7	371.3
Loan receivables at amortized costs . . . . .	155,941.5	179,551.5	139,252.0
Purchased mortgage-backed loans . . . . .	9,650.6	14,111.1	10,943.9
Premium (discount) on loan receivables . . . . .	(71.3)	(111.1)	(86.1)
Deferred loan origination fees and costs . . . . .	34.2	59.2	45.9
(Allowance for doubtful accounts) . . . . .	(12.8)	(18.0)	(14.0)
Purchased student loans . . . . .	30.8	22.5	17.4
Discount on loan receivables . . . . .	(0.3)	(0.2)	(0.2)
(Allowance for doubtful accounts) . . . . .	(3.4)	(3.3)	(2.5)
Mortgage-backed loans by trusts . . . . .	146,369.9	165,554.7	128,396.7
Premium (discount) on loan receivables . . . . .	(401.6)	(405.7)	(314.7)
Deferred loan origination fees and costs . . . . .	472.8	478.9	371.4
(Allowance for doubtful accounts) . . . . .	(127.4)	(136.6)	(106.0)
Student loans by trusts . . . . .	-	-	-
(Allowance for doubtful accounts) . . . . .	-	-	-
Property and equipment . . . . .	191.9	187.6	145.5
Lands . . . . .	19.8	19.8	15.4
Buildings . . . . .	117.1	117.1	90.8
(Accumulated depreciation) . . . . .	(16.7)	(19.6)	(15.2)
Vehicles . . . . .	0.2	0.2	0.2
(Accumulated depreciation) . . . . .	(0.2)	(0.2)	(0.2)
Office equipment . . . . .	108.4	120.9	93.7
(Accumulated depreciation) . . . . .	(74.7)	(84.9)	(65.9)
Right-of-use assets . . . . .	28.5	31.5	24.4
(Accumulated depreciation) . . . . .	(9.5)	(12.0)	(9.3)
Other property and equipment . . . . .	36.4	38.0	29.5
(Accumulated depreciation) . . . . .	(18.7)	(23.2)	(18.0)
Construction-in-progress . . . . .	1.3	-	-
Intangible assets . . . . .	38.7	27.8	21.6
Software . . . . .	67.1	67.2	52.1
(Accumulated amortization) . . . . .	(29.3)	(40.2)	(31.2)
Copyright, patent and other industrial property rights . . . . .	0.0	0.0	0.0
(Accumulated amortization) . . . . .	(0.0)	(0.0)	(0.0)
Membership . . . . .	0.8	0.9	0.7
Other assets . . . . .	9.4	16.7	12.9
Advanced payments . . . . .	0.0	0.0	0.0
Prepaid expenses . . . . .	9.3	16.6	12.9
Other assets . . . . .	0.0	0.0	0.0
Deferred tax assets . . . . .	62.5	91.2	70.7
<b>Total assets</b> . . . . .	<b>161,545.0</b>	<b>188,926.5</b>	<b>146,522.8</b>

	As of 31 December		
	2022	2023	2023
	Audited (Won in billions)		Unaudited (U.S.\$ in millions)
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Debts . . . . .	9,099.4	16,452.8	12,760.0
Public bonds issued . . . . .	8,950.0	16,270.9	12,619.0
(Discount on public bonds) . . . . .	(0.6)	(18.2)	(14.1)
Securitized liabilities . . . . .	147,143.6	166,573.5	129,186.8
Mortgage-backed bonds . . . . .	7,624.0	11,061.0	8,578.4
(Discount on bonds) . . . . .	(9.5)	(13.3)	(10.3)
Securitized securities . . . . .	139,594.5	155,593.0	120,670.9
(Discount on securities) . . . . .	(65.4)	(67.2)	(52.1)
Other financial liabilities . . . . .	996.0	1,206.2	935.5
Derivative financial liabilities . . . . .	467.1	425.1	329.7
Other payables . . . . .	32.7	50.7	39.3
Other financial liabilities . . . . .	496.2	730.5	566.5
Provisions . . . . .	27.6	32.0	24.8
Provisions for employee benefits . . . . .	1.3	1.4	1.1
Provisions for conversion incentives . . . . .	23.1	27.7	21.5
Provisions for restoration costs . . . . .	3.2	3.0	2.3
Employee benefit liabilities . . . . .	76.8	97.1	75.3
Net defined benefit liabilities . . . . .	76.8	97.1	75.3
Other liabilities . . . . .	12.4	14.7	11.4
Advances received . . . . .	12.4	14.7	11.4
Current tax liabilities . . . . .	113.8	39.3	30.5
Deferred tax liabilities . . . . .	–	–	–
<b>Total liabilities</b> . . . . .	<b>157,469.5</b>	<b>184,415.6</b>	<b>143,024.4</b>
<b>Equity</b>			
Paid-in capital . . . . .	2,335.3	2,730.2	2,117.4
Capital contributions . . . . .	2,340.6	2,737.4	2,123.0
Capital adjustments . . . . .	(5.3)	(7.2)	(5.6)
Retained earnings . . . . .	1,884.8	1,878.1	1,456.6
Legal reserves . . . . .	473.0	497.8	386.1
Regulatory reserve for credit losses . . . . .	390.5	337.7	261.9
Unappropriated retained earnings . . . . .	1,021.3	1,042.6	808.6
Accumulated other comprehensive income (loss) . . . . .	(144.6)	(97.4)	(75.5)
<b>Total equity</b> . . . . .	<b>4,075.5</b>	<b>4,510.9</b>	<b>3,498.4</b>
<b>Total liabilities and equity</b> . . . . .	<b>161,545.0</b>	<b>188,926.5</b>	<b>146,522.8</b>

## Summary of Statements of Operations

	For the year ended 31 December		
	2022	2023	2023
	<b>Audited</b>		<b>Unaudited</b>
	<b>(Won in billions)</b>		<b>(U.S.\$ in millions)</b>
<b>Operating income</b> . . . . .	4,725.5	5,910.1	4,583.6
Interest income . . . . .	4,057.3	4,862.3	3,771.0
Fee and commission income . . . . .	15.4	13.9	10.8
Gain on disposal of financial assets at fair value through OCI . . . . .	–	0.5	0.4
Gain on valuation and transaction of derivatives . . . . .	499.6	873.0	677.0
Gain on foreign currency translation . . . . .	36.4	10.9	8.5
Gain on foreign currency transaction . . . . .	27.7	26.8	20.8
Other operating income . . . . .	89.2	122.7	95.1
<b>Operating expenses</b> . . . . .	4,605.3	5,845.4	4,533.5
Interest expenses . . . . .	3,313.8	4,282.7	3,321.4
Fee and commission expenses . . . . .	122.6	119.6	92.8
Bad debt expenses . . . . .	75.6	27.4	21.3
Loss on valuation and transaction of derivatives . . . . .	816.6	708.0	549.1
Loss on foreign currency translation . . . . .	51.0	480.6	372.7
Loss on foreign currency transaction . . . . .	–	–	–
Other operating expenses . . . . .	12.3	5.8	4.5
Selling and administrative expenses . . . . .	213.5	221.3	171.7
<b>Operating profit</b> . . . . .	120.1	64.6	50.1
<b>Other income (expenses)</b> . . . . .	(3.2)	(2.9)	(2.3)
Loss on disposal of property and equipment . . . . .	(0.0)	(0.3)	(0.2)
Other losses, net . . . . .	(3.2)	(2.6)	(2.1)
Profit before income taxes . . . . .	117.0	61.7	47.9
Income tax expense . . . . .	(32.3)	(16.2)	(12.6)
<b>Profit for the year</b> . . . . .	84.7	45.5	35.3
<b>Other comprehensive income</b> . . . . .	(178.7)	38.4	29.8
Items that will not be reclassified to profit or loss in subsequent periods:	9.9	(8.7)	(6.8)
Remeasurements of net defined benefit liabilities . . . . .	10.1	(8.8)	(6.9)
Net loss on equity instruments measured at fair value through OCI . .	(0.2)	0.1	0.1
Items that will or may be reclassified to profit or loss in subsequent periods:	(188.6)	47.1	36.5
Net gain (loss) of debt instruments measured at fair value through OCI	(8.4)	20.7	16.0
Net gain on valuation of cash flow hedges . . . . .	(180.2)	26.4	20.5
<b>Total comprehensive income</b> . . . . .	(94.0)	83.9	65.1

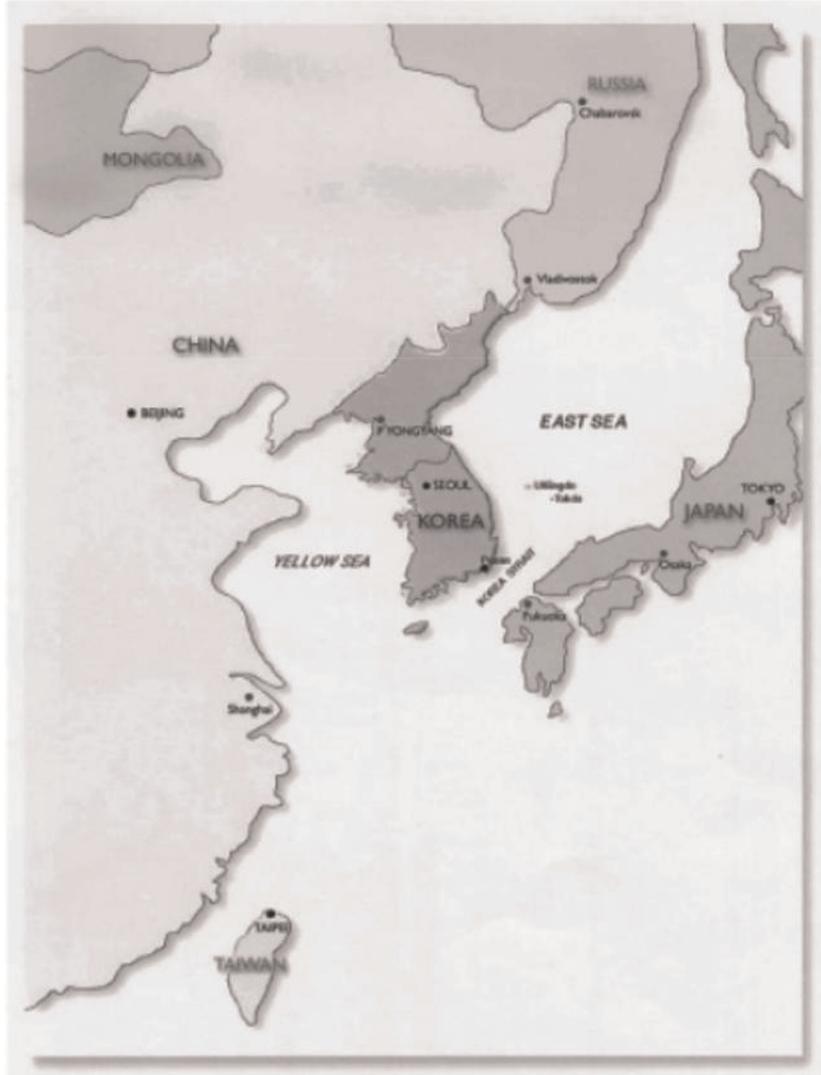
## THE REPUBLIC OF KOREA

### Land and History

#### *Territory and Population*

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

#### Map of the Republic of Korea



#### *Political History*

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

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

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

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

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

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

In December 2007, the country elected Lee Myung-Bak as President. He commenced his term in February 2008. In April 2018, the Korean prosecutor's office indicted former President Lee on 16 counts of corruption, including bribery, abuse of power, embezzlement and other irregularities. In October 2018, a Seoul district court sentenced him to 15 years of prison term, which decision he subsequently appealed. In October 2020, the Supreme Court ruled against such appeal and sentenced him to 17 years of prison term. Subsequently, he was granted a special pardon by President Yoon, the current president of the Republic, and was released from prison in December 2022.

In December 2012, the country elected Park Geun-hye as President. She commenced her term in February 2013. In March 2017, the Constitutional Court unanimously upheld a parliamentary vote to impeach President Park, triggering her immediate dismissal, for a number of constitutional and criminal violations, including violation of the Constitution and abuse of power by allowing her confidant to exert influence on state affairs and allowing senior presidential aides to aid in her extortion from companies. After a series of trials, former President Park was sentenced to a combined 22 years of prison term and a fine of ₩21.5 billion. In light of her deteriorating health, however, former President Park was granted a special pardon by President Moon, her successor, and was released from prison in December 2021.

A special election to elect a successor to former President Park was held in May 2017 and the country elected Moon Jae-in as President. His term, which commenced on 10 May 2017, ended on 9 May 2022.

In March 2022, the country elected Yoon Suk-yeol as President. His term commenced on 10 May 2022. The Yoon administration's key policy objectives include, among others, the following:

- mitigating the adverse effects of the COVID-19 pandemic on the Korean economy, including through the provision of relief packages in support of small businesses and the self-employed;

- stabilising the housing market by increasing the supply of new homes and reforming property-related tax regulations;
- pursuing economic prosperity by promoting private sector growth and supporting the semiconductor, artificial intelligence, battery and other strategic industries;
- pursuing the denuclearisation of the Korean Peninsula, enhancing Korea's core military capabilities and improving foreign relations and national security;
- pursuing enhanced environmental, social and corporate governance management, including through efforts to achieve carbon neutrality by reversing the previous administration's nuclear-phase out policy and combining renewable energy with nuclear power generation; and
- pursuing efficient management of the government through various measures, including the establishment of a digital platform and the relocation of presidential offices.

## **Government and Politics**

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

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

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

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

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

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

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

**Political Parties**

The 22nd legislative general election was held on 10 April 2024 and the term of the National Assembly members elected in the 22nd legislative general election commenced on 30 May 2024. Currently, there are three major political parties: The Democratic Party of Korea, or the DPK, the People Power Party, or the PPP, and the Rebuilding Korea Party, or the RKP.

As of 2 July 2024, the parties control the following number of seats in the National Assembly:

	<u>DPK</u>	<u>PPP</u>	<u>RKP</u>	<u>Others</u>	<u>Total</u>
Number of seats . . . . .	170	108	12	10	300

**Relations with North Korea**

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

North Korea maintains a military force estimated at more than a million regular troops, mostly concentrated near the northern side of the demilitarised zone, and approximately 7.6 million reserves. The Republic’s military forces, composed of approximately 500,000 regular troops and 3.1 million reserves, maintain a state of military preparedness along the southern side of the demilitarised zone. In addition, the United States has maintained its military presence in the Republic since the signing of the armistice and currently has approximately 28,500 troops stationed in the Republic. The Republic and the United States share a joint command structure over their military forces in Korea. In October 2014, the United States and the Republic agreed to implement a conditions-based approach to the dissolution of their joint command structure at an appropriate future date, which would allow the Republic to assume the command of its own armed forces in the event of war on the Korean peninsula. Over the years, the Republic and the United States have entered into a series of Special Measures Agreements, or SMAs, which cover the Republic’s contribution to the cost of maintaining the U.S. military presence in the Republic. In March 2021, the Republic and the United States reached an agreement to enter into a new six-year SMA, under which the Republic would increase its share of the cost of the American military presence in the Republic, which became effective in September 2021 upon ratification by the National Assembly.

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

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

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch programme and it conducted a series of ballistic missile tests in 2016 and 2017. In response, the United Nations Security Council issued unanimous statements condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures, and in December 2017, unanimously passed a resolution extending existing sanctions that were imposed on North Korea. Despite such actions, North Korea increased the frequency of its military actions since the beginning of 2022, firing numerous ballistic missiles, including intercontinental ballistic missiles, and in November 2023, successfully launched its first spy satellite.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on ballistic missiles. In September 2017, North Korea announced that it successfully conducted its sixth nuclear test by detonating a hydrogen bomb designed to be mounted on an intercontinental ballistic missile, which resulted in increased tensions in the region and elicited strong objections worldwide. In response to such tests (as well as North Korea's long-range ballistic missile programme), the United Nations Security Council unanimously passed several rounds of resolutions condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarised zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda programme toward North Korea utilising loudspeakers near the demilitarised zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, there can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that such escalation will not have a material adverse impact on the Republic's economy and the Issuer. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between the Republic and North Korea or between the United States and North Korea break down or further military hostilities occur, could have a material adverse effect on the Republic's economy and the Issuer. Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by the Republic.

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

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

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

- United Nations;
- the International Monetary Fund, or the IMF;
- the World Bank;
- the Asian Development Bank, or the ADB;
- the Multilateral Investment Guarantee Agency;
- the International Finance Corporation;
- the International Development Association;
- the African Development Bank;
- the International Bank for Reconstruction and Development;
- the European Bank for Reconstruction and Development;
- the Bank for International Settlements;
- the World Health Organization, or the WHO;
- the World Trade Organization, or the WTO;
- the International Atomic Energy Agency, or the IAEA;
- the Inter-American Development Bank, or the IDB;
- the Organization for Economic Cooperation and Development, or the OECD; and
- the Asian Infrastructure Investment Bank.

## The Economy

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

	As of or for the year ended 31 December				
	2019	2020	2021	2022	2023
	(billions of dollars and trillions of Won, except percentages)				
GDP Growth (at current prices) . . .	1.7%	0.9%	7.9%	4.6%	3.3% <sup>(7)</sup>
GDP Growth (at chained 2020 year prices) . . . . .	2.3%	(0.7)%	4.6%	2.7%	1.4% <sup>(7)</sup>
Inflation <sup>(1)</sup> . . . . .	0.4%	0.5%	2.5%	5.1%	3.6% <sup>(7)</sup>
Unemployment <sup>(2)</sup> . . . . .	3.8%	4.0%	3.7%	2.9%	2.7% <sup>(7)</sup>
Trade Surplus (Deficit) <sup>(3)</sup> . . . . .	38.9	44.9	29.3	(47.8)	(10.2) <sup>(7)</sup>
Foreign Currency Reserves . . . . .	\$408.8	\$443.1	\$463.1	\$423.2	\$420.1 <sup>(7)</sup>
External Liabilities <sup>(4)</sup> . . . . .	\$470.7	\$550.6	\$630.7	\$665.2	\$663.6 <sup>(7)</sup>
Fiscal Balance . . . . .	₩(12.0)	₩(71.2)	₩(30.5)	₩(64.6)	₩(36.8) <sup>(7)</sup>
Direct Internal Debt of the Government <sup>(5)</sup> (as% of GDP <sup>(6)</sup> ) .	33.3%	39.3%	43.1%	46.2%	48.2% <sup>(7)</sup>
Direct External Debt of the Government <sup>(5)</sup> (as% of GDP <sup>(6)</sup> ) .	0.4%	0.5%	0.5%	0.5%	0.5% <sup>(7)</sup>

(1) Measured by the year-on-year change in the consumer price index with base year 2020, as announced by The Bank of Korea.

(2) Average for year.

(3) Derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods includes insurance and freight cost.

(4) Calculated under the criteria based on the sixth edition of the Balance of Payment Manual published by the International Monetary Fund in December 2010.

(5) Does not include guarantees by the Government. See “– Debt – External and Internal Debt of the Government – Guarantees by the Government” for information on outstanding guarantees by the Government.

At chained 2020 year prices.

(7) Preliminary.

Source: The Bank of Korea

## Worldwide Economic and Financial Difficulties

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

- the occurrence of severe health epidemics, including the COVID-19 pandemic;
- hostilities, political or social tensions involving Russia (including the invasion of Ukraine by Russia and ensuing actions that the United States and other countries have taken or may take in the future, such as the imposition of sanctions against Russia) and the resulting adverse effects on the global supply of oil and other natural resources and the global financial markets;
- rising inflationary pressures leading to increases in the costs of goods and services and a decrease in purchasing power;
- interest rate fluctuations as well as perceived or actual changes in policy rates, or other monetary and fiscal policies set forth, by the U.S. Federal Reserve and other central banks;

- disruptions in the global supply chain for raw materials, natural resources, consumer goods, rare earth minerals, component parts and other supplies, including as a result of health epidemics, government policies and labour shortages;
- increased uncertainties in the global financial markets and industry, including difficulties faced by several banks in the United States and Europe;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- financial and social difficulties affecting many governments worldwide, in particular in Latin America and Europe;
- escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East (including those resulting from the escalation of hostilities in the Middle East following the Israel-Hamas war);
- the slowdown of economic growth in China and other major emerging market economies;
- political and social instability in various countries in the Middle East, including Iran, Iraq, Syria and Yemen; and
- fluctuations in oil and commodity prices.

There has been significant volatility in global financial markets resulting from, among others, the COVID-19 pandemic, Russia's invasion of Ukraine and ensuing sanctions against Russia, the escalation of hostilities in the Middle East following the Israel-Hamas war, and more recently, difficulties faced by several banks in the United States and Europe, which has also led to significant volatility in the Korea Composite Stock Price Index in recent years. See “– *The Financial System – Securities Markets*”. Declines in the index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies and banks to raise capital. Moreover, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. A depreciation of the Won generally increases the cost of imported goods and services and the required amount of the Won revenue for Korean companies to service foreign currency-denominated debt.

In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets. In addition, in the event of difficult conditions in the global credit markets or a deterioration of the global economy in the future, the Korean economy could be adversely affected and Korean banks may be forced to fund their operations at a higher cost or may be unable to raise as much funding as they need to support their lending and other activities.

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

- a slowdown in consumer spending and depressed consumer sentiment due to the outbreak of infectious diseases, such as the COVID-19 pandemic;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers, which may occur due to, among others, the impact of the COVID-19 pandemic and the rise in interest rates;

- steadily rising household debt consisting of housing loans and merchandise credit, which increased to approximately Won 1,886.4 trillion as of 31 December 2023 from Won 843.2 trillion as of 31 December 2010, primarily due to increases in mortgage loans and purchases with credit cards;
- deterioration in economic or diplomatic relations between Korea and other countries resulting from territorial or trade disputes or disagreements in foreign policy;
- a substantial increase in the Government's expenditures for (i) fiscal stimulus measures to provide emergency relief payments to households and emergency loans to corporations in need of funding due to the COVID-19 pandemic and (ii) pension and social welfare programmes, due in part to an ageing population (defined as the population of people aged 65 years or older) that accounted for approximately 18.2% of the Republic's total population as of 31 December 2023, an increase from 7.2% as of 31 December 2000, and is expected to surpass 21.6% in 2026;
- decreases in the market prices of Korean real estate; and
- the occurrence of severe health epidemics that affect the livestock industry.

The spread of the COVID-19 pandemic since early 2020 had resulted in significant economic and financial disruptions in Korea. Although the Korean economy has mostly recovered from the COVID-19 pandemic, the outlook for the Republic's economy and its financial services sector in 2024 and for the foreseeable future remains uncertain due to the residual impact of the COVID-19 pandemic on the Korean and global economies and financial markets, fluctuations in oil and commodity prices, interest rates and exchange rates, rising inflationary pressures, higher unemployment, lower consumer confidence, stock market volatility, changes in fiscal and monetary policies, the ongoing military conflict involving Russia and Ukraine, difficulties faced by several banks in the United States and Europe, the escalation of hostilities in the Middle East following the Israel-Hamas war, and continued tensions with North Korea.

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

GDP measures the market value of all final goods and services produced within a country for a given period and reveals whether a country's productive output rises or falls over time. Economists present GDP in both current market prices and "real" or "inflation-adjusted" terms. In March 2009, the Republic adopted a method known as the "chain-linked" measure of GDP, replacing the previous fixed-base, or "constant" measure of GDP, to show the real growth of the aggregate economic activity, as recommended by the System of National Accounts 1993. GDP at current market prices values a country's output using the actual prices of each year, whereas the "chain-linked" measure of GDP is compiled by using "chained indices" linking volume growth between consecutive time periods. In March 2014, the Republic published a revised GDP calculation method by implementing the System of National Accounts 2008 and updating the reference year from 2005 to 2010 to align Korean national accounts statistics with the recommendations of the new international standards for compiling national economic accounts and to maintain comparability with other nations' accounts. The main components of these revisions include, among other things, (i) recognising expenditures for research and development and creative activity for the products of entertainment, literary and artistic originals as fixed investment, (ii) incorporating a wide array of new and revised source data such as the economic census, the population and housing census and 2010 benchmark input-output tables, which provide thorough and detailed information on the structure of the Korean economy, (iii) developing supply-use tables, which provide a statistical tool for ensuring consistency among the production, expenditure and income approaches to measuring GDP and (iv) recording merchandise trade transactions based on ownership changes rather than movements of goods across the national border. The Republic has updated the reference year from 2010 to 2015 in July 2019, and from 2015 to 2020 in June 2024, to better align Korean national accounts statistics with the recommendations of the previously implemented System of National Accounts 2008, to accurately reflect recent economic structural changes, and to maintain comparability with other countries' accounts.

The following table sets out the composition of the Republic's GDP at current market and chained 2020 year prices and the annual average increase in the Republic's GDP.

	Gross Domestic Product					As % of GDP 2023 <sup>(1)</sup>
	2019	2020	2021	2022	2023 <sup>(1)</sup>	
	(billions of Won)					
<b>Gross Domestic Product at Current Market Prices:</b>						
Private . . . . .	1,022,456.7	984,088.0	1,046,772.2	1,139,397.2	1,197,566.9	49.9
Government . . . . .	327,780.4	349,586.2	378,268.2	409,866.5	423,133.2	17.6
Gross Capital Formation . . . . .	636,575.4	648,928.8	721,964.5	774,411.5	774,563.6	32.3
Exports of Goods and Services . . . . .	755,863.2	712,542.3	874,074.3	1,052,553.6	996,865.6	41.5
Less Imports of Goods and Services . . . . .	(702,081.5)	(636,678.7)	(799,166.2)	(1,052,447.3)	(990,452.9)	(41.2)
Statistical Discrepancy . . . . .	0.0	0.0	0.0	0.0	(487.1)	0.0
Expenditures on Gross Domestic Product . . . . .	2,040,594.3	2,058,466.5	2,221,912.9	2,323,781.5	2,401,189.4	100.0
Net Factor Income from the Rest of the World . . . . .	16,609.8	16,943.8	23,413.6	28,055.4	42,128.6	1.8
Gross National Income <sup>(2)</sup> . . . . .	2,057,204.1	2,075,410.3	2,245,326.5	2,351,837.0	2,443,318.1	101.8
<b>Gross Domestic Product at Chained 2020 Year Prices:</b>						
Private . . . . .	1,031,986.0	984,088.0	1,020,878.4	1,063,928.5	1,082,682.9	48.3
Government . . . . .	332,258.6	349,586.2	369,293.7	384,235.8	389,091.8	17.3
Gross Capital Formation . . . . .	643,841.6	648,928.8	675,845.0	676,282.5	681,957.7	30.4
Exports of Goods and Services . . . . .	724,600.9	712,542.3	789,432.2	820,347.6	849,926.1	37.9
Less Imports of Goods and Services . . . . .	(658,136.3)	(636,678.7)	(701,537.0)	(730,672.0)	(756,395.9)	(33.7)
Statistical Discrepancy . . . . .	(748.6)	0.0	(489.4)	(842.9)	(886.5)	0.0
Expenditures on Gross Domestic Product <sup>(3)</sup> . . . . .	2,072,982.4	2,058,466.5	2,153,422.9	2,212,158.9	2,243,220.4	100.0
Net Factor Income from the Rest of the World in the Terms of Trade . . . . .	16,485.9	16,943.8	22,553.7	25,584.2	38,122.9	1.7
Trading Gains and Losses from Changes in the Terms of Trade . . . . .	(17,145.8)	0.0	(21,620.0)	(94,623.4)	(91,400.4)	(4.1)
Gross National Income <sup>(4)</sup> . . . . .	2,072,357.0	2,075,410.3	2,154,356.5	2,143,107.5	2,189,886.8	97.6
Percentage Increase (Decrease) of GDP over Previous Year:						
At Current Prices . . . . .	1.7	0.9	7.9	4.6	3.3	
At Chained 2020 Year Prices . . . . .	2.3	(0.7)	4.6	2.7	1.4	

(1) Preliminary.

(2) GDP plus net factor income from the rest of the world is equal to the Republic's gross national income.

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

(4) Under the "chain-linked" measure of Gross National Income, the components of Gross National Income will not necessarily add up to the total Gross National Income.

Source: The Bank of Korea

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

<b>Gross Domestic Product by Economic Sector (at current market prices)</b>						
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023<sup>(1)</sup></b>	<b>As % of GDP 2023<sup>(1)</sup></b>
	(billions of Won)					
Industrial Sectors: . . . . .	717,338.0	719,110.4	773,620.4	789,147.0	824,491.9	34.3
Agriculture, Forestry and Fishing . . . . .	30,749.6	32,481.6	36,998.4	33,656.4	34,325.0	1.4
Manufacturing, Mining and Quarrying . . . . .	539,992.2	530,768.1	585,053.1	617,557.4	617,134.7	25.7
Mining and Quarrying . . . . .	1,883.9	1,737.2	1,843.5	1,807.8	2,261.3	0.1
Manufacturing . . . . .	538,108.3	529,030.9	583,209.6	615,749.6	614,873.4	25.6
Electricity, Gas and Water Supply . . . . .	38,151.4	45,605.3	37,579.5	16,493.8	42,538.6	1.8
Construction . . . . .	108,444.8	110,255.4	113,989.4	121,439.4	130,493.6	5.4
Services: . . . . .	1,161,848.5	1,171,665.8	1,264,275.9	1,349,454.4	1,405,368.8	58.5
Wholesale and Retail Trade, Accommodation and Food Services . . . . .	226,821.5	214,871.3	227,253.6	248,366.2	265,510.1	11.1
Transportation and Storage . . . . .	71,042.4	66,603.8	82,702.3	95,655.6	94,378.8	3.9
Finance and Insurance . . . . .	103,072.5	110,016.4	124,021.2	136,404.4	138,566.4	5.8
Real Estate . . . . .	153,138.6	161,030.1	162,658.9	158,314.6	160,025.3	6.7
Information and Communication . . . . .	84,153.0	89,215.3	102,319.0	103,549.3	106,049.4	4.4
Business Activities . . . . .	151,040.4	156,652.6	166,098.7	177,636.8	186,753.6	7.8
Public Administration, Defence and Social Security . . . . .	123,791.6	129,850.9	138,688.7	149,078.6	155,208.6	6.5
Education . . . . .	91,337.2	90,436.1	96,862.5	101,581.8	103,917.0	4.3
Human Health and Social Work . . . . .	101,960.5	106,034.6	114,340.0	123,519.0	131,995.9	5.5
Cultural and Other Services . . . . .	55,490.8	46,954.8	49,330.9	55,348.1	62,963.6	2.6
Taxes Less Subsidies on Products . . . . .	161,407.8	167,690.3	184,016.7	185,180.2	171,328.7	7.1
Gross Domestic Product at Current Market Prices .	2,040,594.3	2,058,466.5	2,221,912.9	2,323,781.5	2,401,189.4	100.0
Net Factor Income from the Rest of the World . .	16,609.8	16,943.8	23,413.6	28,055.4	42,128.6	1.8
Gross National Income at Current Market Price . .	2,057,204.1	2,075,410.3	2,245,326.5	2,351,837.0	2,443,318.1	101.8

(1) Preliminary.

Source: The Bank of Korea

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

<b>Gross Domestic Product per capita (at current market prices)</b>					
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023<sup>(1)</sup></b>
GDP per capita (thousands of Won)	39,420	39,711	42,919	44,971	46,433
GDP per capita (U.S. dollar) . . . . .	33,819	33,652	37,503	34,809	35,570
Average Exchange Rate (in Won per U.S. dollar) . . . . .	1,165.7	1,180.1	1,144.4	1,292.0	1,305.4

(1) Preliminary.

Source: The Bank of Korea

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

<b>Gross National Income per capita (at current market prices)</b>					
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023<sup>(1)</sup></b>
GNI per capita (thousands of Won)	39,741	40,038	43,372	45,514	47,248
GNI per capita (U.S. dollar) . . . . .	34,094	33,929	37,898	35,229	36,194
Average Exchange Rate (in Won per U.S. dollar) . . . . .	1,165.7	1,180.1	1,144.4	1,292.0	1,305.4

(1) Preliminary.

Source: The Bank of Korea

The following table sets out the Republic's GDP by economic sector:

Gross Domestic Product by Economic Sector (at chained 2020 year prices)						
	2019	2020	2021	2022	2023 <sup>(1)</sup>	As% of GDP 2023 <sup>(1)</sup>
	(billions of Won)					
Industrial Sectors: . . . . .	730,320.1	719,110.4	754,589.3	771,177.9	782,080.7	34.9
Agriculture, Forestry and Fishing . . . . .	34,808.6	32,481.6	33,598.5	33,866.3	32,972.5	1.5
Manufacturing, Mining and Quarrying . . . . .	541,638.8	530,768.1	565,269.6	579,036.4	588,841.5	26.2
Mining and Quarrying . . . . .	1,794.5	1,737.2	1,974.8	1,785.3	1,808.5	0.1
Manufacturing . . . . .	539,843.1	529,030.9	563,294.8	577,227.8	587,008.9	26.2
Electricity, Gas and Water Supply . . . . .	43,128.9	45,605.3	46,403.2	48,020.4	46,648.8	2.1
Construction . . . . .	110,743.8	110,255.4	109,318.0	110,254.8	113,617.9	5.1
Services: . . . . .	1,176,689.5	1,171,665.8	1,222,603.2	1,269,070.6	1,295,453.4	57.7
Wholesale and Retail Trade, Accommodation and Food Services . . . . .	224,177.1	214,871.3	219,693.4	231,974.4	228,939.2	10.2
Transportation and Storage . . . . .	77,008.3	66,603.8	73,634.5	82,748.1	92,818.6	4.1
Finance and Insurance . . . . .	100,167.6	110,016.4	117,411.7	120,645.5	121,705.1	5.4
Real Estate . . . . .	155,441.6	161,030.1	163,741.0	160,447.8	160,758.7	7.2
Information and Communication . . . . .	85,575.8	89,215.3	97,513.5	99,786.9	100,881.1	4.5
Business Activities . . . . .	156,315.5	156,652.6	159,603.6	163,453.3	166,386.4	7.4
Public Administration, Defence and Social Security . . . . .	126,186.1	129,850.9	134,868.3	139,003.2	142,043.4	6.3
Education . . . . .	91,935.7	90,436.1	95,484.0	98,708.1	99,515.9	4.4
Human Health and Social Work . . . . .	104,355.6	106,034.6	112,370.6	119,255.3	124,697.3	5.6
Cultural and Other Services . . . . .	56,331.6	46,954.8	48,282.6	52,244.1	56,119.8	2.5
Taxes Less Subsidies on Products . . . . .	165,787.9	167,690.3	176,230.4	172,134.2	164,486.4	7.3
Gross Domestic Product <sup>(2)</sup> . . . . .	2,072,982.4	2,058,466.5	2,153,422.9	2,212,158.9	2,243,220.4	100.0

(1) Preliminary.

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

Source: The Bank of Korea

GDP growth in 2019 was 2.3% at chained 2020 year prices, as aggregate private and general government consumption expenditures increased by 3.3% and imports of goods and services decreased by 2.0%, which more than offset a decrease in gross domestic fixed capital formation by 2.1% and a decrease in exports of goods and services by 0.2%, each compared with 2018.

GDP in 2020 contracted by 0.7% at chained 2020 year prices, primarily due to a 4.6% decrease in private consumption expenditures and a 1.7% decrease in exports of goods and services, which were offset in significant part by a 3.3% decrease in imports of goods and services, a 5.2% increase in general government consumption expenditures and a 2.8% increase in gross domestic fixed capital formation, each compared with 2019. The contraction of the Republic's GDP in 2020 was primarily due to the COVID-19 pandemic.

GDP growth in 2021 was 4.6% at chained 2020 year prices, as exports of goods and services increased by 10.8%, aggregate private and general government consumption expenditures increased by 4.2% and gross domestic fixed capital formation increased by 4.3%, which more than offset an increase in imports of goods and services by 10.2%, each compared with 2020.

GDP growth in 2022 was 2.7% at chained 2020 year prices, as aggregate private and general government consumption expenditures increased by 4.2% and exports of goods and services increased by 3.9%, which more than offset an increase in imports of goods and services by 4.2% and a decrease in gross fixed capital formation by 0.2%, each compared with 2021.

Based on preliminary data, GDP growth in 2023 was 1.4% at chained 2020 year prices, as exports of goods and services increased by 3.6%, aggregate private and general government consumption expenditures increased by 1.6% and gross domestic fixed capital formation increased by 1.4%, which was offset in significant part by a 3.5% increase in imports of goods and services, each compared with 2022.

Based on preliminary data, GDP growth in the first quarter of 2024 was 3.3% at chained 2020 year prices, primarily due to a 9.1% increase in exports of goods and services, a 1.0% increase in private consumption expenditures, a 0.4% decrease in imports of goods and services and a 0.9% increase in gross domestic fixed capital formation, the effects of which were offset in part by a 0.5% decrease in general government consumption expenditures, each compared with the corresponding period of 2023.

## Principal Sectors of the Economy

### Industrial Sectors

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

	Industrial Production (2020 = 100)					
	Index Weight <sup>(1)</sup>	2019	2020	2021	2022	2023 <sup>(2)</sup>
Industries . . . . .	10,000.0	100.3	100.0	108.2	108.8	108.7
Mining and Manufacturing . . . . .	9,555.0	100.3	100.0	108.2	108.8	108.7
Mining . . . . .	23.0	70.2	100.0	94.2	95.8	113.9
Manufacturing . . . . .	9,532.0	100.4	100.0	108.2	108.8	108.7
Food Products . . . . .	485.9	96.3	100.0	111.7	114.0	109.3
Beverage Products . . . . .	102.0	112.5	100.0	93.0	91.4	77.7
Tobacco Products . . . . .	44.7	92.9	100.0	88.4	93.2	100.9
Textiles . . . . .	110.6	121.2	100.0	104.3	100.4	82.1
Wearing Apparel, Clothing Accessories and Fur Articles . . . . .	83.2	158.9	100.0	137.3	117.6	114.0
Tanning and Dressing of Leather, Luggage and Footwear . . . . .	17.6	180.7	100.0	92.0	78.7	49.4
Wood and Products of Wood and Cork (Except Furniture) . . . . .	31.0	94.0	100.0	80.4	89.5	94.5
Pulp, Paper and Paper Products . . . . .	133.8	106.4	100.0	97.5	95.1	93.7
Printing and Reproduction of Recorded Media . . . . .	43.9	119.4	100.0	109.4	129.3	117.7
Coke, hard-coal and lignite fuel briquettes and Refined Petroleum Products . . . . .	354.5	107.0	100.0	98.4	101.9	104.3
Chemicals and Chemical Products . . . . .	756.8	100.8	100.0	105.9	93.6	91.0
Pharmaceuticals, Medicinal Chemicals and Botanical Products . . . . .	288.9	77.6	100.0	96.2	111.7	141.2
Rubber and Plastic Products . . . . .	414.8	111.3	100.0	104.5	110.9	112.8
Non-metallic Minerals . . . . .	213.6	110.9	100.0	107.6	96.4	84.8
Basic Metals . . . . .	600.2	106.1	100.0	101.0	95.5	97.5
Fabricated Metal Products . . . . .	495.9	114.3	100.0	83.7	82.7	93.4
Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses . . . . .	2,402.9	303.0	300.0	342.5	316.7	329.7
Medical, Precision and Optical Instruments, Watches and Clocks . . . . .	389.1	336.9	300.0	297.5	365.1	364.4
Electrical Equipment . . . . .	478.2	105.4	100.0	113.4	138.3	120.8
Other Machinery and Equipment . . . . .	776.7	104.0	100.0	116.6	113.4	108.6
Motor Vehicles, Trailers and Semitrailers . . . . .	1,014.2	122.8	100.0	109.6	121.0	137.1
Other Transport Equipment . . . . .	144.1	98.4	100.0	93.3	108.0	103.1
Furniture . . . . .	43.1	90.2	100.0	72.9	64.1	52.8
Other Products . . . . .	106.3	107.0	200.0	233.0	340.0	244.0
Electricity, Gas . . . . .	445.0	103.0	100.0	104.9	107.5	103.5
Total Index . . . . .	10,000.0	100.3	100.0	108.2	108.8	108.7

(1) Index weights were established on the basis of an industrial census in 2020 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.

(2) Preliminary.

Source: The Bank of Korea; Korea National Statistical Office

Industrial production increased by 0.9% in 2019, primarily due to increased domestic consumption. Industrial production decreased by 0.3% in 2020, primarily due to decreased domestic consumption and exports resulting from the COVID-19 pandemic. Industrial production recovered and increased by 8.2% in 2021, primarily due to increased exports and domestic consumption. Industrial production increased by 0.6% in 2022, primarily due to increased exports and domestic consumption. Based on preliminary data, industrial production decreased by 0.1% in 2023, primarily due to decreased domestic consumption and exports.

### ***Manufacturing***

The manufacturing sector increased production by 0.9% in 2019, primarily due to increased demand for consumer electronics products and electronic components (including semiconductors). The manufacturing sector decreased production by 0.4% in 2020, primarily due to decreased demand for automobiles. The manufacturing sector increased production by 8.2% in 2021, primarily due to increased demand for consumer electronics products, electronic components (including semiconductors) and machinery. The manufacturing sector increased production by 0.6% in 2022, primarily due to increased demand for electrical equipment and automobiles. Based on preliminary data, the manufacturing sector decreased production by 0.1% in 2023, primarily due to decreased demand for electrical equipment and electronic components.

*Automobiles.* In 2019, automobile production decreased by 1.9%, domestic sales volume recorded a decrease of 1.8% and export sales volume recorded a decrease of 2.0%, compared with 2018, primarily due to decreased domestic production of automobiles resulting mainly from partial strikes by unionised workers of automobile manufacturers, increased overseas production, decreased domestic demand for automobiles and decreased demand for automobiles in China. In 2020, automobile production decreased by 11.2% and export sales volume recorded a decrease of 21.4%, compared with 2019, primarily due to a general decline in global demand for automobiles caused by the COVID-19 pandemic, which outpaced a 4.7% increase in domestic sales volume from 2019 to 2020, primarily due to increased domestic demand for automobiles. In 2021, automobile production decreased by 1.3% and domestic sales volume recorded a decrease of 8.5%, compared with 2020, primarily due to the global shortage of semiconductors amid the COVID-19 pandemic, but exports sales volume recorded an increase of 8.6% compared with 2020, primarily due to an increase in the market share of domestic automobile manufacturers in the global automotive market. In 2022, automobile production increased by 8.5% and exports sales volume recorded an increase of 12.7%, compared with 2021, primarily due to an increase in demand for Korean automobiles in the global automotive market as well as the gradual easing of the global shortage of automotive semiconductors in the second half of 2022, but domestic sales volume recorded a decrease of 3.2% compared with 2021, primarily due to the global shortage of automotive semiconductors during the first half of 2022. Based on preliminary data, in 2023, automobile production increased by 13.0%, exports sales volume recorded an increase of 20.3% and domestic sales volume recorded an increase of 3.3%, compared with 2022, primarily due to the continued easing of the global shortage of automotive semiconductors and increased global and domestic demand for environmentally-friendly automobiles.

*Electronics.* In 2019, electronics production amounted to ₩322,729 billion, a decrease of 11.7% from the previous year, and exports amounted to US\$176.9 billion, a decrease of 19.7% from the previous year, primarily due to a significant decrease in semiconductor prices. In 2019, export sales of semiconductor memory chips constituted approximately 17.6% of the Republic's total exports. In 2020, electronics production amounted to ₩332,084 billion, an increase of 2.9% from the previous year, and exports of electronics amounted to US\$183.5 billion, an increase of 3.7% from the previous year, primarily due to an increase in demand for semiconductors, computers and other electronic apparatuses. In 2020, export sales of semiconductor memory chips constituted approximately 19.5% of the Republic's total exports. In 2021, electronics production amounted to ₩368,407 billion, an increase of 10.9% from the previous year, and exports amounted to US\$227.6 billion, an increase of 24.0% from the previous year, primarily due to an increase in demand for semiconductors, display panels, mobile devices, solid state drives and secondary cell batteries. In 2021, export sales of semiconductor memory chips

constituted approximately 20.0% of the Republic's total exports. In 2022, electronics production amounted to ₩369,552 billion, an increase of 0.3% from the previous year, and exports amounted to US\$233.2 billion, an increase of 2.5% from the previous year, primarily due to an increase in demand for semiconductors, display panels and secondary cell batteries. In 2022, export sales of semiconductor memory chips constituted approximately 19.1% of the Republic's total exports. Based on preliminary data, in 2023, electronics production amounted to ₩322,857 billion, a decrease of 12.6% from the previous year, and exports amounted to US\$186.8 billion, a decrease of 19.9% from the previous year, primarily due to a decrease in demand for semiconductors, computers and other electronic apparatuses. In 2023, export sales of semiconductor memory chips constituted approximately 15.8% of the Republic's total exports.

*Iron and Steel.* In 2019, crude steel production totalled 71.4 million tons, a decrease of 1.5% from 2018, primarily due to adverse conditions in the construction and shipbuilding industries, and export sales volume of iron and steel products decreased by 0.2%, primarily due to continued restrictions on imports of steel products imposed by the United States, Canada and the European Union. In 2020, crude steel production totalled 67.1 million tons, a decrease of 6.0% from 2019, primarily due to adverse conditions in the construction and shipbuilding industries in light of the COVID-19 pandemic, and export sales volume of iron and steel products decreased by 5.0%, primarily due to a decrease in global demand for crude steel products resulting from the COVID-19 pandemic. In 2021, crude steel production totalled 70.4 million tons, an increase of 4.9% from 2020, primarily due to an increase in domestic demand for crude steel products following a gradual economic recovery from the COVID-19 pandemic, but export sales volume of iron and steel products decreased by 6.1%, primarily due to an increase in the price of steel products coupled with a decrease in global demand for crude steel products resulting from the COVID-19 pandemic. In 2022, crude steel production totalled 65.8 million tons, a decrease of 6.5% from 2021, primarily due to disruptions in supply chain resulting from the invasion of Ukraine by Russia and the temporary closure of steel production plants in Korea due to a typhoon during the course of 2022, and export sales volume of iron and steel products decreased by 5.3%, primarily due to a decrease in global demand for crude steel products resulting from the lingering effects of the COVID-19 pandemic and a general slowdown of the global economy. Based on preliminary data, in 2023, crude steel production totalled 66.7 million tons, an increase of 1.4% from 2022, primarily due to the re-opening of steel production plants in Korea following the recovery from the damage caused by a typhoon during 2022, and export sales volume of iron and steel products increased by 6.5%, primarily due to an increase in demand for crude steel products from North America and Japan.

*Shipbuilding.* In 2019, the Republic's shipbuilding orders amounted to approximately 10 million compensated gross tons, a decrease of 23.1% compared to 2018, primarily due to decreased demand for container carriers and bulk carriers, which more than offset increased demand for LNG carriers. In 2020, the Republic's shipbuilding orders amounted to approximately 8 million compensated gross tons, a decrease of 20.0% compared to 2019, primarily due to the adverse conditions in the domestic and global shipbuilding industry resulting from the COVID-19 pandemic. In 2021, the Republic's shipbuilding orders amounted to approximately 17 million compensated gross tons, an increase of 112.5% compared to 2020, primarily due to increased demand for container carriers and LNG carriers. In 2022, the Republic's shipbuilding orders amounted to approximately 16 million compensated gross tons, a decrease of 5.9% compared to 2021, primarily due to a decrease in demand for oil tankers and container carriers. Based on preliminary data, in 2023, the Republic's shipbuilding orders amounted to approximately 10 million compensated gross tons, a decrease of 37.5% compared to 2022, primarily due to decreased demand for container carriers and LNG carriers.

### ***Agriculture, Forestry and Fisheries***

The Government's agricultural policy has traditionally focused on:

- grain production;
- development of irrigation systems;
- land consolidation and reclamation;
- seed improvement;
- mechanisation measures to combat drought and flood damage; and
- increasing agricultural incomes.

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

In 2019, rice production decreased 5.1% from 2018 to 3.7 million tons. In 2020, rice production decreased 5.4% from 2019 to 3.5 million tons. In 2021, rice production increased 11.4% from 2020 to 3.9 million tons. In 2022, rice production decreased 2.6% from 2021 to 3.8 million tons. In 2023, rice production decreased 2.6% from 2022 to 3.7 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs.

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

In 2019, the agriculture, forestry and fisheries industry increased by 3.9% compared to 2018, primarily due to an increase in farming and livestock production. In 2020, the agriculture, forestry and fisheries industry decreased by 5.8% compared to 2019, primarily due to a decrease in farming and livestock production. In 2021, the agriculture, forestry and fisheries industry increased by 5.2% compared to 2020, primarily due to an increase in farming and fisheries production. Based on preliminary data, in 2022, the agriculture, forestry and fisheries industry decreased by 1.0% compared to 2021, primarily due to a decrease in farming and fisheries production. Based on preliminary data, in 2023, the agriculture, forestry and fisheries industry decreased by 2.4% compared to 2022, primarily due to a decrease in farming and fisheries production.

### ***Construction***

In 2019, the construction industry decreased by 2.6% compared to 2018, primarily due to a continued decrease in the construction of residential buildings. In 2020, the construction industry decreased by 1.3% compared to 2019, primarily due to a decrease in the construction of residential buildings. In 2021, the construction industry decreased by 1.9% compared to 2020, primarily due to a decrease in the construction of residential buildings. Based on preliminary data, in 2022, the construction industry increased by 0.7% compared to 2021, primarily due to an increase in the construction of commercial buildings. Based on preliminary data, in 2023, the construction industry increased by 2.7% compared to 2022, primarily due to an increase in commercial buildings.

## Electricity and Gas

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

	<u>Dependence on Imports for Energy Consumption</u>		
	<u>Total Primary Energy Supply</u>	<u>Imports</u>	<u>Imports Dependence Ratio</u>
	(millions of tons of oil equivalents <sup>(1)</sup> , except ratios)		
2019	297.6	284.8	95.7
2020	285.5	271.2	95.0
2021	300.5	284.8	94.8
2022 <sup>(2)</sup>	304.0	287.0	94.4
2023 <sup>(2)</sup>	297.5	279.4	93.9

(1) Conversion to tons of oil equivalents was calculated based on energy conversion factors under the Energy Act Enforcement Decree as amended in July 2017.

(2) Preliminary.

Source: Korea Energy Economics Institute; Korea National Statistical Office

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

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

	<u>Primary Energy Supply by Source</u>											
	<u>Coal</u>		<u>Gas</u>		<u>Oil</u>		<u>Nuclear</u>		<u>Others<sup>(1)</sup></u>		<u>Total</u>	
	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>
	(millions of tons of oil equivalents <sup>(2)</sup> , except percentages)											
2019	85,048	28.6	53,875	18.1	115,408	38.8	31,079	10.4	12,201	4.1	297,612	100.0
2020	75,983	26.6	53,915	18.9	107,970	37.8	34,119	12.0	13,525	4.7	285,512	100.0
2021	76,968	25.6	59,594	19.8	115,204	38.3	33,657	11.2	15,092	5.0	300,515	100.0
2022 <sup>(3)</sup>	75,869	25.0	59,176	19.5	114,675	37.7	37,500	12.3	16,734	5.5	303,954	100.0
2023 <sup>(3)</sup>	73,516	24.7	56,770	19.1	111,081	37.3	38,442	12.9	17,710	6.0	297,519	100.0

(1) Includes hydro-electric power, biofuels and waste-based energy, geothermal and solar power and heat.

(2) Conversion to tons of oil equivalents was calculated based on energy conversion factors under the Energy Act Enforcement Decree as amended in July 2017.

(3) Preliminary.

Source: Korea Energy Economics Institute; The Bank of Korea

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. As of 31 December 2023, the Republic had 25 nuclear plants with a total estimated nuclear power installed generating capacity of 24,650 megawatts and three nuclear plants under construction.

In January 2023, the Government announced the Tenth Basic Plan of Long-Term Electricity Supply and Demand for the period from 2022 to 2036, which focuses on, among other things, (i) establishing a stable and safe source of energy supply for the long term, (ii) setting attainable goals for energy transition through a balanced mix of nuclear power and renewable energy, (iii) reducing greenhouse gas by cutting back on coal-fired generation, and (iv) diversifying the electricity market system and promoting fair competition in the renewable energy market. Furthermore, the Tenth Basic Plan includes

the following implementation measures: (i) the previously suspended construction of two nuclear power units will be resumed, (ii) existing nuclear power plants will continue their operation, (iii) 28 coal-fired generation plants will be retired and converted to LNG fuel use by 2036, (iv) ammonia-coal and hydrogen-LNG co-firing will be introduced to reduce greenhouse gas, and (v) domestic renewable energy generation capacity will be expanded to 108.3 gigawatts by 2036. In May 2024, the Government revealed the working plan of the Eleventh Basic Plan of Long-Term Electricity Supply and Demand, with plans to release the final version at a later date in 2024. Such working plan, which covers the period from 2024 to 2038, includes (i) prioritisation of carbon-free power sources, with the goal of increasing the proportion of such sources to 70% of total energy generation by 2038, (ii) projections of renewable energy capacity increases (solar and wind energy capacity is projected to triple from 23 gigawatts in 2022 to 72 gigawatts by 2030, with the total renewable energy capacity projected to reach 120 gigawatts by 2038), and (iii) capacity for the addition of up to 4.2 gigawatts (3 units) of new large-scale nuclear power plants and 0.7 gigawatts (1 unit) of a new small modular reactor.

### **Services Sector**

In 2019, the service industry increased by 2.7% compared to 2018 as the health and social work sector increased by 9.0%, the professional, scientific and technical activities sector increased by 6.3% and the water supply, sewage, waste management and materials recovery sector increased by 4.8%, each compared with 2018. In 2020, the service industry decreased by 0.7% compared to 2019 as the arts, sports and recreation related services sector decreased by 31.9%, the accommodation and food service activities sector decreased by 17.9% and the transportation and storage sector decreased by 12.4%, each compared with 2019. In 2021, the service industry increased by 8.8% compared to 2020 as the arts, sports and recreation related services sector increased by 18.8%, the information and communications sector increased by 14.6% and the transportation and storage sector increased by 11.9%, each compared with 2020. In 2022, the service industry increased by 11.6% compared to 2021 as the arts, sports and recreation related services sector increased by 48.5%, the transportation and storage sector increased by 30.5% and the accommodation and food services sector increased by 25.6%, each compared with 2021. Based on preliminary data, in 2023, the service industry increased by 4.8% compared to 2022 as the arts, sports and recreation related services sector increased by 9.8%, the membership organisations, repair and other personal services sector increased by 8.9% and the financial and insurance activities sector increased by 8.1%, each compared with 2022.

### **Prices, Wages and Employment**

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

	Producer Price Index <sup>(1)</sup> (2015=100)	Increase (Decrease) Over Previous Year (%)	Consumer Price Index <sup>(1)</sup> (2020=100)	Increase (Decrease) Over Previous Year (%)	Wage Index <sup>(1)(2)</sup> (2015=100)	Increase (Decrease) Over Previous Year (%)	Unemployment Rate <sup>(1)(3)</sup> (%)
2019. . . . .	103.5	0.0	99.5	0.4	116.2	2.3	3.8
2020. . . . .	103.0	(0.5)	100.0	0.5	115.5	(0.6)	4.0
2021. . . . .	109.6	6.4	102.5	2.5	123.5	6.9	3.7
2022. . . . .	118.8	8.4	107.7	5.1	130.7	5.8	2.9
2023. . . . .	120.7	1.6	111.6	3.6	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	2.7

(1) Average for the year.

(2) Nominal wage index of average earnings in the manufacturing industry.

(3) Expressed as a percentage of the economically active population.

(4) Not available.

Source: The Bank of Korea; Korea National Statistical Office

In 2019, the inflation rate decreased to 0.4%, primarily due to decreases in the prices of agricultural and livestock products and oil. In 2020, the inflation rate increased to 0.5%, primarily due to increases in agricultural and livestock product prices. In 2021, the inflation rate increased to 2.5%, primarily due to increases in agricultural and livestock product prices and oil prices. In 2022, the inflation rate increased to 5.1%, primarily due to increases in agricultural and livestock product prices and oil prices. Based on preliminary data, in 2023, the inflation rate decreased to 3.6%, primarily due to a slower rate of increase in the prices of agricultural and livestock products and oil. Based on preliminary data, the inflation rate was 3.0% in the first quarter of 2024.

In 2019, the unemployment rate remained constant at 3.8%. In 2020, the unemployment rate increased to 4.0%, primarily due to the COVID-19 pandemic. In 2021, the unemployment rate decreased to 3.7%, reflecting a gradual recovery of the Korean economy from the COVID-19 pandemic. In 2022, the unemployment rate decreased to 2.9%, reflecting a gradual recovery of the Korean economy from the COVID-19 pandemic. Based on preliminary data, in 2023, the unemployment rate decreased to 2.7%, primarily due to an increase in the number of workers employed in the service industry. Based on preliminary data, the unemployment rate was 3.3% in the first quarter of 2024.

From 1992 to 2009, the economically active population of the Republic increased by approximately 24.8% to 24.3 million, while the number of employees increased by approximately 23.7% to 23.5 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 61% and 65% over the past decade. Literacy among workers under 50 is almost universal. As of 31 December 2023, the economically active population of the Republic was 29.2 million and the number of employees was 28.4 million.

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	(all figures in percentages, except as indicated)				
Labour force (in thousands of persons) . . . . .	27,123	26,904	27,273	28,089	28,416
Employment by Industry:					
Agriculture, Forestry and Fishing . . . . .	5.1	5.4	5.3	5.4	5.3
Mining and Manufacturing . . . . .	16.4	16.3	16.1	16.1	15.7
S.O.C & Services . . . . .	78.5	78.3	78.6	78.5	79.0
Electricity, Transport, Communication and Finance . . . . .	11.7	11.8	12.3	12.4	12.5
Business, Private & Public Service and Other Services . . . . .	37.4	38.0	38.6	39.0	39.4
Construction . . . . .	7.4	7.5	7.7	7.6	7.4
Wholesale & Retail Trade, Hotels and Restaurants . . . . .	22.0	21.0	20.0	19.6	19.6
Total Employed. . . . .	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Employment by Gender:					
Male . . . . .	57.0	57.2	57.0	56.7	56.1
Female. . . . .	43.0	42.8	43.0	43.3	43.9
Total Employed. . . . .	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: The Bank of Korea

Pursuant to certain amendments to the Labor Standards Act that became effective on 1 July 2018, the maximum working hours of employees have been reduced from 68 hours per week to 52 hours per week, and the number of special industries that are exempt from restrictions on maximum working hours will be significantly reduced. This new maximum working hours restriction under the amended Labor Standards Act is in effect for workplaces with 300 or more workers from 1 July 2018, and has been extended to workplaces with 50 or more but fewer than 300 workers from 1 January 2020, and has been further extended to workplaces with five or more but fewer than 50 workers from 1 July 2021.

Labour unrest in connection with demands by unionised workers for better wages and working conditions and greater job security occurs from time to time in the Republic. Some of the significant incidents in recent years include the following:

- In May 2019, unionised bus drivers launched a nationwide strike seeking higher wages and increased manpower in time for the 52-hour work week that was implemented in July 2019.
- In September 2019, unionised workers at GM Korea went on full strike, the first in more than 20 years, demanding higher wages and protesting against GM Korea's restructuring plans.
- In October and November 2019, several thousand members of the National Railroad Workers' Union went on full strike demanding a normalisation of wages and requesting the hiring of additional personnel.
- In October, November and December 2020, unionised workers at GM Korea went on partial strikes during wage and collective agreement negotiations.
- In November and December 2020, unionised workers at Kia went on partial strikes demanding higher wages, performance-based incentives and other benefits.
- In November and December 2021, unionised workers at Hankook Tire & Technology, one of Korea's largest tyre makers, went on a full strike demanding higher wages and performance-based incentive payments.
- In 2021, unionised workers at CJ Logistics, one of Korea's largest freight transportation companies, went on a series of partial strikes and demonstrations, demanding higher wages commensurate with increases in parcel delivery fees.
- In June and November 2022, unionised truck drivers across various industries went on nationwide strikes demanding that a minimum pay system based on freight rates be made permanent and expanded in scope.
- In 2022, subcontracted workers of Daewoo Shipping and Marine Engineering went on a full strike demanding higher wages.
- In September 2023, the National Railroad Workers' Union went on strike demanding improved pay and working conditions and an expansion of the KTX bullet train services.
- In November 2023, unionised Seoul subway workers went on strike in protest of the city-run Seoul Metro's bid to downsize its workforce.
- In early 2024, thousands of doctors went on strike to protest the Government's plans to increase the number of medical school admissions, and to demand higher pay and reductions in their workload, among others.

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

In 1997, the Korean Confederation of Trade Unions organised a political alliance, which led to the formation of the Democratic Labor Party in January 2000. The Democratic Labor Party merged with The New People's Participation Party and changed its name to The Unified Progressive Party, or the UPP, in December 2011. In October 2012, the UPP split and seven UPP members of the National Assembly and

their supporters formed a new party, the Progressive Justice Party, which changed its name to the Justice Party in July 2013. In December 2014, the Constitutional Court ordered the dissolution of the UPP and the removal of the party’s five lawmakers from the National Assembly for violating the Republic’s Constitution after certain of its members were convicted of trying to instigate an armed rebellion and supporting North Korea. In the legislative general election held on 13 April 2016, the Justice Party won six seats in the National Assembly, and the members-elect began their four-year terms on 30 May 2016. As of 31 December 2023, the Justice Party held six seats in the National Assembly.

**Population and Birthrate**

The following table shows the population and birthrate of the Republic:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Population (in thousands of persons) . . . . .	51,850	51,829	51,639	51,439	51,325
Birthrate (percentage) <sup>(1)</sup> . . . . .	0.918	0.837	0.808	0.778	0.720 <sup>(2)</sup>

Notes:

- (1) Represents the average number of children a woman gives birth to over her lifetime.
- (2) Preliminary.

Source: Ministry of the Interior and Safety; Korea National Statistical Office

Both the population and birthrate in the Republic have been declining in recent years, with the population decreasing by 1.0% from 2019 to 2023, and the birthrate decreasing by 21.6% from 2019 to 2023.

**The Financial System**

**Structure of the Financial Sector**

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

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

To increase transparency in financial transactions and enhance the integrity and efficiency of the financial markets, Korean law requires that financial institutions confirm that their clients use their real names when transacting business. The Government also strengthened confidentiality protection for private financial transactions.

In July 2007, the Korean National Assembly passed the Financial Investment Services and Capital Markets Act, or the FSCMA, under which various industry-based capital markets regulatory systems were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements.

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

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

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

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

### ***Banking Industry***

The banking industry comprises commercial banks and specialised banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in the Republic since 1967 but provide a relatively small proportion of the country's banking services. As of 31 December 2023, there were six nationwide banks, six regional banks, three internet-only banks and 34 foreign banks with branches operating in the Republic.

Specialised banks meet the needs of specific sectors of the economy in accordance with Government policy; they are organised under, or chartered by, special laws. Specialised banks include (i) The Korea Development Bank, (ii) The Export-Import Bank of Korea, (iii) Industrial Bank of Korea, (iv) SuHyup Bank and (v) NongHyup Bank. The Government has made capital contributions to three of these specialised banks as follows:

- **The Korea Development Bank:** the Government owns directly all of its paid-in capital and has made capital contributions since its establishment in 1954. Recent examples include the Government's contributions to its capital of ₩555 billion in 2019, ₩2,103 billion in 2020, ₩1,121 billion in 2021, ₩1,265 billion in 2022 and ₩775 billion in 2023. Taking into account these capital contributions, its total paid-in capital was ₩23,927 billion as of 31 December 2023.
- **The Export-Import Bank of Korea:** the Government owns, directly and indirectly, all of its paid-in capital and has made capital contributions since its establishment in 1976. Recent examples include the Government's contributions to its capital of ₩56 billion in 2019, ₩578 billion in 2020, ₩299 billion in 2021, ₩25 billion in 2022 and ₩2,000 billion in 2023. Taking into account these capital contributions, its total paid-in capital was ₩14,773 billion as of 31 December 2023.
- **Industrial Bank of Korea:** the Government directly owned 59.5% of its total shares (including common and preferred shares) as of 31 December 2023. The Government had owned all of the issued share capital of Industrial Bank of Korea until 1994, but the Government's minimum share ownership requirement was repealed in 1997, and the Government has since periodically adjusted its ownership percentage in Industrial Bank of Korea through transactions involving the purchase and sale of its common shares. In 2019, Industrial Bank of Korea issued an aggregate of 17,178,164 new common shares to the Government for a total of ₩225 billion in cash. In 2020, Industrial Bank of Korea issued an aggregate of 161,507,381 new common shares to the Government for a total of ₩1,266 billion in cash. In November 2020, Industrial Bank of Korea acquired from the Government and cancelled an aggregate of 44,847,038 perpetual preferred shares that it had previously issued to the Government. In May 2021, Industrial Bank of Korea issued and sold 5,636,227 new ordinary shares to the Government for an aggregate consideration of ₩49 billion in cash. Taking into account such transactions, its total paid-in capital was ₩4,211 billion as of 31 December 2023.

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

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

	<u>Total Loans</u>	<u>Non-Performing Assets<sup>(1)</sup></u>	<u>Percentage of Total</u>
	(trillions of won)		(percentage)
31 December 2019. . . . .	1,980.6	15.3	0.8
31 December 2020. . . . .	2,171.7	13.9	0.6
31 December 2021. . . . .	2,371.9	11.8	0.5
31 December 2022. . . . .	2,532.4	10.1	0.4
31 December 2023 <sup>(2)</sup> . . . . .	2,629.0	12.5	0.5

(1) Assets classified as substandard or below.

(2) Preliminary.

Source: Financial Supervisory Service

In 2019, these banks posted an aggregate net profit of ₩13.9 trillion, compared to an aggregate net profit of ₩15.6 trillion in 2018, primarily due to losses on investments in subsidiaries and associates in 2019 compared to gains on investments in subsidiaries and associates in 2018, which more than offset decreased loan loss provisions. In 2020, these banks posted an aggregate net profit of ₩12.1 trillion, compared to an aggregate net profit of ₩13.9 trillion in 2019, primarily due to increased loan loss provisions. In 2021, these banks posted an aggregate net profit of ₩16.9 trillion, compared to an aggregate net profit of ₩12.1 trillion in 2020, primarily due to the significant amount of gains recognised by The Korea Development Bank in connection with the exercise of its right to convert its convertible bonds issued by HMM Company Limited into common shares, which took place in June 2021, and to a lesser extent, increased net interest income and decreased loan loss provisions. In 2022, these banks posted an aggregate net profit of ₩18.5 trillion, compared to an aggregate net profit of ₩16.9 trillion in 2021, primarily due to increased net interest income reflecting the rise in interest rates during 2022. Based on preliminary data, in 2023, these banks posted an aggregate net profit of ₩21.3 trillion, compared to an aggregate net profit of ₩18.5 trillion in 2022, primarily due to an increase in net interest income, which was offset in part by an increase in loan loss provisions.

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

Non-bank financial institutions include:

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

As of 31 December 2023, 79 mutual savings banks, 22 life insurance institutions, which include joint venture life insurance institutions and wholly-owned subsidiaries of foreign life insurance companies, and eight credit card companies operated in the Republic.

### ***Money Markets***

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

### ***Securities Markets***

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

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

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

30 December 2019	2,197.7
31 January 2020	2,119.0
28 February 2020	1,987.0
31 March 2020	1,754.6
29 April 2020	1,947.6
29 May 2020	2,029.6
30 June 2020	2,108.3
31 July 2020	2,249.4
31 August 2020	2,326.2
29 September 2020	2,327.9
30 October 2020	2,267.2
30 November 2020	2,591.3
30 December 2020	2,873.5
29 January 2021	2,976.2
26 February 2021	3,013.0
31 March 2021	3,061.4
30 April 2021	3,147.9
31 May 2021	3,203.9
30 June 2021	3,296.7
30 July 2021	3,202.3
31 August 2021	3,199.3
30 September 2021	3,068.8
29 October 2021	2,970.7
30 November 2021	2,839.0
30 December 2021	2,977.7
28 January 2022	2,663.3
28 February 2022	2,699.2
31 March 2022	2,757.7
29 April 2022	2,695.1
31 May 2022	2,685.9
30 June 2022	2,332.6
29 July 2022	2,451.5
31 August 2022	2,472.1
30 September 2022	2,155.5
31 October 2022	2,293.6
30 November 2022	2,472.5
29 December 2022	2,236.4
31 January 2023	2,425.1
28 February 2023	2,412.9
31 March 2023	2,476.9
28 April 2023	2,501.5
31 May 2023	2,577.1
30 June 2023	2,564.3
31 July 2023	2,632.6
31 August 2023	2,556.3
27 September 2023	2,465.1
31 October 2023	2,278.0
30 November 2023	2,535.3
28 December 2023	2,655.3
31 January 2024	2,497.1
29 February 2024	2,642.4
29 March 2024	2,746.6
30 April 2024	2,692.1
31 May 2024	2,636.5
28 June 2024	2,797.8

Over the years, liquidity and credit concerns and volatility in the global financial markets have led to fluctuations in the stock prices of Korean companies. In recent years, there was significant volatility in the stock prices of Korean companies due to deteriorating market conditions domestically and abroad. The index was 2,780.9 on 2 July 2024.

### ***Supervision System***

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

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

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

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

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

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

### **Monetary Policy**

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

The Bank of Korea was established in 1950 as Korea's central bank and the country's sole currency issuing bank. A seven-member Monetary Policy Committee, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies.

Inflation targeting is the basic system of operation for Korean monetary policy. The consumer price index is used as The Bank of Korea's target indicator. To achieve its established inflation target, the Monetary Policy Committee of The Bank of Korea determines and announces the "Bank of Korea Base Rate", the reference rate applied in transactions such as repurchase agreements between The Bank of Korea and its financial institution counterparts. The Bank of Korea uses open market operations as its primary instrument to keep the call rate in line with the Monetary Policy Committee's target rate. In addition, The Bank of Korea is able to establish policies regarding its lending to banks in Korea and their reserve requirements.

#### ***Interest Rates***

On 30 November 2017, The Bank of Korea raised its policy rate to 1.5% from 1.25%, which was further raised to 1.75% on 30 November 2018, in response to signs of inflationary pressures and the continued growth of the global and domestic economy. The Bank of Korea lowered its policy rate to 1.5% from 1.75% on 18 July 2019 and to 1.25% from 1.5% on 16 October 2019 to address the sluggishness of the global and domestic economy. On 16 March 2020, The Bank of Korea further lowered its policy rate to 0.75% from 1.25%, which was further lowered to 0.5% on 28 May 2020, in response to deteriorating economic conditions resulting from the COVID-19 pandemic. However, as the economy began to show signs of recovery from the COVID-19 pandemic starting from the second half of 2021. The Bank of Korea raised its policy rate from 0.50% to 0.75% on 26 August 2021, 1.00% on 25 November 2021,

1.25% on 14 January 2022, 1.50% on 14 April 2022, 1.75% on 26 May 2022, 2.25% on 13 July 2022, 2.50% on 25 August 2022, 3.00% on 12 October 2022, 3.25% on 24 November 2022 and 3.50% on 13 January 2023, in response to rising levels of household debt and inflationary pressures.

With the deregulation of interest rates on banks' demand deposits on 2 February 2004, The Bank of Korea completed the interest rate deregulation based upon the "Four-Stage Interest Rate Liberalisation Plan" announced in 1991. The prohibition on the payment of interest on ordinary checking accounts was, however, maintained.

### **Money Supply**

The following table shows the volume of the Republic's money supply:

	<b>31 December</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<b>(billions of Won)</b>				
Money Supply (M1) <sup>(1)</sup> . . . . .	952,922.8	1,197,828.9	1,372,336.6	1,236,983.3	1,246,196.4
Quasi-money <sup>(2)</sup> . . . . .	1,960,686.8	2,002,006.8	2,241,351.0	2,521,252.2	2,658,356.2
Money Supply (M2) <sup>(3)</sup> . . . . .	2,913,609.6	3,199,835.7	3,613,687.6	3,758,235.5	3,904,552.6
Percentage Increase Over Previous					
Year . . . . .	7.9%	9.8%	12.9%	4.0%	3.9%

(1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.

(2) Includes time and instalment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.

(3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: The Bank of Korea

### **Exchange Controls**

Authorised foreign exchange banks, as registered with the Ministry of Economy and Finance, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require a report to either the Ministry of Economy and Finance, The Bank of Korea or authorised foreign exchange banks, as applicable, for issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free Won accounts which may be opened by non-residents at Korean foreign exchange banks. The Won funds deposited into the free Won accounts may be converted into foreign currencies and remitted outside Korea without any governmental approval. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

In September 1998, the National Assembly passed the Foreign Exchange Transactions Act, which became effective in April 1999 and has subsequently been amended numerous times. In principle, most currency and capital transactions, including, among others, the following transactions, have been liberalised:

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimise the adverse effects from further opening of the Korean capital markets, the Ministry of Economy and Finance is authorised to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

The Government has also embarked on a second set of liberalisation initiatives starting in January 2001, under which ceilings on international payments for Korean residents have been eliminated, including overseas travel expenses, overseas inheritance remittances and emigration expenses. Overseas deposits, trusts, acquisitions of foreign securities and other foreign capital transactions made by residents and the making of deposits in Korean currency by non-residents have also been liberalised. In line with the foregoing liberalisation, measures will also be adopted to curb illegal foreign exchange transactions and to stabilise the foreign exchange market.

Effective as of 1 January 2006, the Government liberalised the regulations governing “capital transactions.” The regulations provide that no regulatory approvals are required for any capital transactions. The capital transactions previously subject to approval requirements are now subject only to reporting requirements.

In January 2010, the Financial Supervisory Services released *FX Derivative Transactions Risk Management Guideline* to prevent over-hedging of foreign exchange risk by corporate investors. According to the guideline as amended in October 2023, if a corporate investor, other than a financial institution or a public enterprise, wishes to enter into a currency forward, currency option, foreign exchange swap or currency swap agreement with a bank, the bank is required to verify whether the corporate investor’s assets, liabilities or contracts face foreign exchange risks that could be mitigated by a currency forward, currency option, foreign exchange swap or currency swap agreement. In addition, the bank is required to ensure that the corporate investor’s risk hedge ratio, which is the ratio of the aggregate notional amount to the aggregate amount of risk, does not exceed 100%.

### **Foreign Exchange**

The following table shows the exchange rate between the Won and the U.S. dollar (in Won per U.S. dollar) as announced by the Seoul Money Brokerage Services, Ltd. as of the dates indicated:

	<b>Won/U.S. Dollar Exchange Rate</b>
31 December 2019 . . . . .	1,157.8
31 January 2020 . . . . .	1,183.5
28 February 2020 . . . . .	1,215.9
31 March 2020 . . . . .	1,222.6
29 April 2020 . . . . .	1,225.2
29 May 2020 . . . . .	1,239.4
30 June 2020 . . . . .	1,200.7
31 July 2020 . . . . .	1,191.4
31 August 2020 . . . . .	1,185.1
29 September 2020 . . . . .	1,173.5
30 October 2020 . . . . .	1,133.4
30 November 2020 . . . . .	1,104.4
31 December 2020 . . . . .	1,088.0
29 January 2021 . . . . .	1,114.6
26 February 2021 . . . . .	1,108.4
31 March 2021 . . . . .	1,133.5
30 April 2021 . . . . .	1,119.4
31 May 2021 . . . . .	1,116.0
30 June 2021 . . . . .	1,130.0
30 July 2021 . . . . .	1,147.4
31 August 2021 . . . . .	1,164.4
30 September 2021 . . . . .	1,184.9
29 October 2021 . . . . .	1,171.7
30 November 2021 . . . . .	1,193.4
31 December 2021 . . . . .	1,185.5
28 January 2022 . . . . .	1,202.4
28 February 2022 . . . . .	1,202.7
31 March 2022 . . . . .	1,210.8
29 April 2022 . . . . .	1,269.4
31 May 2022 . . . . .	1,245.8
30 June 2022 . . . . .	1,299.4
29 July 2022 . . . . .	1,304.0
31 August 2022 . . . . .	1,347.5
30 September 2022 . . . . .	1,434.8
31 October 2022 . . . . .	1,419.3
30 November 2022 . . . . .	1,331.5
30 December 2022 . . . . .	1,267.3
31 January 2023 . . . . .	1,228.7
28 February 2023 . . . . .	1,317.4
31 March 2023 . . . . .	1,303.8
28 April 2023 . . . . .	1,339.9
31 May 2023 . . . . .	1,322.2
30 June 2023 . . . . .	1,312.8
31 July 2023 . . . . .	1,280.0
31 August 2023 . . . . .	1,321.4
27 September 2023 . . . . .	1,344.8
31 October 2023 . . . . .	1,352.8
30 November 2023 . . . . .	1,289.0
29 December 2023 . . . . .	1,289.4
31 January 2024 . . . . .	1,330.6
29 February 2024 . . . . .	1,334.0
29 March 2024 . . . . .	1,346.8
30 April 2024 . . . . .	1,378.7
31 May 2024 . . . . .	1,376.5
28 June 2024 . . . . .	1,389.2

During the period from 2 January 2008 through 16 April 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by

foreign investors of their investments in the Korean stock market. The exchange rate between the Won and the U.S. dollar has fluctuated since then. In recent years, the value of the Won relative to the U.S. dollar fluctuated significantly, due primarily to the impact of the COVID-19 pandemic, the invasion of Ukraine by Russia and the ensuing sanctions against Russia, the escalation of hostilities in the Middle East following the Israel-Hamas war and the widening difference in policy rates between the United States and the Republic, among others. The market average exchange rate was Won 1,380.8 to US\$1.00 on 2 July 2024.

## Balance of Payments and Foreign Trade

### Balance of Payments

Balance of payments figures measure the relative flow of goods, services and capital into and out of the country as represented in the current balance and the capital balance. The current balance tracks a country's trade in goods and services and transfer payments and measures whether a country is living within its income from trading and investments. The capital balance covers all transactions involving the transfer of capital into and out of the country, including loans and investments. The overall balance represents the sum of the current and capital balances. An overall balance surplus indicates a net inflow of foreign currencies, thereby increasing demand for and strengthening the local currency. An overall balance deficit indicates a net outflow of foreign currencies, thereby decreasing demand for and weakening the local currency. The financial account mirrors the overall balance. If the overall balance is positive, the surplus, which represents the nation's savings, finances the overall deficit of the country's trading partners. Accordingly, the financial account will indicate cash outflows equal to the overall surplus. If, however, the overall balance is negative, the nation has an international deficit which must be financed. Accordingly, the financial account will indicate cash inflows equal to the overall deficit.

The following table sets out certain information with respect to the Republic's balance of payments:

Classification	Balance of Payments <sup>(1)</sup>				
	2019	2020	2021	2022 <sup>(4)</sup>	2023 <sup>(4)</sup>
	(millions of dollars)				
Current Account . . . . .	59,676.1	75,902.2	85,228.2	25,828.6	35,488.2
Goods . . . . .	79,812.1	80,604.8	75,730.9	15,620.0	34,092.4
Exports <sup>(2)</sup> . . . . .	556,667.9	517,909.3	649,475.2	694,324.1	645,048.1
Imports <sup>(2)</sup> . . . . .	476,855.8	437,304.5	573,744.3	678,704.1	610,955.7
Services . . . . .	(26,845.3)	(14,670.1)	(5,286.7)	(7,253.1)	(25,660.0)
Income . . . . .	12,856.0	13,486.9	19,444.9	20,347.1	31,605.3
Current Transfers . . . . .	(6,146.7)	(3,519.4)	(4,660.9)	(2,885.4)	(4,549.5)
Capital and Financial Account . . . . .	58,857.6	80,996.4	78,335.3	27,063.2	32,435.2
Capital Account . . . . .	(169.3)	(386.3)	(155.3)	0.7	42.3
Financial Account <sup>(3)</sup> . . . . .	59,026.9	81,382.7	78,490.6	27,062.5	32,392.9
Net Errors and Omissions . . . . .	(479.9)	5,866.8	(6,582.3)	1,233.2	(3,137.6)

(1) Figures are prepared based on the sixth edition of the Balance of Payment Manual published by International Monetary Fund in December 2010 and implemented by the Government in December 2013. In December 2018, The Bank of Korea revised the Republic's balance of payments information to capture new economic activities and reflect the changes in raw data.

(2) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.

(3) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.

(4) Preliminary.

Source: The Bank of Korea

Based on preliminary data, the current account surplus in 2022 decreased to US\$25.8 billion from the current account surplus of US\$85.2 billion in 2021, primarily due to a decrease in surplus from the goods account, the effect of which was offset in part by a decrease in deficit from the current transfers

account and an increase in surplus from the income account. Based on preliminary data, the current account surplus in 2023 increased to US\$35.5 billion in 2023 from the current account surplus of US\$25.8 billion in 2022, primarily due to an increase in surplus from the goods account, as well as an increase in surplus from the income account, the effects of which were offset in part by an increase in deficit from the services account. Based on preliminary data, the Republic recorded a current account surplus of US\$16.8 billion in the first quarter of 2024, which represented a change from the current account deficit of US\$6.0 billion in the corresponding period of 2023, primarily due to a change from a deficit to a surplus from the goods account and a decrease in deficit from services account, the effects of which were offset in part by a decrease in surplus from the income account.

### ***Foreign Direct Investment***

Since 1960, the Government has adopted a broad range of related laws, administrative rules and regulations that provide a framework for the conduct and regulation of foreign investment activities. In September 1998, the Government promulgated the Foreign Investment Promotion Act, or the FIPA, which replaced previous foreign direct investment related laws, rules and regulations, to promote inbound foreign investments by providing incentives to, and facilitating investment activities in the Republic by, foreign nationals. The FIPA prescribes, among others, procedural requirements for inbound foreign investments, incentives for foreign investments such as tax reductions, and requirements relating to designation and development of foreign investment target regions. The Government believes that providing a stable and receptive environment for foreign direct investment will accelerate the inflow of foreign capital, technology and management techniques.

The following table sets forth information regarding annual foreign direct investment in the Republic for the periods indicated.

	<b>Foreign Direct Investment</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023<sup>(2)</sup></b>
	(billions of U.S. dollars)				
Contracted and Reported Investment					
Greenfield Investment <sup>(1)</sup> . . . . .	15.9	14.5	18.1	22.3	23.5
Merger & Acquisition . . . . .	7.4	6.2	11.4	8.1	9.2
Total . . . . .	<u>23.3</u>	<u>20.7</u>	<u>29.5</u>	<u>30.4</u>	<u>32.7</u>
Actual Investment . . . . .	13.4	11.4	18.6	18.2	18.8

(1) Includes building new factories and operational facilities.

(2) Preliminary.

*Source:* Ministry of Trade, Industry and Energy

In 2022, the contracted and reported amount of foreign direct investment in the Republic increased to US\$30.4 billion from US\$29.5 billion in 2021, primarily due to an increase in foreign investment in the manufacturing sector to US\$12.5 billion in 2022 from US\$5.0 billion in 2021.

Based on preliminary data, in 2023, the contracted and reported amount of foreign direct investment in the Republic increased to US\$32.7 billion from US\$30.4 billion in 2022, primarily due to an increase in foreign investment in the services sector to US\$17.8 billion in 2023 from US\$16.6 billion in 2022.

The following table sets forth information regarding the source of foreign direct investment by region and country for the periods indicated:

<b>Foreign Direct Investment by Region and Country</b>					
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
(billions of U.S. dollars)					
North America					
U.S.A. . . . .	6.8	5.3	5.3	8.7	6.1
Others . . . . .	1.7	3.5	1.6	5.8	6.5
	8.6	8.8	6.9	14.5	12.6
Asia					
Japan . . . . .	1.4	0.8	1.2	1.5	1.3
Hong Kong . . . . .	1.9	1.1	0.6	0.4	1.2
Singapore . . . . .	1.3	2.3	4.2	3.2	2.7
China . . . . .	1.0	2.0	1.9	1.5	1.6
Others . . . . .	1.0	0.4	1.2	0.5	1.8
	6.6	6.6	9.1	7.1	8.6
Europe					
Netherlands . . . . .	1.7	0.6	1.0	4.9	1.1
England . . . . .	2.1	0.7	0.8	0.6	3.6
Germany . . . . .	0.4	0.5	2.8	0.5	0.2
France . . . . .	0.1	0.2	0.2	0.2	1.2
Others . . . . .	3.1	2.8	8.0	1.9	3.7
	7.4	4.8	12.8	8.1	9.8
Other regions and countries . . . . .	0.7	0.5	0.7	0.8	1.7
Total . . . . .	23.3	20.7	29.5	30.4	32.7

Source: Ministry of Trade, Industry and Energy

### **Trade Balance**

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus while if imports exceed exports the country has a deficit. A deficit, indicating that a country's receipts from abroad fall short of its payments to foreigners, must be financed, rendering the country a debtor nation. A surplus, indicating that a country's receipts exceed its payments to foreigners, allows the country to finance its trading partners' net deficit to the extent of the surplus, rendering the country a creditor nation.

The following table summarises the Republic's trade balance for the periods indicated:

<b>Trade Balance</b>						
	<b>Exports<sup>(1)</sup></b>	<b>As % of GDP<sup>(2)</sup></b>	<b>Imports<sup>(1)</sup></b>	<b>As % of GDP<sup>(2)</sup></b>	<b>Balance of Trade</b>	<b>Exports as % of Imports</b>
(billions of U.S. dollars, except percentages)						
2019. . . . .	542.2	31.0%	503.3	28.7%	38.9	107.7%
2020. . . . .	512.5	29.4%	467.6	26.8%	44.9	109.6%
2021. . . . .	644.4	33.2%	615.1	31.7%	29.3	104.8%
2022. . . . .	683.6	38.0%	731.4	40.7%	(47.8)	93.5%
2023 <sup>(3)</sup> . . . . .	632.4	34.4%	642.6	34.9%	(10.2)	98.4%

(1) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods includes insurance and freight cost.

(2) At current market prices.

(3) Preliminary.

Source: The Bank of Korea; Korea Customs Service

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP and, accordingly, the international economic environment is of crucial importance to the Republic's economy. See “– *The Economy – Worldwide Economic and Financial Difficulties.*”

The following tables give information regarding the Republic's exports and imports by major commodity groups:

Exports by Major Commodity Groups (C.I.F.) <sup>(1)</sup>										
	As% of 2019		As% of 2020		As% of 2021		As% of 2022		As% of 2023 <sup>(2)</sup>	
	2019	Total	2020	Total	2021	Total	2022	Total	2023 <sup>(2)</sup>	Total <sup>(2)</sup>
(billions of U.S. dollars, except percentages)										
Foods & Consumer										
Goods . . . . .	8.2	1.5	8.6	1.7	9.8	1.5	10.4	1.5	10.8	1.7
Raw Materials and Fuels	48.8	9.0	32.1	6.3	51.4	8.0	75.1	11.0	62.7	9.9
Petroleum & Derivatives	41.3	7.6	24.7	4.8	38.8	6.0	63.3	9.3	52.4	8.3
Others . . . . .	7.5	1.4	7.4	1.4	12.6	2.0	11.8	1.7	10.3	1.6
Light Industrial Products	34.2	6.3	32.4	6.3	35.3	5.5	35.2	5.1	33.4	5.3
Heavy & Chemical										
Industrial Products . . .	451.0	83.2	439.3	85.7	547.9	85.0	563.0	82.4	525.5	83.1
Electronic & Electronic										
Products . . . . .	171.4	31.6	178.5	34.8	221.8	34.4	224.2	32.8	181.1	28.6
Chemicals & Chemical										
Products . . . . .	67.4	12.4	66.6	13.0	91.9	14.3	98.0	14.3	86.5	13.7
Metal Goods . . . . .	44.1	8.1	39.6	7.7	52.6	8.2	55.3	8.1	49.8	7.9
Machinery & Precision										
Equipment . . . . .	67.6	12.5	63.4	12.4	70.9	11.0	70.9	10.4	72.6	11.5
Transport Equipment . .	87.7	16.2	77.6	15.1	94.2	14.6	98.4	14.4	118.3	18.7
Passenger Cars . . . .	40.5	7.5	35.6	6.9	44.3	6.9	51.7	7.6	68.3	10.8
Ship & Boat . . . . .	19.5	3.6	19.2	3.7	22.4	3.5	17.6	2.6	20.9	3.3
Others . . . . .	27.7	5.1	22.8	4.4	27.5	4.3	29.2	4.3	29.1	4.6
Others . . . . .	12.7	2.3	13.6	2.7	16.6	2.6	16.1	2.4	17.2	2.7
Total . . . . .	<u>542.2</u>	<u>100.0</u>	<u>512.5</u>	<u>100.0</u>	<u>644.4</u>	<u>100.0</u>	<u>683.6</u>	<u>100.0</u>	<u>632.4</u>	<u>100.0</u>

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.

(2) Preliminary.

Source: *The Bank of Korea; Korea Customs Service*

**Imports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>**

	As% of 2019		As% of 2020		As% of 2021		As% of 2022		As% of 2023 <sup>(2)</sup>	
	2019	Total	2020	Total	2021	Total	2022	Total	2023 <sup>(2)</sup>	Total <sup>(2)</sup>
(billions of U.S. dollars, except percentages)										
Industrial Materials and										
Fuels . . . . .	254.0	50.5	206.3	44.1	302.6	49.2	393.8	53.8	328.4	51.1
Crude Petroleum . . . . .	70.3	14.0	44.5	9.5	67.0	10.9	106.0	14.5	86.2	13.4
Mineral . . . . .	21.7	4.3	21.4	4.6	33.3	5.4	31.3	4.3	27.1	4.2
Chemicals . . . . .	47.0	9.3	46.4	9.9	60.4	9.8	70.2	9.6	64.8	10.1
Iron & Steel Products . . . . .	19.8	3.9	15.2	3.3	22.2	3.6	22.7	3.1	21.3	3.3
Non-ferrous Metal . . . . .	12.0	2.4	11.7	2.5	18.4	3.0	19.5	2.7	15.9	2.5
Others . . . . .	83.2	16.5	67.1	14.3	101.3	16.5	144.1	19.7	113.1	17.6
Capital Goods . . . . .	164.9	32.8	177.1	37.9	212.8	34.6	228.9	31.3	211.4	32.9
Machinery & Precision										
Equipment . . . . .	50.7	10.1	57.9	12.4	70.0	11.4	68.6	9.4	66.1	10.3
Electric & Electronic										
Machines . . . . .	100.4	20.0	105.1	22.5	127.6	20.7	144.8	19.8	129.3	20.1
Transport Equipment . . . . .	11.6	2.3	11.9	2.5	13.0	2.1	13.2	1.8	13.7	2.1
Others . . . . .	2.1	0.4	2.3	0.5	2.2	0.4	2.3	0.3	2.3	0.4
Consumer Goods . . . . .	84.5	16.8	84.2	18.0	99.6	16.2	108.7	14.9	102.7	16.0
Cereals . . . . .	6.9	1.4	7.1	1.5	8.9	1.4	11.3	1.5	9.8	1.5
Goods for Direct										
Consumption . . . . .	22.2	4.4	22.3	4.8	25.7	4.2	29.0	4.0	27.5	4.3
Consumer Durable										
Goods . . . . .	34.5	6.9	34.9	7.5	42.2	6.9	42.8	5.9	40.7	6.3
Consumer Nondurable										
Goods . . . . .	20.9	4.2	20.0	4.3	22.8	3.7	25.6	3.5	24.7	3.8
Total . . . . .	<u>503.3</u>	<u>100.0</u>	<u>467.6</u>	<u>100.0</u>	<u>615.1</u>	<u>100.0</u>	<u>731.4</u>	<u>100.0</u>	<u>642.6</u>	<u>100.0</u>

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.

(2) Preliminary.

Source: The Bank of Korea; Korea Customs Service

In 2019, the Republic recorded a trade surplus of US\$38.9 billion. Exports decreased by 10.4% to US\$542.2 billion in 2019 from US\$604.9 billion in 2018, primarily due to a significant decrease in semiconductor prices. Imports decreased by 6.0% to US\$503.3 billion in 2019 from US\$535.2 billion in 2018, primarily due to a decrease in oil prices, which also led to decreased unit prices of other major raw materials.

In 2020, the Republic recorded a trade surplus of US\$44.9 billion. Exports decreased by 5.5% to US\$512.5 billion in 2020 from US\$542.2 billion in 2019, primarily due to a slowdown of the global economy resulting from the COVID-19 pandemic. Imports decreased by 7.1% to US\$467.6 billion in 2020 from US\$503.3 billion in 2019, primarily due to a decrease in oil prices, which also led to decreased unit prices of other major raw materials, as well as decreased domestic consumption, which were mainly attributed to the COVID-19 pandemic.

In 2021, the Republic recorded a trade surplus of US\$29.3 billion. Exports increased by 25.7% to US\$644.4 billion in 2021 from US\$512.5 billion in 2020, primarily due to a recovery of the global economy from the COVID-19 pandemic. Imports increased by 31.5% to US\$615.1 billion in 2021 from US\$467.6 billion in 2020, primarily due to an increase in domestic consumption as well as an increase in oil prices, which also led to increased unit prices of other major raw materials.

In 2022, the Republic recorded a trade deficit of US\$47.8 billion. Exports increased by 6.1% to US\$683.6 billion in 2022 from US\$644.4 billion in 2021, primarily due to an improvement in the domestic economic conditions of the Republic's major trading partners. Imports increased by 18.9% to US\$731.4 billion in 2022 from US\$615.1 billion in 2021, primarily due to an increase in energy and commodity prices, which also led to increased unit prices of other major raw materials.

Based on preliminary data, in 2023, the Republic recorded a trade deficit of US\$10.2 billion. Exports decreased by 7.5% to US\$632.4 billion in 2023 from US\$683.6 billion in 2022, primarily due to a deterioration in the domestic economic conditions of the Republic's major trading partners and a downturn in the semiconductor industry. Imports decreased by 12.1% to US\$642.6 billion in 2023 from US\$731.4 billion in 2022, primarily due to a decrease in energy and commodity prices, which also led to decreased unit prices of other major raw materials.

Based on preliminary data, the Republic recorded a trade surplus of US\$9.0 billion in the first quarter of 2024. Exports increased by 8.3% to US\$163.8 billion in the first quarter of 2024 from US\$151.2 billion in the corresponding period of 2023, primarily due to an improvement in the domestic economic conditions of the Republic's major trading partners. Imports decreased by 11.1% to US\$154.7 billion in the first quarter of 2024 from US\$174.0 billion in the corresponding period of 2023, primarily due to a decrease in oil prices, which also led to decreased unit prices of other major raw materials.

The following table sets forth the Republic's exports trading partners:

	Exports									
	2019	As% of 2019 Total	2020	As% of 2020 Total	2021	As% of 2021 Total	2022	As% of 2022 Total	2023 <sup>(1)</sup>	As% of 2023 Total <sup>(1)</sup>
	(millions of U.S. dollars, except percentages)									
China . . . . .	136,202.5	25.1	132,565.4	25.9	162,913.0	25.3	155,789.4	22.8	124,817.7	19.7
United States . . . . .	73,343.9	13.5	74,115.8	14.5	95,902.0	14.9	109,765.7	16.1	115,696.3	18.3
Japan . . . . .	28,420.2	5.2	25,097.7	4.9	30,061.8	4.7	30,606.3	4.5	29,000.6	4.6
Hong Kong . . . . .	31,912.9	5.9	30,653.8	6.0	37,467.1	5.8	27,651.2	4.0	25,193.6	4.0
Singapore . . . . .	12,768.0	2.4	9,828.4	1.9	14,148.5	2.2	20,205.4	3.0	18,752.0	3.0
Vietnam . . . . .	48,177.7	8.9	48,510.6	9.5	56,728.5	8.8	60,963.7	8.9	53,479.5	8.5
Taiwan . . . . .	15,666.3	2.9	16,465.4	3.2	24,285.3	3.8	26,198.2	3.8	20,178.8	3.2
India . . . . .	15,096.3	2.8	11,937.3	2.3	15,603.3	2.4	18,870.1	2.8	17,949.6	2.8
Indonesia . . . . .	7,650.1	1.4	6,312.9	1.2	8,550.3	1.3	10,215.9	1.5	9,140.2	1.4
Mexico . . . . .	10,927.0	2.0	8,241.0	1.6	11,290.2	1.8	12,654.2	1.9	12,222.0	1.9
Australia . . . . .	7,890.6	1.5	6,188.5	1.2	9,750.5	1.5	18,753.0	2.7	17,791.4	2.8
Germany . . . . .	8,685.7	1.6	9,576.1	1.9	11,109.9	1.7	10,067.7	1.5	10,317.1	1.6
Others <sup>(2)</sup> . . . . .	145,491.4	26.8	133,005.1	26.0	166,590.0	25.9	181,844.0	26.6	177,687.0	28.1
Total . . . . .	<u>542,232.6</u>	<u>100.0</u>	<u>512,498.0</u>	<u>100.0</u>	<u>644,400.4</u>	<u>100.0</u>	<u>683,584.8</u>	<u>100.0</u>	<u>632,225.8</u>	<u>100.0</u>

(1) Preliminary.

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service

The following table sets forth the Republic's imports trading partners:

	Imports									
	2019	As% of Total	2020	As% of Total	2021	As% of Total	2022	As% of Total	2023 <sup>(1)</sup>	As% of Total <sup>(1)</sup>
	(millions of U.S. dollars, except percentages)									
China . . . . .	107,228.7	21.3	108,884.6	23.3	138,628.1	22.5	154,576.3	21.1	142,857.3	22.2
Japan . . . . .	47,580.9	9.5	46,023.0	9.8	54,642.2	8.9	54,711.8	7.5	47,656.5	7.4
United States . . . . .	61,878.6	12.3	57,492.2	12.3	73,213.4	11.9	81,784.7	11.2	71,272.0	11.1
Saudi Arabia . . . . .	21,840.6	4.3	15,979.6	3.4	24,271.3	3.9	41,640.3	5.7	32,762.5	5.1
Qatar . . . . .	13,036.6	2.6	7,562.1	1.6	11,611.1	1.9	16,567.2	2.3	14,998.9	2.3
Australia . . . . .	20,608.2	4.1	18,707.1	4.0	32,918.0	5.4	44,929.4	6.1	32,823.0	5.1
Germany . . . . .	19,936.9	4.0	20,680.9	4.4	21,996.3	3.6	23,614.9	3.2	23,611.2	3.7
Kuwait . . . . .	10,771.1	2.1	5,827.9	1.2	8,253.9	1.3	12,401.9	1.7	9,659.0	1.5
Taiwan . . . . .	15,717.7	3.1	17,837.0	3.8	23,485.8	3.8	28,274.6	3.9	24,370.6	3.8
United Arab Emirates . .	8,991.1	1.8	5,692.7	1.2	7,318.7	1.2	15,492.8	2.1	16,422.8	2.6
Indonesia . . . . .	8,819.8	1.8	7,594.7	1.6	10,725.1	1.7	15,734.9	2.2	12,145.9	1.9
Malaysia . . . . .	9,279.9	1.8	8,892.6	1.9	10,456.2	1.7	15,249.1	2.1	15,237.1	2.4
Others <sup>(2)</sup> . . . . .	157,652.8	31.3	146,458.4	31.3	197,573.3	32.1	226,391.8	31.0	198,755.3	30.9
Total . . . . .	503,342.9	100.0	467,632.8	100.0	615,093.4	100.0	731,369.7	100.0	642,572.1	100.0

(1) Preliminary.

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service

In recent years, the value of the Won relative to the U.S. dollar and Japanese Yen has fluctuated widely, in particular due to the impact of the COVID-19 pandemic, the invasion of Ukraine by Russia and the ensuing sanctions against Russia, the escalation of hostilities in the Middle East following the Israel-Hamas war and the widening difference in policy rates between the United States and the Republic, among others. See “– *The Economy – Worldwide Economic and Financial Difficulties*”. An appreciation of the Won against the U.S. dollar and Japanese Yen increases the Won value of the Republic's export sales and diminishes the price-competitiveness of export goods in foreign markets in U.S. dollar and Japanese Yen terms, respectively. However, it also decreases the cost of imported raw materials in Won terms and the cost in Won of servicing the Republic's U.S. dollar and Japanese Yen denominated debt. In general, when the Won appreciates, export dependent sectors of the Korean economy, including automobiles, electronics and shipbuilding, suffer from the resulting pressure on the price-competitiveness of export goods, which may lead to reduced profit margins and loss in market share, more than offsetting a decrease in the cost of imported raw materials. If the export dependent sectors of the Korean economy suffer reduced profit margins or a net loss, it could result in a material adverse effect on the Korean economy.

Since the Government announced its plans to pursue free trade agreements, or FTAs, in 2003, the Republic has entered into FTAs with key trading partners. The Republic has had bilateral FTAs in effect with Chile since 2004, Singapore since 2006, India since 2010, Peru since 2011, the United States since 2012, Turkey since 2013, Australia since 2014, Canada, China, New Zealand and Vietnam since 2015, Colombia since July 2016, the United Kingdom since January 2021, Israel and Cambodia since December 2022 and Indonesia since January 2023. The Republic is currently in negotiations with a number of other key trading partners. In addition, the Republic has had regional FTAs in effect with the European Free Trade Association since 2006, the Association of Southeast Asian Nations since 2009, the European Union since 2011, with each of Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua since 2021 and with the Regional Comprehensive Economic Partnership since 2022, and is currently negotiating additional regional FTAs. The Republic and Turkey have completed revisions to their bilateral FTA, which became effective in August 2018. The Republic and the United States have also completed revisions to their bilateral FTA, which became effective in January 2019.

### ***Non-Commodities Trade Balance***

The Republic had non-commodities trade deficits of US\$20.1 billion in 2019 and US\$4.7 billion in 2020, and non-commodities trade surpluses of US\$9.5 billion in 2021 and US\$10.2 billion in 2022. Based on preliminary data, the Republic had a non-commodities trade surplus of US\$1.4 billion in 2023.

### ***Foreign Currency Reserves***

The foreign currency reserves are external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs and for other related purposes. The following table shows the Republic's total official foreign currency reserves:

	<b>Total Official Reserves</b>				
	<b>31 December</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	(millions of U.S. dollars)				
Gold . . . . .	4,794.8	4,794.8	4,794.8	4,794.8	4,794.8
Foreign Exchange <sup>(1)</sup> . . . . .	397,876.1	430,117.2	438,319.2	399,043.1	395,643.3
Total Gold and Foreign Exchange .	402,670.9	434,912.0	443,114.0	403,837.9	400,438.1
Reserve Position at IMF. . . . .	2,792.9	4,815.3	4,634.9	4,489.5	4,627.8
Special Drawing Rights . . . . .	3,352.4	3,370.8	15,369.5	14,836.3	15,082.1
Total Official Reserves. . . . .	<u>408,816.1</u>	<u>443,098.1</u>	<u>463,118.4</u>	<u>423,163.7</u>	<u>420,147.9</u>

(1) More than 95% of the Republic's foreign currency reserves are comprised of convertible foreign currencies.

Source: The Bank of Korea; International Monetary Fund

The Government's foreign currency reserves increased to US\$262.2 billion as of 31 December 2007 from US\$8.9 billion as of 31 December 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to US\$201.2 billion as of 31 December 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions. The Government's foreign currency reserves increased to US\$408.8 billion as of 31 December 2019, US\$443.1 billion as of 31 December 2020 and US\$463.1 billion as of 31 December 2021, primarily due to continued trade surpluses and capital inflows. The Government's foreign currency reserves decreased to US\$423.2 billion as of 31 December 2022 and US\$420.1 billion as of 31 December 2023, however, primarily in relation to the depreciation of the Won against the U.S. dollar. The amount of the Government's foreign currency reserve was US\$412.8 billion as of 31 May 2024.

### ***Government Finance***

The Ministry of Economy and Finance prepares the Government budget and administers the Government's finances.

The Government's fiscal year commences on 1 January. The Government must submit the budget, which is drafted by the Minister of Economy and Finance and approved by the President of the Republic, to the National Assembly not later than 90 days prior to the start of the fiscal year and may submit supplementary budgets revising the original budget at any time during the fiscal year.

2022 budgeted revenues increased by 14.8% to ₩517.7 trillion from ₩450.9 trillion in 2021, led by an increase in budgeted tax revenues (including taxes on income, profits and capital gains as well as taxes on goods and services). 2022 budgeted expenditures and net lending increased by 8.6% to ₩571.8 trillion from ₩526.3 trillion in 2021, led by increases in budgeted expenditures on recovery from the COVID-19 pandemic (including support for small businesses) and revitalisation of the economy. The 2022 budget anticipated a ₩54.1 trillion budget deficit.

2023 budgeted revenues increased by 13.7% to ₩588.6 trillion from ₩517.7 trillion in 2022, led by an increase in budgeted tax revenues (including taxes on income, profits and capital gains). 2023 budgeted expenditures and net lending increased by 5.2% to ₩601.6 trillion from ₩571.8 trillion in 2022, led by increases in budgeted expenditures on revitalisation of the economy. The 2023 budget anticipated a ₩13.1 trillion budget deficit.

2024 budgeted revenues decreased by 2.6% to ₩573.3 trillion from ₩588.6 trillion in 2023, led by a decrease in budgeted tax revenues (including taxes on income, profits and capital gains). 2024 budgeted expenditures and net lending increased by 2.7% to ₩617.7 trillion from ₩601.6 trillion in 2023, led by increases in budgeted expenditures on revitalisation of the economy. The 2024 budget anticipated a ₩44.4 trillion budget deficit.

Beginning in March 2020, the National Assembly approved a series of supplementary budgets as part of the Government's efforts to mitigate adverse effects on the Korean economy resulting from the COVID-19 pandemic. See “– *The Economy – Worldwide Economic and Financial Difficulties*”. These supplementary budgets, which amounted to ₩66.8 trillion in 2020, ₩49.8 trillion in 2021 and ₩78.9 trillion in 2022, have been some of the largest of their kind drawn up in response to an outbreak of an infectious disease in Korea. The supplementary budgets have been funded through the issuance of treasury bonds by the Government, The Bank of Korea's unappropriated surplus and other surplus funds available to the Government, among others.

Any significant increase in additional spending measures may lead to a budget deficit for 2024, which could result in a deterioration in the Government's fiscal position and an increase in borrowings.

The following table shows consolidated Government revenues and expenditures:

	Consolidated Central Government Revenues and Expenditures							
	Actual					Budget		
	2019	2020	2021	2022	2023 <sup>(1)</sup>	2022	2023	2024 <sup>(1)</sup>
	(billions of Won)							
Total Revenues . . . . .	443,853	446,628	537,619	588,332	543,586	517,701	588,577	573,261
Current Revenues . . . . .	441,148	443,694	534,999	585,325	539,887	514,696	584,672	569,507
Total Tax Revenues . . . . .	363,005	360,129	422,182	479,384	432,989	424,050	486,573	459,643
Taxes on income, profits and capital gains . . . . .	155,736	148,622	184,509	232,319	196,253	180,740	236,860	203,425
Social security contributions . . . . .	69,550	74,583	78,104	83,444	88,918	80,666	86,116	92,329
Tax on property . . . . .	15,474	22,735	31,392	27,696	25,311	28,047	27,815	24,149
Taxes on goods and services. Taxes on international trade and transaction . . . . .	98,614	91,047	99,840	105,828	97,008	106,738	107,760	110,503
Other tax . . . . .	7,882	7,059	8,227	10,324	7,288	8,735	10,724	8,907
Non-Tax Revenues . . . . .	15,748	16,084	20,110	19,773	18,211	19,124	17,299	20,330
Operating surpluses of departmental enterprise sales and property income . . . . .	78,143	83,565	112,818	105,941	106,898	90,646	98,099	109,864
Administration fees & charges and non-industrial sales . . . . .	29,345	33,571	56,664	47,459	42,537	34,628	36,492	41,432
Fines and forfeits . . . . .	10,181	9,929	10,865	11,434	12,428	11,402	12,470	13,357
Contributions to government employee pension fund . . . . .	22,554	23,583	26,993	28,276	29,752	25,501	27,816	30,829
Current revenue of non-financial public enterprises . . . . .	13,523	13,876	14,918	16,348	18,149	16,633	18,480	20,322
Capital Revenues . . . . .	2,540	2,606	3,378	2,425	4,032	2,483	2,842	3,925
Total Expenditures and Net Lending . . . . .	2,705	2,934	2,620	3,007	3,700	3,006	3,905	3,754
Total Expenditures . . . . .	455,850	517,781	568,113	652,902	580,354	571,814	601,629	617,664
Current Expenditures . . . . .	436,698	489,966	538,034	622,997	559,707	546,446	584,587	593,643
Expenditure on goods and service Interest payment . . . . .	387,100	455,098	502,191	585,593	523,270	506,262	545,493	553,669
Subsidies and other current transfers . . . . .	60,196	79,460	88,144	89,759	90,389	94,814	94,966	98,053
Current expenditure of non- financial public enterprises . . . . .	13,837	14,452	15,431	18,481	22,362	17,928	21,726	24,968
Capital Expenditures . . . . .	309,575	357,295	395,826	473,661	405,733	389,599	424,353	425,078
Net Lending . . . . .	3,492	3,891	2,790	3,692	4,785	3,922	4,449	5,570
	49,598	34,868	35,842	37,404	36,437	40,184	39,094	39,974
	19,152	27,815	30,079	29,905	20,647	25,369	17,042	24,021

(1) Preliminary.

Source: Ministry of Economy and Finance; The Bank of Korea; Korea National Statistical Office

The consolidated Government account consists of a General Account, Special Accounts (including a non-financial public enterprise special account) and Public Funds. The Government segregates the accounts of certain functions of the Government into Special Accounts and Public Funds for more effective administration and fiscal control. The Special Accounts and Public Funds relate to business type activities, such as economic development, road and railway construction and maintenance, monopolies, and communications developments and the administration of loans received from official international financial organisations and foreign governments.

Revenues derive mainly from national taxes and non-tax revenues. Taxes in Korea can be roughly classified into the following types:

- income tax and capital gains tax,
- property tax,
- value-added tax,

- customs duty tax, and
- other taxes.

Income tax and capital gains tax are imposed on income derived from labour, business operation and ownership of assets and profits derived from capital appreciation. Income tax and capital gains tax, depending on the type of taxpayer, can be further classified into corporate income tax and individual income tax. Property tax is imposed on exchange or ownership of property and includes inheritance tax and gift tax. Value-added tax is imposed on value added to goods and services. Customs duty tax is imposed on imported goods. Other taxes include tax on certain securities transactions and a stamp tax for certain documents.

Expenditures include general administration, national defence, community service, education, health, social security, certain annuities and pensions and local finance, which involves the transfer of tax revenues to local governments.

For 2019, the Republic recorded total revenues of ₩443.9 trillion and total expenditures and net lending of ₩455.9 trillion. The Republic had a fiscal deficit of ₩12.0 trillion in 2019.

For 2020, the Republic recorded total revenues of ₩446.6 trillion and total expenditures and net lending of ₩517.8 trillion. The Republic had a fiscal deficit of ₩71.2 trillion in 2020.

For 2021, the Republic recorded total revenues of ₩537.6 trillion and total expenditures and net lending of ₩568.1 trillion. The Republic had a fiscal deficit of ₩30.5 trillion in 2021.

For 2022, the Republic recorded total revenues of ₩588.3 trillion and total expenditures and net lending of ₩652.9 trillion. The Republic had a fiscal deficit of ₩64.6 trillion in 2022.

Based on preliminary data, the Republic recorded total revenues of ₩543.6 trillion and total expenditures and net lending of ₩580.4 trillion in 2023. The Republic had a fiscal deficit of ₩36.8 trillion in 2023.

### **Debt**

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of 31 December 2022 amounted to approximately ₩1,044.0 trillion, an increase of 9.9% over the previous year.

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of 31 December 2023 amounted to approximately ₩1,102.1 trillion, an increase of 5.6% over the previous year.

The Ministry of Economy and Finance administers the national debt of the Republic.

### External and Internal Debt of the Government

The following table sets out, by currency and the equivalent amount in U.S. dollars, the estimated outstanding direct external debt of the Government as of 31 December 2023:

<b>Direct External Debt of the Government</b>		
	<b>Amount in Original Currency</b>	<b>Equivalent Amount in U.S. Dollars<sup>(1)</sup></b>
	(millions)	
US\$ . . . . .	6,025.0	6,025.0
Euro (EUR) . . . . .	2,150.0	2,378.8
Total . . . . .		<u>8,403.8</u>

(1) Amounts expressed in currencies other than US\$ are converted to US\$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on 29 December 2023.

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

<b>Direct Internal Debt of the Government</b>	
	<b>(billions of Won)</b>
2019 . . . . .	690,524.1
2020 . . . . .	808,941.0
2021 . . . . .	927,865.2
2022 . . . . .	1,021,574.4
2023 . . . . .	1,080,844.4

The following table sets out all guarantees by the Government of indebtedness of others:

	<b>Guarantees by the Government</b>				
	<b>31 December</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	(billions of Won)				
Domestic . . . . .	14,760.0	12,490.0	10,930.0	10,620.0	10,460.0
External <sup>(1)</sup> . . . . .	–	–	–	–	–
Total . . . . .	<u>14,760.0</u>	<u>12,490.0</u>	<u>10,930.0</u>	<u>10,620.0</u>	<u>10,460.0</u>

(1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on 31 December of each year.

For further information on the outstanding indebtedness, including guarantees, of the Republic, see “– Tables and Supplementary Information”.

### *External Liabilities*

The following tables set out certain information regarding the Republic's external liabilities calculated under the criteria based on the sixth edition of the Balance of Payment Manual published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013. Under BPM6, in particular, prepayments received in connection with the construction of ships are excluded from the external liabilities.

	<b>31 December</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023<sup>(1)</sup></b>
	(billions of U.S. dollars)				
Long-term Liabilities . . . . .	335.3	390.6	465.6	498.8	527.4
General Government . . . . .	91.2	119.4	144.4	156.1	170.8
Monetary Authorities . . . . .	14.4	15.0	35.9	25.1	22.5
Banks . . . . .	104.4	112.2	128.1	146.5	147.6
Other Sectors . . . . .	125.2	144.0	157.2	171.1	186.5
Short-term Liabilities . . . . .	135.5	160.1	165.1	166.5	136.2
General Government . . . . .	1.6	2.1	1.6	1.2	1.6
Monetary Authorities . . . . .	10.9	10.8	9.7	4.7	3.9
Banks . . . . .	102.0	122.0	124.3	129.2	101.9
Other Sectors . . . . .	21.0	25.2	29.6	31.3	28.8
<b>Total External Liabilities . .</b>	<b>470.7</b>	<b>550.6</b>	<b>630.7</b>	<b>665.2</b>	<b>663.6</b>

(1) Preliminary.

### *Commitments to Assume Treasury Obligations*

The Government may, if deemed necessary for recovery from disasters and calamities, make commitments to assume treasury obligations to the extent resolved by the National Assembly each fiscal year. In such cases, such commitments shall be executed in accordance with the procedures for spending reserve funds within general accounts. As of 8 September 2023, such commitments assumed by the Government amounted to ₩0.2 trillion.

### *Debt Record*

The Government has always paid when due the full amount of principal of, interest on, and amortisation of sinking fund requirements of, all of its indebtedness.

## Tables and Supplementary Information

### (A) External Debt of the Government

#### (1) External Bonds of the Government

Series	Issue Date	Maturity Date	Interest Rate	Currency	Original Principal Amount	Principal Amount Outstanding as of 31 December 2023
			(%)			
2005-001 . . . .	2 November 2005	3 November 2025	5.625	USD	400,000,000	400,000,000
2014-001 . . . .	10 June 2014	10 June 2044	4.125	USD	1,000,000,000	1,000,000,000
2014-002 . . . .	10 June 2014	10 June 2024	2.125	EUR	750,000,000	750,000,000
2017-001 . . . .	19 January 2017	19 January 2027	2.750	USD	1,000,000,000	1,000,000,000
2018-001 . . . .	20 September 2018	20 September 2028	3.500	USD	500,000,000	500,000,000
2018-002 . . . .	20 September 2018	20 September 2048	3.875	USD	500,000,000	500,000,000
2019-001 . . . .	19 June 2019	19 June 2029	2.500	USD	1,000,000,000	1,000,000,000
2019-002 . . . .	19 June 2019	19 June 2024	2.000	USD	500,000,000	500,000,000
2020-001 . . . .	16 September 2020	16 September 2030	1.000	USD	625,000,000	625,000,000
2020-002 . . . .	16 September 2020	16 September 2025	0.000	EUR	700,000,000	700,000,000
2021-001 . . . .	15 October 2021	15 October 2026	0.000	EUR	700,000,000	700,000,000
2021-002 . . . .	15 October 2021	15 October 2031	1.750	USD	500,000,000	500,000,000
<b>Total External Bonds in Original Currencies . . . . .</b>				USD		<u>6,025,000,000</u>
				EUR		<u>2,150,000,000</u>
<b>Total External Bonds in Equivalent Amount of Won<sup>(1)</sup> . . . . .</b>				(₩)		<u>10,835,803,500,000</u>

(1) U.S. dollar amounts are converted to Won amounts at the rate of U.S.\$1.00 to ₩1,289.4, the market average exchange rate in effect on 29 December 2023, as announced by Seoul Money Brokerage Services, Ltd. Euro amounts are converted to Won amounts at the rate of EUR 1.00 to ₩1,426.6, the market average exchange rate in effect on 29 December 2023, as announced by Seoul Money Brokerage Services, Ltd.

#### (2) External Borrowings of the Government

None.

### (B) External Guaranteed Debt of the Government

None.

**(C) Internal Debt of the Government**

<u>Title</u>	<u>Range of Interest Rates</u>	<u>Range of Years of Issue</u>	<u>Range of Years of Original Maturity</u>	<u>Principal Amounts Outstanding as of 31 December 2023</u>
	(%)			(billions of Won)
<b>1. Bonds</b>				
Interest-Bearing Treasury Bond for Treasury Bond Management Fund . . . . .	0.750-5.750	2006-2023	2024-2072	998,003.4
Interest-Bearing Treasury Bond for National Housing I . . . . .	1.00-2.00	2019-2023	2024-2029	81,624.2
Interest-Bearing Treasury Bond for National Housing II . . . . .	0.0-3.0	2014-2020	2024-2030	2.4
Interest-Bearing Treasury Bond for National Housing III . . . . .	-	-	-	0
Non-interest-Bearing Treasury Bond for Contribution to International Organisations <sup>(1)</sup> . . . . .	0	1968-1985	-	9.4
<b>Total Bonds</b> . . . . .				<u>1,079,639.4</u>
<b>2. Borrowings</b>				
Borrowings from The Bank of Korea . . . . .	-	-	-	0
Borrowings from the Sports Promotion Fund . . . . .	1.870-3.665	2022-2023	2024-2025	960.0
Borrowings from The Korea Foundation Fund . . . . .	-	-	-	0
Borrowings from the Labor Welfare Promotion Fund . . . . .	3.665-3.975	2023	2024	50.0
Borrowings from Korea Technology Finance Corporation . . . . .	3.135-3.585	2022	2024	195.0
Borrowings from the Credit Guarantee Fund for Agriculture, Forestry and Fisheries Suppliers . . . . .	-	-	-	0
Borrowings from the Government Employees' Pension Fund . . . . .	-	-	-	0
Borrowings from the Film Industry Development Fund . . . . .	-	-	-	0
Borrowings from the Korea Credit Guarantee Fund . . . . .	-	-	-	0
Borrowings from the Housing Finance Credit Guarantee Fund . . . . .	-	-	-	0
Borrowings from the Korea Infrastructure Credit Guarantee Fund . . . . .	-	-	-	0
<b>Total Borrowings</b> . . . . .				<u>1,205.0</u>
<b>Total Internal Funded Debt</b> . . . . .				<u>1,080,844.4</u>

(1) Interest Rates and Years of Original Maturity not applicable.

**(D) Internal Guaranteed Debt of the Government**

<u>Title</u>	<u>Range of Interest Rates</u>	<u>Range of Years of Issue</u>	<u>Range of Years of Original Maturity</u>	<u>Principal Amounts Outstanding as of 31 December 2023</u>
		(%)		(billions of Won)
<b>1. Bonds of Government-Affiliated Corporations</b>				
Korea Deposit Insurance Corporation . . . . .	-	-	-	0
Korea Student Aid Foundation . . . . .	1.07-5.48	2011-2023	2024-2043	9,980.0
Key Industry Stabilisation Fund . . . . .	1.08-2.19	2020-2021	2024-2025	480.0
<b>Total Internal Guaranteed Debt</b> . . . . .				10,460.0

**(E) Others**

*Commitments to Assume Treasury Obligations*

The Government may, if deemed necessary for recovery from disasters and calamities, make commitments to assume treasury obligations to the extent resolved by the National Assembly each fiscal year. In such cases, such commitments shall be executed in accordance with the procedures for spending reserve funds within general accounts. As of 8 September 2023, such commitments assumed by the Government amounted to ₩0.2 trillion.

## KOREA HOUSING FINANCE CORPORATION

### Overview

KHFC was established in March 2004 as a quasi-sovereign entity pursuant to the KHFC Act in order to promote the welfare of people in Korea and the development of the national economy by providing a stable source of housing finance. KHFC's primary business consists of securitisation of mortgage loans which it purchases from Korean mortgage lenders in order to facilitate the supply of housing finance on a long-term and stable basis. Since its inception, KHFC has facilitated the provision by Korean mortgage lenders of long-term FRMs by executing 455 domestic MBS transactions with such mortgage loans as underlying assets. The principal amount of such transactions totalled over Won 397.2 trillion as at 31 December 2023. In 2023 alone, KHFC provided over Won 33.4 trillion in loans. KHFC is the largest originator of MBS in the Korean domestic securitisation market. As a Government-controlled entity, KHFC does not seek to maximise profits from its operations but rather seeks to maintain an overall level of profitability that allows it to strengthen its capital base in order to support its business. This approach also serves the public policy goals for which it was established.

The main loan products provided by KHFC or provided by participating lenders and funded by KHFC, are fixed rate mortgage loans with a maturity of up to 30 years (the "**KHFC Mortgage Loans**"). KHFC Mortgage Loans are intended to reduce the repayment burden of borrowers by offering a long-term fixed rate of interest when compared with many other types of mortgage loan products available in Korea. As described in further detail below, KHFC Mortgage Loans are issued on different terms and in different forms.

The terms of the KHFC Act further provide that the Government will cover any losses of KHFC that are not otherwise covered by reserves of KHFC maintained pursuant to the KHFC Act. KHFC is also authorised to borrow from the Government under certain circumstances. While the Notes are not guaranteed by the Government, this commitment from the Government may support the ability of KHFC to pay interest on and repay the principal of the Notes.

In addition to purchasing and securitising residential mortgage loans, KHFC is engaged in two other related but separately funded and managed businesses. KHFC manages the HFCGF, which is the source of (a) credit guarantees to financial institutions engaged in providing housing loans to homeowners or tenants and construction loans to small-sized home builders and (b) credit guarantees to financial institutions engaged in lending reverse mortgage loans to senior citizens. The Credit Guarantees support the obligations of eligible home buyers and tenants under mortgage loans obtained from financial institutions other than KHFC. Similarly, the home builder guarantees provide support for the payment obligations of home builders to financial institutions providing construction loans to them. Under the reverse mortgage loan programme, the HFCGF provides the Reverse Mortgage Guarantees to other financial institutions in respect of the repayment obligations of borrowers who are eligible senior citizens under reverse mortgage loans, which represents a form of retirement financing. Since its inception, KHFC has provided guarantees amounting to approximately Won 152.5 trillion as at 31 December 2023.

The financial accounting for the Credit Guarantee and the Reverse Mortgage Guarantee businesses are entirely separate from KHFC's financial accounting in respect of its mortgage loan purchasing and securitisation operations. In addition, the Credit Guarantee business is funded from the assets of the HFCGF and not from KHFC's core mortgage loan acquisition and securitisation business. The Reverse Mortgage Guarantee business is funded from the "**Reverse Mortgage Guarantee Account**" of the HFCGF. Accordingly, losses in any one of these businesses will not be attributable to either of the other two. In addition, the Government provides separate support to the HFCGF in respect of certain losses incurred by the Credit Guarantee and the Reverse Mortgage Guarantee businesses that are not otherwise covered by reserves of the HFCGF and the Reverse Mortgage Guarantee Account, respectively.

KHFC also has an additional public policy role which involves it acting to stabilise the Korean mortgage market by acquiring mortgage loans, including KHFC Mortgage Loans, from other Korean financial institutions.

### **History and Development**

Prior to the establishment of KHFC, mortgage securitisation to support the Korean housing market had been arranged by Korea Mortgage Corporation (“**KoMoCo**”), and the guarantee business for moderate- and low-income households had been provided separately by the HFCGF.

KHFC was established on 1 March 2004 pursuant to the KHFC Act by integrating the mortgage securitisation business of KoMoCo and the guarantee business of HFCGF. The KHFC Act, the Enforcement Decree of the KHFC Act (the “**KHFC Decree**”), the Enforcement Rules of the KHFC Act and KHFC’s articles of incorporation define and regulate KHFC’s powers and authority to conduct its businesses.

KHFC has taken a leading role in the development of the domestic MBS market in Korea in order to supplement the conventional funding sources of bank deposits and certificates of deposit, providing an additional funding source for FRMs. In March 2004, certain financial institutions began providing long-term fixed rate *Bogeumjari* loans developed by KHFC to their customers. In June 2004, KHFC began securitisation of residential mortgage loans in the form of MBS. In October 2005, KHFC began securitisation of student loans it purchased from financial institutions. In February 2006, certain financial institutions began providing to moderate and low-income home purchasers 30-year fixed rate *Bogeumjari* loans developed by KHFC. In March 2009, KHFC began securitising residential mortgage loans (other than *Bogeumjari* loans) owned by certain commercial banks. In May 2009, the student loan credit guarantee business was transferred to Korea Student Aid Foundation as a result of which KHFC ceased to manage the Student Loan Guarantee Fund. In June 2010, certain financial institutions began providing *Bogeumjari* loans developed by KHFC. In March 2012, certain financial institutions began providing Conforming Loans. In 2014, KHFC introduced a new *Bogeumjari* loan product (“**Didimdol loans**”) which comprised 70.7% of all *Bogeumjari* loans extended in 2014. See “– *Products and Business*” for more information on *Bogeumjari* loans and Conforming Loans.

For further information about the various types of mortgage loans offered by KHFC, see “– *Products and Business*”.

As of 31 December 2023, KHFC has 28 branches and 1 collection centre throughout Korea.

### ***Relationship with the Government of Korea***

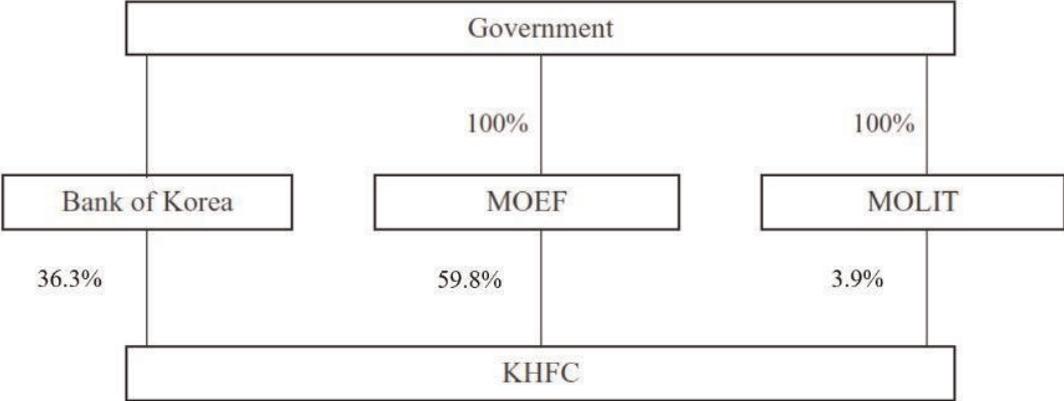
#### ***Government Ownership and Control***

KHFC was, as described above, established in 2004 pursuant to the KHFC Act with the objectives of promoting the welfare of people in Korea and developing the national economy, by providing a stable source of funding for housing finance. As an instrument in serving the Government’s public policy objectives, KHFC is treated as a Government-controlled entity under Korean law, and its powers and authority to implement the Government’s policies and the fiscal and regulatory support provided by the Government are defined in the KHFC Act, the KHFC Decree, the Enforcement Rules of the KHFC Act and KHFC’s articles of incorporation.

Under the KHFC Act, KHFC’s authorised capital is Won 5,000 billion to which only the Government and The Bank of Korea may contribute. As at 31 December 2023, KHFC’s paid-in capital was Won 2,737.4 billion. Of this amount, Won 1,742.4 billion accounting for 63.7% of KHFC’s paid-in capital was contributed by the Government via the Ministry of Economy and Finance (the “**MOEF**”) and the National Housing and Urban Fund managed by the Ministry of Land, Infrastructure and Transport (the

“MOLIT”), and Won 995 billion accounting for the remaining 36.3% of KHFC’s paid-in capital was contributed by The Bank of Korea. Since KHFC’s establishment in 2004, the Government has periodically injected capital into KHFC’s business via the MOEF, The Bank of Korea and the MOLIT.

The following diagram illustrates the current ownership structure of KHFC:



**Government Financial Support**

The Government provides financial support to KHFC primarily through capital contributions and/or by its obligation under the KHFC Act to cover losses arising on KHFC’s books at year end.

The capital contributions by the Government are made either in the form of an ordinary capital injection or an emergency capital injection, depending on the urgency of the funds required. An ordinary capital injection is executed from the Government’s annual budget after the National Assembly of Korea passes a resolution authorising the allocation of funds based on, among other things, the results of KHFC’s business operations and its business plan. If emergency funds are required, the Government allocates funding to KHFC out of its reserves without the approval of the National Assembly of Korea. In addition to contributions to KHFC’s capital, the Government may provide funding for KHFC’s financing activities by way of loans pursuant to Article 53 of the KHFC Act, although as at 31 December 2023, no loans have been provided by the Government.

The following table sets forth the details of each capital injection by the Government and The Bank of Korea in KHFC's business:

Name	Date of Capital Injection	Amount (Won in billions)
The Bank of Korea . . . . .	1 March 2004	310
Ministry of Economy and Finance . . . . .	1 March 2004	10
Ministry of Land, Infrastructure and Transport. . . . .	12 June 2004	56.6
Ministry of Economy and Finance . . . . .	29 June 2007	50
Ministry of Land, Infrastructure and Transport. . . . .	24 January 2008	50
Ministry of Economy and Finance . . . . .	12 December 2008	200
Ministry of Economy and Finance . . . . .	2 January 2009	150
Ministry of Economy and Finance . . . . .	30 January 2009	50
Ministry of Economy and Finance . . . . .	25 May 2009	200
The Bank of Korea . . . . .	31 July 2012	135
Ministry of Economy and Finance . . . . .	15 March 2013	120
Ministry of Economy and Finance . . . . .	11 June 2013	100
The Bank of Korea . . . . .	5 June 2015	200
Ministry of Economy and Finance . . . . .	31 August 2015	50
Ministry of Economy and Finance . . . . .	24 December 2015	150
Ministry of Economy and Finance . . . . .	13 July 2018	90
Ministry of Economy and Finance . . . . .	18 April 2019	90
Ministry of Economy and Finance . . . . .	22 April 2021	50
The Bank of Korea . . . . .	30 August 2022	120
Ministry of Economy and Finance . . . . .	29 September 2022	159
Ministry of Economy and Finance . . . . .	3 March 2023	16.8
Ministry of Economy and Finance . . . . .	23 June 2023	23
Total Capital Contributions . . . . .		2,737.4

KHFC's mortgage securitisation business is supported by the Government pursuant to Articles 50 and 51 of the KHFC Act. Article 50 provides that KHFC's annual net income shall be applied each fiscal year as follows:

- (a) 20% of such net income shall be transferred to its reserve until the total amount of such reserve equals the total amount of its paid-in capital;
- (b) the balance of any such net income, after the transfer specified in paragraph (a) above, shall be distributed to KHFC's equityholders upon approval of the MOEF in accordance with the KHFC Decree; and
- (c) the remaining balance of any such net income, after the distribution of dividends as specified in paragraph (b) above, shall be distributed in accordance with resolutions of the Housing Finance Steering Committee of KHFC and upon the approval of the FSC.

Article 51 further provides that the annual net losses of KHFC shall be offset each year by its reserve, and if the reserve is insufficient to cover such losses, the Government shall cover KHFC's net annual losses that are in excess of its reserve.

**Government Regulatory Support**

The Government provides regulatory support to KHFC in a number of ways. In connection with the mortgage securitisation business, KHFC is provided with preferential treatment under certain laws and regulations. The following are examples of regulatory support provided by the Government which apply to, and facilitate, KHFC's mortgage securitisation business, as compared with other financial institutions:

- (a) favourable required provisioning ratios applicable to KHFC's assets (pursuant to the KHFC Supervision Rules);

- (b) lower risk weights applicable to MBS denominated in Won, which are currently 0% (pursuant to the Enforcement Rules on the Banking Business Supervision);
- (c) waiver of the requirement to submit a registration statement for KHFC's securities (pursuant to the Financial Investment Services and Capital Markets Act);
- (d) certain preferential treatment compared to private sector entities conducting securitisations under the Act Concerning Asset Backed Securitisation of Korea as amended from time to time and the rules and regulations and decrees promulgated thereunder (pursuant to Articles 26 to 28 of the KHFC Act); and
- (e) reduction of registration fee on mortgage assets acquired from the participating lenders (pursuant to Article 28 of the KHFC Act).

## **Government Supervision**

### ***Housing Finance Steering Committee***

Although KHFC's management controls KHFC's day-to-day business operations, KHFC's operations are subject to the review and supervision by the Government, and KHFC carries out the Government's overall housing finance policies. In order to enhance the co-operation and understanding among various levels of the Government, including among the FSC, MOEF, MOLIT and The Bank of Korea, the Housing Finance Steering Committee (the "**HFSC**"), the highest decision-making body of KHFC responsible for making decisions on all significant issues relating to KHFC's business operation, comprises senior Government officials affiliated with or persons appointed by the Government or The Bank of Korea. The HFSC currently consists of six members including: (a) the President and Chief Executive Officer (the "**CEO**") of KHFC who is appointed by the President of Korea; (b) one Government official from the FSC; (c) one Government official from the MOLIT; and (d) three individual experts in the housing finance market appointed by the FSC, of whom two are appointed at the recommendation of the MOLIT and The Bank of Korea.

### ***Board of Directors***

KHFC's board of directors is responsible for the management of KHFC's day-to-day business operations (the "**Board of Directors**"). KHFC's Board of Directors currently consists of 13 members. The President and CEO of KHFC are appointed by the President of Korea. Executive directors are appointed by the president and CEO, while non-executive directors are appointed by the FSC based on the recommendations of two or more candidates by the Officer Recommendation Committee. KHFC's auditor is appointed by the President of Korea at the recommendation of the MOEF.

### ***Reporting Requirements and Audits***

Each fiscal year, KHFC is required to submit its business plan and budget request to the Government and the budget is approved by the National Assembly of Korea. The major reporting requirements and audits to which KHFC is subject include the following:

- (a) KHFC establishes and submits a five-year mid-term business plan and strategies to the FSC and the MOEF.
- (b) 10 days prior to the beginning of each fiscal year, KHFC must submit to the FSC for approval KHFC's proposed business plan and budget for the next fiscal year as approved by the HFSC of KHFC.
- (c) Within three months from the end of each fiscal year, KHFC must prepare and submit to the FSC statements of accounts, statements of financial position and income statements in respect of KHFC as approved by the HFSC of KHFC.

- (d) Every month, KHFC submits to the FSS monthly reports on the overall business operations of KHFC including the capital adequacy ratio, liquidity and risk management.
- (e) KHFC consults with or obtains approval from the FSC before launching new products.
- (f) Within three months from the end of each fiscal year, KHFC must prepare and submit to the FSC statements of accounts, statements of financial position and income statement in respect of the HF CGF and the RMGA.
- (g) KHFC must prepare and submit KHFC’s financial statements to the MOEF (within three months after the end of each fiscal year) and to the National Assembly of Korea (within nine months after the end of each fiscal year) outlining KHFC’s operations and analysing KHFC’s activities during the relevant fiscal year.
- (h) KHFC is subject to an annual inspection and audit by the National Assembly of Korea according to the Act on the Inspection and Investigation of State Administration in respect of its overall operations, including the general implementation of its business plans, performance and closing of accounts.
- (i) The Board of Audit and Inspection of Korea, an independent Government agency, audits and reviews KHFC’s budget and financial statements.
- (j) The FSC has broad authority to require reports from KHFC on any matter and to examine KHFC’s books and records. It conducts ad hoc audits on all aspects of KHFC’s operations.

**Organisation and Structure**

KHFC is managed by the HFSC, its highest decision-making body, and the Board of Directors, its highest executive body. The following diagram illustrates the organisational structure of KHFC:



KHFC’s operating departments consist of the Corporate Planning & Management Group, the Securitization Business Group, the Credit Guarantee Business Group and the Business Infrastructure Group.

The key functions of the four groups are summarised as follows:

- (a) Corporate Planning & Management Group: this group is responsible for the marketing of all products and services provided by KHFC and strengthening its customer-centred vision and services.
- (b) Securitization Business Group: this group is responsible for arranging the securitisation of the KHFC Mortgage Loans purchased from participating lenders.
- (c) Credit Guarantee Business Group: this group is responsible for managing the HFCGF under which credit guarantees are provided to financial institutions that provide residential mortgage loans (including *chonsei* loans for key money deposit (“*Chonsei loans*”, as defined herein)) or construction loans to prospective home purchasers/tenants and small-sized home builders, as applicable.
- (d) Business Infrastructure Group: this group is responsible for establishing and reviewing the overall plans and strategies of each business group of KHFC.

### **Products and Business**

KHFC is primarily engaged in the business of: developing and purchasing KHFC Mortgage Loans; securitising the KHFC Mortgage Loans; and managing the HFCGF under which the Credit Guarantees and Reverse Mortgage Guarantees are provided to certain financial institutions which lend to home buyers, home builders and senior citizens, as applicable.

The main features of the products and services that KHFC offers are summarised as follows:

- (a) KHFC Mortgage Loans: KHFC Mortgage Loans are long-term mortgage loans provided at fixed rates and are provided by certain participating lenders in accordance with a pre-arranged acquisition agreement and subsequently sold to KHFC.
- (b) Securitisation: KHFC arranges for the securitisation of the mortgage loans it purchases from certain participating lenders pursuant to a pre-arranged acquisition agreement, and of other types of mortgage loans originated by financial institutions which satisfy KHFC's acquisition criteria. Securitisation provides KHFC with the primary funding source for the ongoing purchase of KHFC Mortgage Loans and provides participating lenders originating other mortgage loans with a means to improve their liquidity risk position.
- (c) Management of the HFCGF in relation to Credit Guarantees: KHFC manages the HFCGF under which credit guarantees in respect of housing loans (including *Chonsei* loans) and home builder loans are provided to the relevant lenders (other than KHFC) to support payment obligations of moderate- and low-income households and small-sized home builders under such loans.
- (d) Management of the HFCGF in relation to Reverse Mortgage Guarantees: KHFC manages the HFCGF under which credit guarantees in respect of reverse mortgage loans are provided to the relevant lenders (other than KHFC) to support payment obligations of certain senior citizens. The reverse mortgage loans allow senior citizens to provide their homes as collateral for establishing mortgage or trust thereon and obtain loans in the form of a monthly pension.

### ***KHFC Mortgage Loans***

KHFC Mortgage Loans are long-term, fixed rate instalment mortgage loan products. From 25 March 2004 to 31 December 2023, participating lenders advanced a total of approximately Won 441.6 trillion in KHFC Mortgage Loans. As at 31 December 2023, KHFC Mortgage Loans were provided by 20 commercial banks, specialised credit finance companies and insurance companies.

The major terms of the KHFC Mortgage Loans include the following:

- (a) The eligible borrowers are limited to borrowers who are 20 years and older.
- (b) The maturity of the KHFC Mortgage Loans is up to 40 years.
- (c) The KHFC Mortgage Loans may cover up to 70% of the home purchase price, subject to the maximum loan amount of Won 500 million.
- (d) KHFC Mortgage Loans are not granted for the purchase of a mortgaged property with a value at the time of taking out the loan in excess of Won 900 million.

KHFC Mortgage Loans are categorised into the following three main product types:

- (a) *Bogeumjari* Loans: *Bogeumjari* loans were introduced by KHFC in 2004 and are long-term, fixed rate instalment mortgage loan products mainly targeting moderate- and low-income households. *Bogeumjari* loans are only available to families who do not own a home or own only one home but will sell their existing home within two years of taking out the loan. Interest rates on *Bogeumjari* loans are set by KHFC with originating banks earning a fixed servicing fee. Low-income borrowers that satisfy certain criteria may be eligible for discounts from the standard *Bogeumjari* loan interest rate with such discount subsidised by the Government. As of the end of 2023, a total of Won 306.9 trillion in *Bogeumjari* loans had been extended. In 2023, KHFC provided Won 49.2 trillion to approximately 217,000 households via the basic type of *Bogeumjari* loans and *Didimdol* loans, a new type of *Bogeumjari* loan launched in 2014. By product, the basic type of *Bogeumjari* loans claimed the largest share with 89.2%, followed by *Didimdol* loans with 10.8%, of the total *Bogeumjari* loans extended in 2023. Borrowers may apply for *Bogeumjari* loans either via participating lenders or from KHFC directly. Certain *Bogeumjari* loans that are originated through KHFC are also serviced by KHFC (“**KHFC Serviced Mortgage Loans**”) and the borrowers receive an interest rate discount.
- (b) New Relief Conversion Loan: On 23 July 2019, KHFC and the FSC announced they will be introducing a one-time offering of up to Won 20 trillion of the New Relief Conversion Loan that would allow low- to middle-income households to refinance their existing mortgage loans into fixed rate mortgage loans. Designed to provide relief in decreasing the household debt burden and creating a predictable mortgage amortisation schedule, this new offering reflects the Government’s recent objective to maintain household debt levels while satisfying the demands of low- to middle-income households for long-term, stable, fixed-rate interest mortgage loans. In order to qualify for the New Relief Conversion Loan, the candidate must meet the following criteria: (i) the annual income of the household must be lower than Won 85 million, (ii) property ownership must be restricted to one home, (iii) use of the proceeds is limited to repayment of the loan for conversion and (iv) the mortgaged property value must be below Won 900 million. Loan limit is up to Won 500 million, with maximum LTV ratio of 70% and maximum DTI ratio of 60% Interest rate is expected to be around 1.85 to 2.2% with tenor of up to 30 years.
- (c) Conforming Loans: Conforming loans are a product introduced by KHFC in partnership with participating lenders in March 2012 for the purpose of further promoting the origination of long-term fixed rate mortgage products in Korea (“**Conforming Loans**”). The origination of Conforming Loans by banks is also part of a broader policy initiative of the FSS in Korea to manage household debt levels. Interest rates on Conforming Loans are determined by the relevant participating lenders, with KHFC charging a fixed financing cost to participating lenders for the purchase of such Conforming Loans. Borrowers may only apply for Conforming Loans via participating lenders. The Conforming Loan encourages commercial banks to shift existing short term, floating-rate loans subject to lump-sum payments at maturity to long-term, fixed-rate amortising loans. In particular, as part of ‘Household Debt Restructuring Programme’, the Safe Conversion Conforming Loan (the “**Safe Conversion Conforming Loan**”), which launched in

March 2015 as a one-time offering, supplied Won 32 trillion to approximately 320,000 households and successfully carried out the overhaul of the household debt structure without increasing the total volume of household loans. The Safe Conversion Conforming Loan provided interest rates of around 2%, which was the lowest in the market at the time of its launch. At the same time, the Safe Conversion Conforming Loan exempted the entire reimbursement penalty on previous floating rate loans or loans in repayment in order to ease the burden of loan transition on the borrowers. By solidifying the debt repayment structure, easing the risk of an increase in interest costs and reducing the financial cost to the borrowers, the Safe Conversion Conforming Loan accomplished its initial goal of stabilising and improving the structure of household debts. Including Won 0.06 trillion of conforming loans to 333 households in 2023, from the time of its release to 2023, a total of 1,230,626 households were supplied with Won 135 trillion worth of Conforming Loans (including Safe Conversion Conforming Loans), which has led to the improvements of the structure of lending from short-term, adjustable rate, bullet payment loans to long-term, fixed rate, amortised mortgages. Consequently, the proportion of fixed-rate amortising mortgage loans has substantially grown, which has contributed to restructuring Korean domestic household debt loads.

The following table sets forth the aggregate volume of KHFC Mortgage Loans made by participating lenders for each period:

	As of 31 December		
	2021	2022	2023
	(Won in billions)		
Total amount of <i>Bogeumjari</i> loans . . . . .	27,322.5	21,674.5	49,238.9
Total amount of Conforming Loans . . . . .	4,468.9	1,548.8	57.7
Total amount of KHFC Mortgage Loans . . . . .	31,791.5	23,223.3	49,296.6

The following table sets forth the composition of the KHFC Mortgage Loans originated for each period:

	As of 31 December		
	2021	2022	2023
	(%)		
<i>Bogeumjari</i> loans . . . . .	85.9	93.3	99.9
Conforming Loans . . . . .	14.1	6.7	0.01

**Securitisation Business**

KHFC acquires, based on a pre-arranged acquisition agreement, KHFC Mortgage Loans advanced by financial institutions in accordance with specific acquisition standards, and subsequently securitises them in the form of MBS with such loans as the underlying assets. Generally, KHFC’s MBS are structured as senior securities with nine different maturity periods (from one year to 30 years), while the subordinated securities have a maturity period of 31 years.

KHFC is also engaged in the business of purchasing from a number of commercial banks in Korea, and securitising, certain residential mortgage loans (other than KHFC Mortgage Loans), which comply with KHFC’s acquisition standards. KHFC securitises such mortgage loans in the form of MBS and the senior tranches of such securities are then sold to the commercial banks that sold the relevant underlying assets to KHFC (“**Mortgage-MBS swaps**”). Mortgage-MBS swaps are aimed at, among other things, improving the BIS ratio and liquidity in respect of those commercial banks.

Since its establishment to December 2023, KHFC also securitised residential mortgage loans (including but not restricted to KHFC Mortgage Loans) totalling Won 397.2 trillion by executing 455 MBS transactions with such mortgage loans as the underlying assets, of which Won 13.8 trillion were in the form of Mortgage-MBS swaps.

The volume of *Bogejumjari* loans supplied in 2021, 2022 and 2023 was Won 27,322.6 billion, Won 21,674.5 billion and Won 49,238.9 billion, respectively. The volume of Conforming Loans supplied in 2021, 2022 and 2023 was Won 4,468.9 billion, Won 1,548.8 billion and Won 57.7 billion, respectively. The volume of MBS issued in 2021, 2022 and 2023 was Won 34,464.4 billion, Won 15,025.3 billion and Won 33,403.5 billion, respectively.

### ***Housing Finance Credit Guarantees***

KHFC manages the HFCGF pursuant to the KHFC Act. Credit Guarantees are provided to the financial institutions lending *Chonsei* loans or ordinary mortgage loans to eligible tenants or prospective home buyers. Credit Guarantees are also provided to the financial institutions providing home building loans to eligible home builders in order to promote housing construction. From 2004 until 31 December 2023, the HFCGF provided Credit Guarantees amounting to Won 644.9 trillion to support the payment obligations of borrowers contributing to the housing stability of moderate- and low-income households. The volume of credit guarantees provided for housing finance in 2021, 2022 and 2023 was Won 65,094.3 billion, Won 72,990.7 billion and Won 75,526.0 billion, respectively. The volume of the underlying assets in 2021, 2022 and 2023 was Won 8,665.4 billion, Won 8,899.3 billion and Won 10,017.6 billion, respectively.

Customers requesting KHFC's Credit Guarantee are largely moderate- and low-income households with an annual income of Won 30 million or less, a CSS (credit scoring system) grade of six or lower or residing in a home that is 85m<sup>2</sup> or smaller. Likewise, guarantees for home builders are provided mainly to construction companies that build rental housing for moderate- and low-income households with no home, small and medium-sized home builders, and home builders based in provincial areas, which tend to be relatively less financially secure.

### ***Reverse Mortgage Guarantees***

*JooTaekYeonKeum* ("JTYK") is a reverse mortgage programme launched on 12 July 2007. It allows senior citizens to provide their homes as security and obtain loans in the form of monthly pension benefits. It is thus a form of retirement funding. This programme provides financial and housing security to senior citizens, who own their houses but lack regular cash income, for the remainder of their lives. Since JTYK's launch until 31 December 2023, the HFCGF provided JTYK credit guarantees amounting to Won 152,513.7 billion to the financial institutions lending JTYK mortgage loans to 121,476 senior citizens. The volume of reverse mortgage loans provided in 2021, 2022 and 2023 was Won 15,025.5 billion, Won 24,969.2 billion and Won 22,501.6 billion, respectively. The volume of pay-outs on reverse mortgage loans in 2021, 2022 and 2023 was Won 1,454.7 billion, Won 1,924.2 billion and Won 2,385.6 billion, respectively.

### **Information Technology**

A sophisticated and comprehensive information technology system is crucial to support KHFC's operations management. Accordingly, KHFC has made significant investments in its technology and information systems. In 2006, KHFC spent approximately Won 16 billion in the construction of its IT systems that are customised to its specific businesses.

KHFC's IT systems are designed to ensure continuity of services by utilising backup systems in the disaster recovery data centre even when there is a failure of the host data centre due to a natural disaster or other accidents. KHFC's IT systems back up on a daily basis on backup tapes all of its operational data and information including that relating to its securitisation business and guarantee business. In January 2007, in order to minimise operational risks relating to its IT systems, KHFC implemented a disaster recovery system, which backs up KHFC's data systems at an off-site location operated by LG CNS on a real-time basis to ensure that KHFC's operations can be carried out normally and without material interruption in the event that KHFC's main server fails. Under the current disaster recovery plan, KHFC's data systems backed up at the off-site location can be recovered in a relatively short period of time in case of any data loss at KHFC. KHFC currently tests its disaster recovery systems twice a year. To date, KHFC has not experienced any significant data loss.

Internally, KHFC's ICT Operation Department establishes and reviews KHFC's overall IT strategy and upgrading plan, and monitors all of its electronic and computerised network processes, including its information security system. The ICT Operation Department also provides, among other things, operational support to each business group including collections of principal and interest payments in connection with its securitisation business and management of KHFC Serviced Mortgage Loan-related systems.

**Principal Properties**

KHFC's registered office and head office is located at BIFC 40, Munhyeongeumyung-ro, Nam-gu, Busan 48400, Korea. KHFC owns its head office property. As of 31 December 2023, KHFC had 28 branches and 1 collection centre located throughout Korea. The premises occupied by KHFC's branch offices and collection centre are leased properties. Lease terms are generally two years.

**Legal Proceedings**

There are no material legal, regulatory or administrative actions of significance or litigation currently pending or, to KHFC's knowledge, threatened against KHFC.

**Employees**

As at 31 March 2024, KHFC had 845 full-time employees (including the executive directors and officers) as well as 149 contract employees.

KHFC's labour union was formed in 2004, and as of 31 December 2023, 100.0% of KHFC's eligible employees were members of the union. Every year, usually in November, the union and the management enter into a new collective bargaining agreement and negotiate annual wage adjustments.

To date, KHFC has never experienced a work stoppage.

The compensation package of KHFC's employees consists of base salary and base bonus. In addition, KHFC provides performance-based compensation to employees. KHFC pays such bonuses to its employees in addition to the base salary depending on their annual performance.

KHFC provides a wide range of fringe benefits to its employees including medical insurance, employment insurance, workers compensation, free medical examinations, reimbursement for certain medical expenses, housing purchase loans, home rental loans, and university scholarship loans to children of its employees.

## RISK MANAGEMENT

KHFC is exposed to risks relating to its purchase and holding of mortgage loans, securitisation of such mortgage loans, trading and other businesses, as well as risks relating to its operating environment. KHFC's objectives in risk management are to understand, measure and monitor the various risks that arise and to adhere, as far as reasonably and practicably possible, to the policies and procedures that it has established to address these risks, while allocating an "equity capital limit" to each risk type. The principal types of risks faced are credit risk, market risk (including liquidity risk, interest rate risk and trading risk), prepayment risk, operational risk, strategic risk and legal risk.

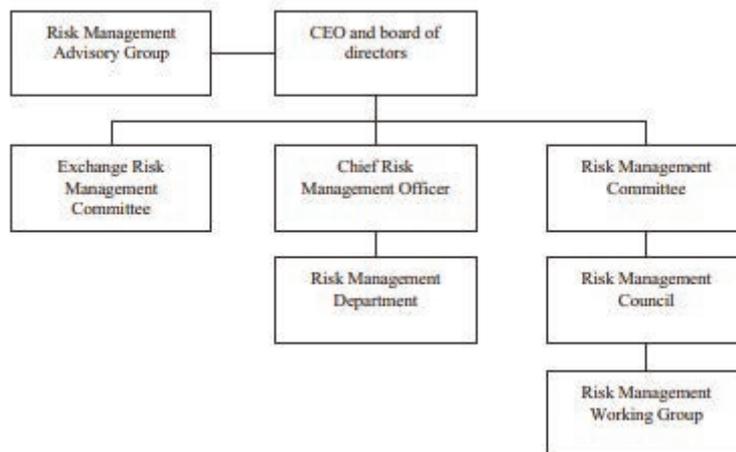
### Policies and Procedures

KHFC's risk management framework is implemented in the form of policies, procedures, and established limits and designations and other risk management tools. The Board of Directors established the Risk Management Policy in March 2004 which sets forth proactive, systematic and disciplined approaches covering all major areas of risk. KHFC continuously develops and improves upon its risk management framework to maintain an integrated and comprehensive risk management and internal control system, making periodic evaluations and necessary adjustments to reflect the changing business and risk environments.

KHFC reports on a monthly basis to the FSS with respect to its overall risk profile.

### Organisation

KHFC maintains a multi-layered risk management governance structure. At the top of such governance structure is the Risk Management Committee which reports directly to the Board of Directors. The Risk Management Committee is chaired by an independent director, and the majority of its members are outside experts and non-executive directors. The Risk Management Committee is supported by the Risk Management Review Council. KHFC's Risk Management Department is responsible for establishing the entire risk management infrastructure and strategizing, monitoring and supervising day-to-day risk management efforts and reports to the Risk Management Committee, the Risk Management Review Council as well as KHFC's President and CEO, while supervising working-level risk managers in their respective business units. The following diagram illustrates KHFC's risk management governance structure:



### *Risk Management Committee*

KHFC's Risk Management Committee is a special committee of the Board of Directors to which the Board of Directors has delegated the authority and responsibility with respect to risk management. The Risk Management Committee advises the Board of Directors on all risk management issues. The committee is responsible for overseeing and making determinations on all issues relating to

comprehensive risk management functions of KHFC. In order to ensure a stable financial condition and compliance with risk management policies, the committee monitors KHFC's overall risk exposure compliance with various risk policies and risk limits.

#### ***Risk Management Council***

KHFC's Risk Management Review Council supports the Risk Management Committee by reviewing, monitoring, testing and making recommendations with respect to KHFC's activities, in particular, with regard to the introduction of new products or systems. It is chaired by KHFC's Vice President and its members include two managing directors, the head of the Risk Management Department and heads of key business departments.

#### ***Risk Management Department***

The Risk Management Department is primarily responsible for establishing KHFC's entire risk management infrastructure and strategizing, monitoring and supervising day-to-day risk management efforts in co-ordination with working-level risk managers. Its primary responsibilities include:

- (a) establishing organisation-wide risk management strategies;
- (b) setting, allocating and managing risk capital limits;
- (c) pre-screening risks during the development of new products and introduction of new systems;
- (d) managing market risk, credit risk and liquidity risk;
- (e) monitoring prepayment risk of KHFC Mortgage Loans;
- (f) analysing other risks on a continuing basis in order to effectively deal with changes in the business environment; and
- (g) supervising working-level risk managers.

The Risk Management Department, based on its risk monitoring efforts including its interactions with working-level risk managers, regularly provides the following reports to the Risk Management Council and KHFC's President and CEO:

- (a) quarterly reports which cover:
  - (i) the overall risk management status; and
  - (ii) risk capital exposure; and
- (b) monthly reports which cover:
  - (i) marketable security risk;
  - (ii) credit risk; and
  - (iii) market and liquidity risk (addressing market risks including liquidity risk and interest rate risks).

#### ***Risk Management Working Group***

The Risk Management Department supervises risk managers located in KHFC's head office and branches. The head office and each branch has a manager who supervises risk management efforts. These managers perform their functions in co-ordination with each other through working-level meetings

of risk managers. They are responsible for risk management in order to ensure proper separation of duties within the organisation and implement risk management policies and procedures within their respective units. They also propose improvements to the risk management function, in light of their actual experience of assessing and managing different risks. To ensure checks and balances in operations and procedures, these managers report directly to the Risk Management Department.

### ***Auditing Office***

The Auditing Office is another element of KHFC's risk management function. Its responsibility is to assist the Board of Directors in monitoring and overseeing all business units and to ensure that each unit operates effectively and efficiently, in line with organisational goals, including KHFC's standards and operating procedures. The Auditing Office evaluates the effectiveness of the risk management controls and corporate governance processes. Copies of all reports and written recommendations submitted by the Risk Management Committee, Risk Management Review Council and Risk Management Department to the President or the Chief Financial Officer of KHFC are also provided to the Auditing Office for its review from an internal audit perspective.

The Auditing Office conducts its audit process in accordance with the internal audit policies and guidelines set forth in KHFC's Internal Audit Policies. The Auditing Office does not report to management. It performs a check and balance function, undertaking periodic risk management audits on a quarterly basis, supplemented by an annual audit. The position of Auditor is open to candidates from outside of the organisation. KHFC's Executive Recommendation Committee recommends multiple candidates to the Committee for Management of Public Institutions, an office of the MOEF. The President of Korea appoints the Auditor in accordance with the recommendation for nomination by the Minister of MOEF from multiple candidates, as recommended by the KHFC's Executive Recommendation Committee, who have undergone the Committee for Management of Public Institutions' review and approval process.

## **Credit Risk**

### ***Overview***

Credit risk is the risk of loss that may occur from the failure of any borrower or other counterparty to abide by the terms and conditions of any financial contract with KHFC. KHFC faces credit risk principally from (a) its purchase and holding of mortgage loans and (b) the guarantees it provides in respect of the payment obligations under the MBS originated by KHFC. KHFC's primary goal is to maintain sound credit quality and enhance efficiency in its operations. KHFC maintains well-defined credit policies, credit analysis, collateral appraisal, credit approval, loan documentation and disbursement and ongoing post-disbursement reviewing, monitoring and reporting functions.

The FSS requires the classification of portfolios of loans and certain other credits on the basis of the following five categories: (a) normal, (b) precautionary, (c) substandard, (d) doubtful and (e) estimated losses. Based on the FSS classifications, those loans classified as substandard, doubtful and estimated losses are considered to be substandard and below loans. KHFC's net substandard and below loans as a percentage of total loans were 0.19% and 0.27% as at 31 December 2022 and 31 December 2023, respectively.

KHFC's credit risk management begins with an assessment of the risk of loss that may result from borrower or counterparty default. KHFC's credit decision process is based on several systematic measures, as further described below.

### ***Credit Policies and Procedures***

KHFC recognises the constant need to strengthen its credit risk management skills and to this end KHFC has continued to improve its credit risk management procedures and policies to align itself more closely with international best practices. The most recent development in relation to the management of

credit risk was the introduction of a credit risk measurement model in July 2010, which was designed both to enhance KHFC's credit risk management capabilities and to assist in the satisfaction of regulatory guidelines. KHFC currently meets all criteria established by the FSS as being applicable to it.

### ***Credit Approval***

KHFC's Housing Finance Steering Committee determines the standards pursuant to which KHFC purchases KHFC Mortgage Loans. KHFC only purchases KHFC Mortgage Loans which have been originated in compliance with certain standards which provide for several requirements regarding the following factors:

#### *Loans*

- (a) debt to income (“**DTI**”) ratio;
- (b) LTV ratio;
- (c) maximum loan amount;
- (d) maximum value of collateral (residential property);
- (e) maturity;
- (f) prepayment fees;

#### *Borrower*

- (a) age;
- (b) nationality;
- (c) credit rating;
- (d) credit history;
- (e) number of residential properties owned; and

#### *Priority of security*

- (a) priority ranking (must be first priority security interest subject to certain exceptions)

As at 31 December 2023: (a) the maximum LTV ratio for *Bogeumjari* loans was 70 per cent. for apartments and 65 per cent. for other types of property and the maximum DTI ratio was 60 per cent. and (b) the maximum LTV ratio for Conforming Loans was 70 per cent. and the maximum DTI ratio was 60 per cent. KHFC requires each participating lender to originate all KHFC Mortgage Loans pursuant to such underwriting standards.

### ***Credit Review and Monitoring***

The programme between KHFC and the participating lenders setting out the terms relating to the acquisition of, among other things, the Mortgage Loans (the “**Commitment Programme**”) between KHFC and the participating lenders requires the participating lenders to monitor and manage the KHFC Mortgage Loans in accordance with their respective normal practices for managing their loan assets. Upon KHFC's acquisition of KHFC Mortgage Loans from the participating lenders pursuant to the Commitment Programme, the participating lenders continue to service those KHFC Mortgage Loans under the respective loan servicing agreements which typically are entered concurrently with the relevant loan sale and purchase agreements.

### ***Recovery of Non-Performing Loans***

Each participating lender is responsible for handling the recovery of non-performing KHFC Mortgage Loans which it owns (before the transfer to KHFC) or which it services for KHFC (after such transfer). KHFC does not participate in such recovery effort until there is a deficiency after the liquidation of collateral through court-supervised auction. In such cases, the Credit Management Department of KHFC handles the recovery of such deficiency amount by utilising the Collection Management Centre for the Seoul-Metropolitan Area and its branches for the rest of the country.

### **Market Risk**

Market risk is the risk of loss to future earnings, to fair value or to future cashflows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates and other market changes that affect market risk sensitive instruments. Market risk arises with respect to all market risk sensitive financial instruments, including securities, loans, borrowings and derivative instruments. KHFC's exposure to market risk is a function of its asset and liability management activities and its trading activities for its own account. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce exposure to the volatility inherent in financial instruments. The principal market risks to which KHFC is exposed are interest rate risk, liquidity risk and, to a lesser extent, trading risk. The financial instruments that expose the organisation to these risks are its mortgage loans, securities and financial derivatives. KHFC is not exposed to commodity risk as it does not hold any commodity positions. The Risk Management Department, together with the risk managers on a working level, monitors KHFC's market risk by periodically comparing each category of market risk exposure to certain risk management indices which were devised in order to facilitate the evaluation of such risks, determined by reference to risk parameters. For example, in the case of liquidity risk such parameters include liquidity ratios, the rate of increase in unsecuritised loans and commercial paper spread of KHFC.

The FSS requires that KHFC uses standardised methodology to calculate the amount of capital required to cover its market risks. KHFC incorporates market risk considerations into the calculation of capital adequacy, based on FSS requirements.

KHFC also implements stress testing to assess its market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant increases in the general level of interest rates, significant declines in the securities market and significant prepayments of loans. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. KHFC monitors the impact of market turmoil or any abnormality. If the impact is large, the relevant risk manager may request remedial actions to be implemented.

### **Liquidity Risk**

Liquidity risk arises in the funding of purchases of mortgage loans and in the management of working capital needs. Liquidity risk is the potential inability to fund obligations to lenders, investors or borrowers. A predominant portion of KHFC's liabilities is KHFC bonds that are outstanding, the maturity of which is typically three years, and short-term borrowings from domestic banks. On the other hand, as at 31 December 2022 and 31 December 2023, the current ratios of liquid assets to liquid liabilities were 687.6% and 503.9%, respectively. The maturity mismatch must be managed properly. The goal of liquidity management is for KHFC to be able, even under adverse conditions, to meet all its contractual and regulatory financial obligations. KHFC monitors its liquidity on a daily, weekly and monthly basis and is able to monitor its trading activity throughout the day and has consistently maintained a liquidity ratio of more than 70%, being the liquidity threshold required by its regulator.

KHFC tries to reduce maturity mismatches by continuing to undertake securitisations of its mortgage loan assets.

KHFC emphasises maintaining adequate liquidity to meet its commitments to its customers and counterparties, both in terms of long-term fixed rate loan demand and repayment of its borrowings and in terms of satisfying operational liquidity requirements. KHFC aims to balance the term and composition of its liabilities and assets and to minimise the gap between payments received and payments to be made. KHFC's Risk Management Department carries out the function of managing liquidity requirements.

KHFC seeks to maintain adequate liquidity to meet its financial commitments on a cost-effective basis. KHFC's liquid assets consist primarily of cash, deposits with domestic banks and available-for-sale securities. KHFC can obtain funds on short notice by borrowing from banks. KHFC aims to maintain liquidity by holding sufficient quantities of liquid assets with which to meet actual or potential demands for funds from its lenders and manages liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept at manageable levels relative to the amount of funds it believes it can generate within such period.

### **Interest Rate Risk**

KHFC's principal interest rate-sensitive liabilities are its borrowings, including KHFC bonds that are outstanding and bank borrowings. KHFC's principal assets are KHFC Mortgage Loans which it owns and which it has committed to purchase from the participating lenders under the Commitment Programme to Purchase Mortgage Loans. As at 31 December 2022 and 2023, 100% of KHFC's loan assets were fixed rate KHFC Mortgage Loans. On 1 January 2012, KHFC discontinued all hybrid fixed/floating rate products.

KHFC's Securitisation Department together with the Risk Management Department monitors interest rate movements and, when deemed necessary, makes adjustments to the interest rate applicable to loans in consultation with the Government to account for interest rate movements. It also determines the amount of interest rate risk exposure that needs to be hedged, which is based upon the amount of the loans that will be available for securitisation within a three-month period.

In September 2010, KHFC formed an Interest Rate Review Committee which meets on a monthly basis to decide the mortgage interest rate pricing and publicly disclose the interest rate pricing. The Interest Rate Review Committee decides the monthly applied interest rate by taking into account the income and expense estimates as well as the prevailing market situation.

KHFC's primary means of hedging interest rate risk are derivative transactions using hedging instruments including: (a) Korea Exchange-traded KTB futures and (b) over-the-counter interest rate swaps with domestic and foreign banks as counterparties. KHFC hedges its interest rate risk by taking short positions on KTB futures and taking fixed rate payer positions on interest rate swaps in order to offset loss from an interest rate rise. By their nature, derivative instruments themselves are subject to market risk and (other than in relation to KTB futures) counterparty risk, which KHFC monitors and mitigates by exercising contractual rights against its counterparties. KHFC does not utilise derivative instruments for speculative purposes.

KHFC's primary means of measuring its exposure to fluctuations in interest rates is gap analysis, which provides a static view of the maturity and repricing characteristics of positions in its statements of financial position. An asset or liability is said to be interest rate-sensitive if it matures or reprices within a specified period of time. Mismatches in the amount of assets and liabilities maturing or being repriced at a particular date expose KHFC to the risk that the margins on new or repriced assets and liabilities may change, and indicate the level of interest rate risk. An interest rate gap report is prepared by scheduling all assets and liabilities according to a stated or anticipated repricing date, or maturity date. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities for that maturity or repricing period. A gap is considered negative when

interest rate-sensitive liabilities for a particular period exceed interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income, and vice versa.

### **Trading Risk**

In compliance with FSC regulations to purchase any domestic securities that are rated “AAA” by major Korean rating agencies, KHFC invests in treasury bonds issued by the Government or “AA-” rated bonds issued by Korean companies. KHFC also holds subordinated tranches of MBS that it has issued. To assist in monitoring its trading activities, the Risk Management Department produces daily and monthly value-at-risk (“VaR”) reports for all the securities traded by KHFC. The VaR reports are intended to provide measures of the risk of losses arising from potential adverse movements in interest rates and other volatilities that could affect values of securities. To manage abnormal market behaviour, KHFC applies stress testing methodologies to quantify financial risk arising from low probability and abnormal market movements.

### **Prepayment Risk**

Prepayment risk is (a) the risk of lowered returns on subordinated MBS tranches held by KHFC due to reinvestment loss resulting when the prepayment rate in the securitised mortgage loan exceeds the assumed level as well as (b) the liquidity risk resulting when such prepayment rate stays below the assumed level. KHFC manages prepayment risk by taking measures such as imposing penalties on prepayment and structuring MBS transactions to give KHFC a call option. In order to assess prepayment risk, KHFC performs (i) periodic evaluation of adequacy of its prepayment rate assumption and (ii) analysis of salvage value of KHFC’s subordinated MBS tranches in relation to changes in prepayment rate.

For the purpose of systematically assessing and managing prepayment risk, KHFC has developed, and continues to improve upon, a structuring model which it utilises in structuring securitisation transactions.

### **Operational Risk**

KHFC is exposed to many types of operational risks. The major causes of operational risk are people, processes, systems, technology and external factors. Operational risks include risks relating to fraud by employees or persons outside the organisation, the execution of unauthorised transactions by employees, human errors related to transaction processing and technology, breaches of internal controls and compliance requirements and disaster recovery systems. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, KHFC could suffer financial loss, regulatory action and suffer damage to its reputation.

KHFC’s risk managers located in or responsible for the head office and branches report directly to the Risk Management Department. The Risk Management Department is responsible for managing and monitoring operational risks on an organisation-wide basis. Further, KHFC’s Auditing Office reinforces the system of internal controls through regular, risk-based and ongoing audit procedures and reports on the effectiveness of its internal controls to the Board of Directors.

### **Strategic Risk**

The Strategy Deliberation Sub-Committee, which is a committee of the Board of Directors and which is chaired by one of the non-executive directors, is responsible for monitoring strategic risk by identifying the strategies in implementation and their target results in co-operation with the Risk Management Committee. The Board of Directors, business divisions and branches also review the fundamental strategies and focus on changes in management, operation and information technology matters. The Strategy Deliberation Sub-Committee analyses the reports and business plans generated by such efforts and advises the Board of Directors.

### **Legal Risk**

The uncertainty of the enforceability of the obligations of borrowers and counterparties, including enforcement by foreclosure on collateral, creates legal risk. Changes in law and regulation could adversely affect the organisation of KHFC. KHFC seeks to reduce legal risk by using appropriate legal documentation, employing procedures designed to ensure that transactions are properly authorised and consulting internal and external legal advisers. The Risk Management Department and the Legal Team jointly with each relevant division regularly analyse the impact of changes in relevant regulations and any legal cases.

### **Reputational Risk**

The Auditing Office is responsible for managing reputational risk and formulating systematic responses to any events that may negatively affect KHFC's reputation. KHFC's Customer Satisfaction Department also carefully monitors the areas where reputational risk is inherent such as customer complaints, the behaviour of the organisation's employees towards customers and KHFC's communication system.

KHFC is actively engaged in community service activities to maintain its image as a trusted corporate citizen that spreads the "culture of unity and sharing". KHFC organised the Bogeumjari Volunteer Group in May 2006 and continues to encourage voluntary participation by all employees in such efforts. Since its establishment, KHFC has hosted, or participated in, various community service activities aligned with its organisational mandate such as provision of housing welfare and support for seniors. Such initiatives taken by KHFC include:

- (a) participation in the Habitat for Humanity movement through actual participation and donations;
- (b) participation in the HF Home Repair Service through volunteering in home decorating projects for the underprivileged;
- (c) seasonal donations to improve living conditions for the elderly;
- (d) maintaining "sisterhood" with a rural village and providing support; and
- (e) supporting the Child Fund Korea to support undernourished children.

## MANAGEMENT

### Housing Finance Steering Committee

The HFSC is the highest decision-making body of KHFC, with authority to review and make decisions on all significant issues relating to KHFC’s business operations, such as establishment and amendment of KHFC’s basic operational policies and business plan; amendment of KHFC’s articles of incorporation; budget planning, revision and settlement; mortgage underwriting criteria; and guarantee criteria for reverse mortgages; establishment and amendment of management plans for the HFCGF (including the RMGA); and write-offs of indemnity rights.

The KHFC Act provides that the HFSC consists of six committee members, namely: (a) the President and CEO of KHFC who is appointed by the President of Korea; (b) one Government official from the FSC; (c) one Government official from the MOLIT; and (d) three individual experts in the housing finance market appointed by the FSC, of whom two are appointed at the recommendation of the MOLIT and The Bank of Korea. The term of office of commissioned members is two years.

The table below sets forth the names, years of birth, affiliations and positions of the current members of the HFSC as at 31 December 2023:

<u>Name</u>	<u>Year of Birth</u>	<u>Affiliation</u>	<u>Member</u>	<u>Since</u>	<u>End of Term</u>
Choi, Joon Woo . . . .	1968	Korea Housing Finance Corporation	President and CEO	5 February 2021	4 February 2024 <sup>(1)</sup>
Kwon, Dae Young . . .	1968	FSC	Secretary General	10 January 2024	Not applicable
Kim, Gyu Cheol . . . .	1969	MOLIT	Director for Housing and Land	29 January 2024	Not applicable
Choi, Jong Beom. . . .	1956	SungKyunKwan University	Professor of Business School	1 July 2022	30 June 2024 <sup>(1)</sup>
Park, Mi Sun . . . . .	1972	Korea Research Institute for Human Settlements	Managing Director for Housing Policy Research Center	1 July 2022	30 June 2024 <sup>(1)</sup>
Leem, Kyung . . . . .	1958	The University of Suwon	Professor of Business School	1 July 2022	30 June 2024 <sup>(1)</sup>

Note

(1) Extension of term or appointment of a successor committee member has not been decided as of 3 July 2024.

The HFSC holds regular meetings in February, June and December of each year, and special meetings are held from time to time as necessary upon the request of the chairman or a majority of the members.

### Board of Directors

The Board of Directors is KHFC’s chief executive body responsible for the management of its business operations. In this capacity, the Board of Directors exercises its powers, all as defined in, and in accordance with, its articles of incorporation. The Board of Directors of KHFC examines and makes decisions on issues such as matters requiring the review of the HFSC; matters related to the use of KHFC’s reserves and carrying forward of budgets; acquisition and disposition of its general assets; plans for long-term borrowing and issuance of bonds and repayment plans; disposition of retained earnings; establishment and amendment of KHFC’s internal policies; remuneration of executive officers and directors; the rules relating to the Board of Directors’ meetings and its subcommittees; and any other matter deemed necessary by the Board of Directors or the President of KHFC. The auditor of KHFC may participate in the Board of Directors’ meetings.

The current board consists of the President and CEO of KHFC (as chairman of the board), the Vice President, four executive directors and seven non-executive directors. KHFC’s President is appointed by the President of Korea after nomination by the Chairman of the FSC from candidates recommended by the Officer Recommendation Committee (the “**ORC**”) pursuant to the Act on the Management of Public

Institutions. The auditor is appointed by the President of Korea after nomination by the minister of MOEF from candidates recommended by the ORC after resolution by the Public Institutions Management Committee (the “PIMC”). The executive directors of KHFC are appointed directly by the President and CEO of KHFC, while non-executive directors are appointed by the FSC from candidates recommended by the ORC.

The term of office for the President and CEO is three years and for each of the directors and auditor is two years. After the initial term of office, each director may be reappointed on a year-by-year basis based on the performance reviews in accordance with applicable laws.

The Board of Directors holds regular meetings every month and extraordinary meetings are held from time to time as necessary upon the request of the chairman or at least one-third of directors.

The following table sets forth the names, years of birth and positions of KHFC’s current executive officers and executive directors as at 31 December 2023:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>End of Term</u>
Choi, Joon Woo . . . . .	1968	President and CEO	5 February 2021	4 February 2024 <sup>(1)</sup>
Lee, Hwan Seok . . . . .	1965	Vice President	18 September 2023	17 September 2025
Park, Jae Min . . . . .	1965	Executive Director	21 February 2022	20 February 2024 <sup>(1)</sup>
Han, Yoon Sik . . . . .	1965	Executive Director	29 September 2022	28 September 2024
Lee, Jung Il . . . . .	1974	Executive Director	29 September 2022	28 September 2024
Lee, Kyu Jin . . . . .	1964	Executive Director	17 May 2021	10 July 2024
Choi, Gi Eui . . . . .	1956	Auditor	20 November 2023	19 November 2025

Note:

(1) Extension of term or appointment of a successor director has not been decided as of 3 July 2024.

**Choi, Joon Woo** is KHFC’s President and has been the CEO since 2021. He is a member of KHFC’s HFSC and Board of Directors. Prior to joining KHFC, he served as the SFC Commissioner of the FSC.

**Lee, Hwan Seok** has been KHFC’s Vice President since 2023. He is a member of KHFC’s Board of Directors. Prior to joining KHFC, he served as Deputy Governor of Bank of Korea.

**Park, Jae Min** has been an executive director since 2022. He is currently the executive director in charge of the Credit Guarantee Business Group. Prior to becoming an executive director, he served as Head of Local Fiscal and Economic Policy Office and the Ministry of the Interior and Safety.

**Han, Yoon Sik** has been an executive director of KHFC since 2022. He is currently in charge of the Securitization Business Group. Prior to that, he was the General Manager of South-Eastern region.

**Lee, Jung Il** has been an executive director of KHFC since 2022. He is currently in charge of the Business Infrastructure Group. Prior to becoming an executive director, he served as the member of Presidential Transition Committee.

**Lee, Kyu Jin** has been an executive director of KHFC since 2021. He is currently in charge of the Corporate Planning & Management Group. Prior to becoming an executive director, he was the general manager of the Planning & Coordination Office.

**Choi, Gi Eui** has been the auditor of KHFC since 2023. Prior to joining KHFC, he served as CEO of KS Job Co., Ltd.

## Non-Executive Directors

The following table sets forth the names, years of birth and positions of KHFC's non-executive directors as at 31 December 2023:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>End of Term</u>
Kim, Young Do . . . . .	1973	Non-executive director	12 October 2022	11 October 2024
Kim, Ji Woon . . . . .	1981	Non-executive director	12 October 2022	11 October 2024
Lee, Young Man . . . . .	1959	Non-executive director	12 October 2022	11 October 2024
Lim, Jae Dong . . . . .	1973	Non-executive director	21 February 2023	20 February 2025
Kim, Ji Woo . . . . .	1960	Non-executive director	04 September 2023	03 September 2025
Kim, Ik Hyun . . . . .	1966	Non-executive director	04 September 2023	03 September 2025
Lee, Jong In . . . . .	1962	Non-executive director	04 September 2023	03 September 2025

*Kim, Young Do* has been a non-executive director since 2022. He is currently a Senior Research Fellow at Korea Institute of Finance.

*Kim, Ji Woon* has been a non-executive director since 2022. He is currently an Assistant Professor in Economics at Hongik University.

*Lee, Young Man* has been a non-executive director since 2022. He is currently a Professor in Real Estate Asset Management at Hansung University.

*Lim, Jae Dong* has been a non-executive director since 2023. He is currently the general manager of the Business Support Department. Previously, he was the Team Head of the Chungbuk Branch.

*Kim, Ji Woo* has been a non-executive director since 2023. He is currently the auditor of Myongji Educational Foundation.

*Kim, Ik Hyun* has been a non-executive director since 2023. He was previously the Vice President of Pyeongtaek Energy Service.

*Lee, Jong In* has been a non-executive director since 2023. He was previously Director of Policy Research at Yeouido Institute.

## Committees of the Board of Directors

KHFC currently has the following committees that serve under its Board of Directors:

- (a) the Risk Management Committee;
- (b) the Special Deliberation Committee, which include the Strategy Deliberation Sub-Committee, the Operation Deliberation Sub-Committee and the Financial Deliberation Sub-Committee; and
- (c) the Management Committee.

## Management Committee

The Management Committee consists of the CEO, Vice-President and executive directors of KHFC and is chaired by the CEO. The committee deliberates and resolves issues relating to the amendment and abolishment of procedures (except for those of the Housing Finance Steering Committee, resolutions by the Board of Directors), issues relating to business delegation, major issues regarding securitisation, credit guarantees, reverse mortgage guarantees, implementation of guaranteed debts, suspension and special management of the exercising of indemnity rights, other matters delegated by the Housing Finance Steering Committee and the Board of Directors and miscellaneous issues as deemed necessary by the CEO.

### **Risk Management Committee**

The Risk Management Committee currently consists of seven members: two executive directors and four non-executive directors, together with the Vice-President of KHFC. The committee is responsible for overseeing and making determinations on all issues relating to comprehensive risk management functions of KHFC. In order to ensure stable financial condition and compliance with risk management policies, the committee reviews risk and control strategies and policies, monitors KHFC's overall risk exposure compliance with various risk policies and risk limits, and establishes or amends its risk management policies.

The committee holds regular meetings every quarter and may convene extraordinary meetings if the chairman deems it necessary. The committee notifies each member of the Board of Directors of its decisions and the Board of Directors may engage in a further resolution process regarding such decisions.

For further information about the risk management at KHFC, see "*Risk Management*".

### **Specialised Review Subcommittees**

The Specialised Review Subcommittee is a mechanism for deliberating on major items to be addressed by the Board of Directors. It has three subcommittees, namely, the Strategy Deliberation Sub-Committee, the Operation Deliberation Sub-Committee, and the Financial Deliberation Sub-Committee, whose membership consists of two or more members of the Board of Directors including at least one non-executive director appointed by the board and another board member in charge of the department which proposed the relevant agenda. The Strategy Deliberation Sub-Committee reviews major items relating to the operations of KHFC in general, such as establishment of KHFC's business plan, basic guidelines for KHFC's business operations and rules relating to the operations of the board and its subcommittees, and amendment of its articles of incorporation. The Operation Deliberation Sub-Committee reviews the establishment and operation of regulations regarding board member recommendation, sub-organisations, directives, employment, human resources, remuneration, director treatment and other items deemed necessary by the board or the sub-committee. The Financial Deliberation Sub-Committee reviews major items relating to the establishment and settlement of budgets, establishment and amendment of management plans for the HFCGF, and disposal of retained earnings.

The results of deliberations conducted by each Specialised Review Subcommittee are reported to the Board of Directors. Committee meetings of the Specialised Review Subcommittees are held from time to time as necessary.

### **Compensation of Executive Directors and Officers**

The aggregate amount of remuneration paid and accrued to the executive directors and officers, including the auditor, as a group was Won 1.74 billion (which included bonus and incentive payments) for the year ended 31 December 2023.

# THE KOREAN RESIDENTIAL MORTGAGE INDUSTRY

## Overview

*The information and statistics set out in this section are derived from various public and private sources. This information has not been prepared or independently verified by the Issuer, the Dealers or any of their respective affiliates or advisers.*

## Introduction

Korea has experienced a strong economic recovery from the Asian financial crisis, which began in the second half of 1997. Korea's gross domestic product (“GDP”) increased from Won 837 trillion as of 31 December 2003 to Won 2,243 trillion as of 31 December 2023. The population in Korea is approximately 52 million in 2023. Korea is the twenty-seventh most densely populated country in the world (515 people per square kilometre of land area), with mountains and forest covering 66% of the land. The population in Korea is concentrated in the capital city of Seoul and six other metropolitan cities: Busan, Daegu, Ulsan, Incheon, Daejeon and Gwangju. Over 43% of the total population of Korea lives in those seven major cities, and 18% resides in Seoul. Seoul metropolitan area, which includes the Seoul, Incheon, and Gyeonggi area, accounted for over 50% of the population. The population growth in Korea from 2015 to 2023 was 1.37% nationally. This level of increase in population is expected to continue to create excess demand for homes especially in the urban areas.

Most of the newly built residential properties are high-rise apartment complexes. A typical Korean home is an apartment designed for single household occupancy. The average size of a unit is approximately 82-116 square metres. The majority of homes are owner-occupied, with apartments and multi-household complexes demonstrating higher home ownership ratios due to greater availability of financing and greater liquidity for such housing types in the housing market.

Koreans who do not own a home normally enter into a unique Korean lease contract called *chonsei*. *Chonsei* refers to the key money deposit which is paid upfront by the tenant to the landlord, and typically ranges from 65% to 75% of the market value of the property. During the lease term, the tenant is not required to pay any rent. Instead, the landlord is free to invest the key money deposit and keep the proceeds thereof in lieu of monthly rental payments. The entire amount of the key money deposit is returned to the tenant after the expiry of the lease contract without any interest thereon. Historically, when returns on capital were high, *chonsei* provided an attractive source of income for the landlord. In recent years, the demand for *chonsei* has increased with the decrease in housing supply in urban areas. It has also resulted in a portion of the *chonsei* housing shifting to a rental arrangement with monthly rental payments known as *wolsei*.

## Residential Market

In Korea, the residential housing market has been managed through public policy administered by the MOLIT.

In 1988, the Government initiated a two million apartment unit construction project by increasing the supply of usable land to private construction companies. Total housing construction for the period from 1988 to 1992 was 2.7 million apartment units. As a result, the housing supply has caught up with the housing demand and, in 2009, the housing supply ratio reached 101.2. However, the ratio was still below 100 in Seoul and other metropolitan areas because of the ongoing employment-driven migration from rural areas to urban areas. In 2022, the housing supply ratio stood at 102.1 for the whole country and 93.7 for Seoul.

During the Asian financial crisis, housing prices declined by 19.8% but by 1999, the housing market began to show signs of recovery. With the increasing role of commercial banks in mortgage financing, the favourable interest rate environment and the relative shortage of supply in urban areas, the average price index of an apartment in Seoul has been on the rise.

In August 2005, the Government announced strict measures to curb speculative investment. These measures include limiting the availability of mortgage loan financing and introducing changes in taxation policies.

In April 2007, the National Assembly of Korea passed an amendment bill to the Housing Law, aimed at the disclosure of construction costs and imposing price ceilings for newly built apartments in order to curb the rise of residential property values.

In September 2008, the global financial crisis originating in the United States began to exact a toll on the Korean domestic financial market, causing a decline in real estate prices. In order to mitigate the impact on this fall in prices, the Government lifted various regulations applicable to activity in the real estate market. Despite these moves, the domestic housing market continued to worsen due to the continuing financial instability and contraction of the real economy relating to the global financial crisis.

Residential real estate prices in Korea rose significantly in early 2008. Starting in October 2008, however, house prices dropped for three consecutive months, ending the year 3.1% higher than the previous year. Housing construction activity in Korea during 2008 was sluggish, with the lowest number of new housing units approved since 1998, in part due to the unfavourable environment in the industry caused by a drop in demand and a large number of newly built homes that remained unsold.

The number of unsold new houses reached a record-high of 166,000 units at the end of 2008.

The housing market stagnated in early 2009 as consumer sentiment slid further due to the global financial crisis. It began to rebound in the second quarter owing to deregulation by the Government, the persistence of low interest rates and rising expectations of economic recovery. Nationwide, house prices rose for nine consecutive months from April 2009 and ended the year up 1.5%. The number of unsold new housing units dropped in 2009 to 126,000 by year end as a result of the temporary exemption from acquisition and registration taxes and income taxes, and exclusion from regulations on DTI ratio and loan-to-value ratio. The demand for housing in Korea grew in 2010 and between January 2010 and May 2011 house prices rose by 5.6%, though there were drops in July and August 2010. Growth rate slowed and starting from April 2012 nationwide house prices continued to drop until March 2013. Since 30 September 2013, house prices have been continuing to rise due to the deregulation by the Government. On 2 August 2017 the Government unveiled a tighter set of real estate market measures in order to stem a recent rise in housing prices, such as the implementation of new debt-to-income requirements, imposition of stricter debt-to-income and loan-to-value ratios in certain areas designated as “speculative districts”, “overheated speculative districts” and “adjustment targeted areas”, restrictions on the resale of home purchasing rights of real estate assets, and the increase of property taxes on real estate transactions for owners of multiple residential units.

As of the end of December 2021, house prices were up 9.9% compared to the end of 2020. Due to policy rate hikes by the Bank of Korea in response to inflationary pressures, the upward trend was compromised in 2022 as house prices were down 4.7% as of the end of December 2022, compared to the end of 2021. As of the end of December 2023, house prices were down 3.5% compared to the end of 2022.

## **Mortgage Loan Market**

Prior to 1997, the Korean mortgage market was dominated by the National Housing Fund (the “NHF”), which provided Government subsidised mortgage loans through the Housing and Commercial Bank (“H&CB”) at low interest rates. At that time, Government restrictions imposed on commercial banks prevented them from originating mortgage loans with terms of more than 10 years. Insurance companies who engaged in the mortgage loan business as an ancillary business, however, were not subject to such restrictions. Since the privatisation of H&CB and the removal of such restrictions on the mortgage loan business in 1997, almost all commercial banks and other financial institutions have entered the market. As a result, competition among mortgage lenders has increased. However, H&CB, which merged with KB Kookmin Bank in 2001, is still a dominant player in the market.

After the Asian financial crisis, the housing market rapidly recovered and, as house prices increased, the amount of outstanding mortgage loans increased from KRW153 trillion as of the end of 2003 to KRW409 trillion as of the end of 2008. As of the end of each of 2022 and 2023, the amount of outstanding mortgage loans was approximately KRW1,214 trillion and KRW1,294 trillion, respectively.

Due to the low interest rate environment, lenders have introduced market-based floating rates of interest, which are primarily based on the prevailing market rate for certificates of deposits in Korea. As at December 2023, floating rate mortgage loans accounted for more than 58.6% of the total mortgage loans. Until 1998, mortgage loans typically carried terms of 20 years. However, due to rising housing prices and increased trading of properties, mortgage loans featuring terms of three-to-five years were introduced. However, the Government has recently started again to promote long-term amortising mortgage loans. Meaningful historical prepayment data for mortgage loans was limited until 1999 as the applicable interest rates for mortgage loans provided by the NHF were lower than the prevailing market rates and there was limited competition in the mortgage loan business given H&CB’s market dominance. Since 1999, prepayments have increased due to increased competition among mortgage lenders and falling interest rates for mortgage loans.

The most frequently used form of loan security for residential property in Korea is the *Keun-mortgage*, which differs from a more traditional mortgage. With more traditional mortgages, a mortgagee’s rights are automatically extinguished upon satisfaction of the underlying debt, whereas with a *Keun-mortgage*, the mortgagee’s rights are not automatically extinguished upon satisfaction of the underlying debt. Instead, a mortgagee’s rights are extinguished when the term of the *Keun-mortgage* agreement expires or if it is terminated sooner by the parties. Furthermore, the amount of the secured claim may be increased or decreased within the maximum amount as agreed upon by the mortgagee and borrower of the secured claim (which is duly registered in the relevant real estate registry) during the term of the *Keun-mortgage* agreement. Since the mortgage rights and obligations are not automatically extinguished, the contracting parties are not required to enter into and record separate mortgage agreements each time a subsequent loan is made. *Keun-mortgages* can be enforced in the same manner as various other real estate rights, including enforcement through petition for auction and entitlement to distribution in accordance with recorded priorities. Korea is a “race” jurisdiction that assigns claim priority in chronological order by date of the registration of the mortgages and other security interests. Statutory liens are exceptions to this rule and may rank senior to prior recorded mortgages and other security interests.

## **Regulatory Overview**

For a discussion of the regulatory overview of KHFC’s mortgage loan business, see “*Korean Legal Considerations*”.

## KOREAN LEGAL CONSIDERATIONS

The following is a summary of certain Korean legal issues relevant to prospective investors. The following summary is not intended to be exhaustive. Prospective investors should consider the nature of and investment in notes of this type and the political and legal environment of Korea, and should make such further investigations as they, in their sole discretion, deem appropriate.

### Insolvency Laws

#### Overview

The Debtor Rehabilitation and Bankruptcy Act (the “**DRBA**”) is the primary law governing court-supervised insolvency proceedings in Korea.

In the case of rehabilitation proceedings pursuant to Chapter 2 of the DRBA, the ability of secured creditors to enforce their rights to security may be restricted and payment may be subject to rescheduling pursuant to a rehabilitation plan. In bankruptcy proceedings pursuant to Chapter 3 of the DRBA and individual debtor rehabilitation proceedings pursuant to Chapter 4 of the DRBA, however, it is possible for secured creditors to enforce their security interests, subject to certain restrictions.

In addition to the DRBA, the Corporate Restructuring Promotion Act (the “**CRPA**”) may restrict certain financial creditors’ ability to enforce security interests granted by a “**Company Showing Signs of Insolvency**” as defined in such Act (a “**Failing Company**”). Also, the Act on Structural Improvement of the Financial Industry (the “**ASIF**”) provides regulations regarding improvement of insolvent financial institutions. With respect to individual debtors in financial difficulty, the Korean financial industry’s Agreement among Financial Institutions for Assisting the Credit Recovery Support Plan could restrict a creditor financial institution’s ability to enforce a mortgage or other security granted by an individual debtor. See “– *Individual Work-out Plans*” below.

#### **Debtor Rehabilitation and Bankruptcy Act. The DRBA contains:**

- (a) provisions applicable to rehabilitation proceedings under Chapter 2 of the DRBA (hereinafter referred to as “**Chapter 2 Proceedings**”), which primarily deal with rehabilitation of insolvent business entities;
- (b) provisions applicable to bankruptcy proceedings, which deal with liquidation of insolvent business entities and individuals;
- (c) provisions applicable to individual rehabilitation proceedings under Chapter 4 of the DRBA (hereinafter referred to as “**Chapter 4 Proceedings**”), which are applicable only to certain individual debtors who are wage earners or self-employed earners with debts of no more than a certain specified amount; and
- (d) provisions applicable to international insolvency proceedings.

Under the DRBA, the petitioner must specify which procedure he or she wishes to use. For a debtor that has filed for bankruptcy proceedings, a bankruptcy trustee will be appointed to liquidate the assets of the debtor and to distribute the proceeds to its unsecured creditors on a pro-rata basis after the court issues an order preserving the debtor’s assets. Secured creditors remain free to exercise their security interests under bankruptcy proceedings.

On the other hand, the goal of Chapter 2 Proceedings and Chapter 4 Proceedings is to rehabilitate insolvent companies or, as the case may be, individuals. In a Chapter 2 Proceeding, secured creditors are not permitted to enforce their security interest. Secured creditors in Chapter 4 Proceedings, however, are permitted to enforce their security interests notwithstanding such Chapter 4 Proceedings (x) unless the court issues an order to suspend or prohibit such exercise during the period after the filing of the

petition for Chapter 4 Proceedings but before the court decides to commence Chapter 4 Proceedings, or (y) once the court decides to commence Chapter 4 Proceedings, only after the earlier of (i) the court's approval of the repayment plan or (ii) the final decision by the court to discontinue such Chapter 4 Proceedings.

The DRBA makes it easier for the court to set aside transactions which the debtor has entered into with certain shareholders or equityholders of the debtor ("**specially related persons**"), by making the presumption that the specially related persons, when entering into such transactions acted with the knowledge that entry into such transactions with the debtor would be prejudicial to other creditors of the debtor. For example, transactions entered into by a debtor for, or relating to, the granting of security by, or the extinguishment of obligations of, the debtor within sixty days before the suspension of payment, without any prior existing obligation to do so, may be set aside. However, this sixty-day period extends to one year in the case of transactions entered into with specially related persons. Further, gratuitous acts or the equivalent thereof performed by the debtor within six months prior to the suspension of payment, etc. by the debtor may be set aside, and this six-month period extends to one year with regards to transactions entered into with specially related persons.

## **Chapter 2 Proceedings**

Chapter 2 Proceedings (i.e. rehabilitation proceedings) are designed for use by insolvent debtors who wish to rehabilitate themselves. This type of proceeding is closely supervised and controlled by the court so that most of the material actions or decisions of the debtor may be taken or made only with the approval of the court.

All types of legal entities, including joint stock companies, limited liability companies and unincorporated foundations or associations, as well as individuals, may avail themselves of Chapter 2 Proceedings.

The DRBA provides that in Chapter 2 Proceedings, in principle, the debtor itself or, in case where the debtor is a company, its own representative, and not a third party, will be appointed as receiver with authority to act on behalf of the debtor, subject to supervision of the court. It is also possible in Chapter 2 Proceedings for a legal entity to be appointed as the receiver. If a legal entity is appointed as the receiver, the legal entity should designate one of its directors to exercise the rights and powers conferred on it as a receiver and report such designation to the court.

Under the DRBA, the debtor may file a petition with the court for commencement of Chapter 2 Proceedings where either, (i) the debtor cannot repay its debts without causing material damage to the continuance of the debtor's business, or (ii) events leading to bankruptcy of the debtor may arise. If the debtor is a joint stock company or a limited liability company, (a) a creditor who has claims in an amount not less than 10 per cent. of the debtor's paid-in capital, or (b) a shareholder or equityholder who holds shares or an equity interest constituting not less than 10 per cent. of the debtor's paid-in capital, may also apply for commencement of Chapter 2 Proceedings. If the debtor is not a joint stock company or a limited liability company, a creditor who has claims in an amount of not less than Won 50 million or an equityholder who holds an equity interest of not less than 10 per cent. of the debtor's equity can apply for commencement of Chapter 2 Proceedings.

When the debtor itself or a creditor or equityholder of the debtor that satisfies the above requirements applies for commencement of Chapter 2 Proceedings, the court may, upon the request of interested parties or in its sole discretion, but after hearing the opinion of the management committee, issue a preservation order against individual assets of the debtor, and may issue an injunction against bankruptcy proceedings or enforcement proceedings initiated by the debtor's secured or unsecured creditors. Further, if the court determines that the objectives of the Chapter 2 Proceedings may not be achieved through asset preservation orders, it may issue a comprehensive stay order against enforcement proceedings initiated by creditors against the assets of the debtor. If a comprehensive stay order is issued, enforcement proceedings that are already in progress will be suspended, and the court may

cancel such enforcement proceedings upon the request of the debtor or, as the case may be, the receiver, if deemed necessary for the continuance of the debtor's business. However, if the court determines that a creditor may sustain unjust damages as a result of such comprehensive stay order, the court may revoke the order for that particular creditor upon request of such creditor.

When a petition for commencement of Chapter 2 Proceedings is filed, the court is required to determine within one month of the date of petition whether to commence such proceedings, although such period may be extended by the court. Once the commencement of Chapter 2 Proceedings is declared, most claims against the debtor that arose prior to such commencement date are automatically stayed, while claims arising after the commencement date are generally not subject to the Chapter 2 Proceedings. Also, the court will appoint a receiver with the power to conduct all of the debtor's business and manage all of the debtor's properties, subject to court supervision.

As a general rule, any creditor whose claim against the debtor arose prior to the commencement of the Chapter 2 Proceedings, whether secured or unsecured, may not enforce such claims other than as provided for in the rehabilitation plan adopted at the meeting of interested parties and approved by the court. The rehabilitation plan may alter or modify the rights of creditors or shareholders. Accordingly, there can be no assurance that the rights of the creditors, whether secured or unsecured, will not be adversely affected by a Chapter 2 Proceedings. Further, a creditor who intends to participate in the rehabilitation plan must file a proof of claim with the court within the period fixed by the court if the receiver had not affirmatively recognised such claim.

In Chapter 2 Proceedings, creditors are classified into three basic categories: (i) creditors with unsecured rehabilitation claims, (ii) creditors with secured rehabilitation claims, and (iii) creditors with claims for the common benefit. The former two categories of creditors are subject to the Chapter 2 Proceedings and generally may not receive payment or repayment for their respective claims other than as provided in the rehabilitation plan. Creditors with claims for the common benefit are not subject to the rehabilitation plan, and include, among others, those creditors whose claims either arose after the commencement of the Chapter 2 Proceedings (subject to certain exceptions) or those creditors whose claims were approved by the court during the preservation period.

If the debtor fails to perform its payment obligations in accordance with its rehabilitation plan, affected creditors are not permitted to initiate lawsuits or enforce their security interests. Instead, they (or the receiver of the debtor) may only request the court to amend the rehabilitation plan. However, if such amendment could have an adverse effect on creditors with rehabilitation claims or shareholders of the debtor, the court may amend the rehabilitation plan, in principle, only after obtaining approval for the amendment through an affirmative vote at a meeting of interested parties. If it becomes apparent, either before or after the court approves the rehabilitation plan, that the debtor cannot be rehabilitated, the court may, at its sole discretion or upon the request by the receiver or a creditor with a rehabilitation claim, issue an order to discontinue the Chapter 2 Proceedings.

### **Bankruptcy Proceedings**

A bankruptcy proceeding is a court administered process whose purpose is to liquidate an insolvent debtor's assets and distribute the proceeds therefrom to the debtor's creditors on a pro rata basis. Bankruptcy proceedings formally commence upon an adjudication by the court that the debtor is indeed "**bankrupt**". The court will make its determination as to whether grounds for bankruptcy exist based on the written pleadings and oral arguments of the petitioner. The adjudication of bankruptcy also has the effect of automatically staying all unsecured creditors from enforcing their claims against the bankruptcy estate.

The bankruptcy trustee appointed by the court is vested with the exclusive right to manage and dispose of the bankruptcy estate, and to conduct an investigation and assessment of the bankruptcy estate. The DRBA permits a legal entity to be appointed as the bankruptcy trustee of the bankruptcy proceeding. If a legal entity is appointed as the bankruptcy trustee, it shall designate one of its directors to exercise the

rights and powers conferred to it as bankruptcy trustee and shall report such designation to the court. After reviewing the reports prepared by the bankruptcy trustee, the creditors will have a meeting and vote on a resolution deciding whether to continue or discontinue the debtor's business and the manner of safeguarding the bankruptcy estate.

Subject to certain statutory limitations and approval by the inspection commissioners, the bankruptcy trustee has the power to liquidate the bankruptcy estate, and to determine the manner and timing of such liquidation. The bankruptcy trustee distributes the proceeds from the liquidation of the bankruptcy estate to the creditors in proportion to their claims. The distribution is made in several stages. Claims entitled to distribution are differentiated according to their priority of claims. Bankruptcy creditors are classified as follows, in accordance with their priorities: (i) secured creditors, who have the right to enforce their securities on the same terms as would be available if the debtor were not in bankruptcy; (ii) creditors with estate claims, which include costs of judicial proceeding, tax claims, wages and payment of severance, management expenses incurred in connection with management, liquidation and distribution of the bankruptcy estate, and other claims arising from administration of the bankruptcy estate; (iii) creditors with other statutorily preferred claims (including policyholders' claims against an insurance company to the extent of the amount equal to the relevant reserves); (iv) general claims; and (v) less preferred claims.

The DRBA ensures that the priority rights of tenants under the Residential Tenant Protection Act and the Commercial Building Tenant Protection Act are also protected under bankruptcy proceedings.

#### **Chapter 4 Proceedings**

Chapter 4 Proceedings (i.e., individual rehabilitation proceedings) are available to persons (i) who are unable, or are likely to become unable, at the time of their application for rehabilitation procedures, to repay debts when they become due, (ii) who are considered to have the ability to earn consistent wage income or business income in the future and (iii) whose debt is no more than (x) Won 1.5 billion in case of debts secured by a mortgage, pledge, *Chonsei-kwon* and certain other preferential rights, and (y) Won 1 billion in case of any other debts. Only debtors, and not creditors, are able to petition the court for Chapter 4 Proceedings. When a debtor files a petition for Chapter 4 Proceedings, the court may suspend or prohibit bankruptcy proceedings, compulsory execution, provisional attachment, establishment or enforcement of security or the repayment of claims until the court decides whether to commence Chapter 4 Proceedings. In principle, the court must make such decision within a month after the filing of the petition.

After the commencement order is issued by the court, any bankruptcy proceedings, Chapter 2 Proceedings or actions mentioned above are automatically suspended or prohibited. In addition, after the commencement order is issued by the court, the establishment or enforcement of security interests is automatically suspended or prohibited until the earlier of the date (i) when the repayment plan is approved or (ii) when the approved Chapter 4 Proceedings are later finally determined to be discontinued. Subject to the automatic suspension or prohibition as described above, secured creditors have the right to enforce their security interests on the same terms as would be available if the debtor was not in Chapter 4 Proceedings. In principle, the debtor retains management and disposal rights over his/her assets even after the issuance of a commencement order for Chapter 4 Proceedings. The debtor must submit a list of creditors at the time of application, and any claims that are not disputed by the relevant creditor will be settled as indicated on the creditors list. Claims that are disputed by creditors will be settled through a court decision. The debtor must, in principle, submit a repayment plan within 14 days of the application, and the repayment period must not exceed three years from the commencement of repayment.

The repayment plan must be approved by the court and the court may order its amendment. One important requirement for approval is that the total amount of repayment must not be less than the amount that creditors would have received in a bankruptcy proceeding, unless creditors consent to the court's approval despite the failure of the individual debtor's repayment plan to meet such requirement.

The DRBA sets out a list of claims that have priority in payment to the claims listed in the creditor list (e.g., expenses for the Chapter 4 Proceedings, certain taxes, salaries for the debtor's employees, etc.). Once the debtor completes repayment in accordance with the repayment plan, the court will issue an acquittal order with respect to the debtor.

### **International Insolvency Proceedings**

The representative in a foreign insolvency proceeding (i.e., a person or entity recognised by the applicable court as the receiver or representative in the foreign insolvency proceeding) may file with the Korean court for approval of such foreign insolvency proceeding. Once the foreign insolvency proceeding is approved by the Korean court, the representative in such proceeding may apply for insolvency proceedings in Korea or participate in the insolvency proceeding that is already in progress in Korea. On the other hand, the receiver or bankruptcy trustee in the insolvency proceeding in Korea may, for purposes of such proceeding, take actions in foreign jurisdictions to the extent permitted by applicable laws.

### **Individual Work-out Plans**

According to the Act on Supporting the Financial Life of the Low Income Households which took effect on 23 September 2016 and as amended from time to time, the Credit Counselling and Recovery Service entered into, with, among others, the participating financial institutions, and revised from time to time, **“the Credit Recovery Support Agreement”** (the **“Individual Work-out Plan Agreement”**) which took effect on 23 September 2016 in order to support debt adjustment of the individual debtors.

The Individual Work-out Plan Agreement applies to sole practitioners and to individuals who have a poor credit history, who owe Won 1.5 billion or less (secured debt of Won 1.0 billion or less and unsecured debt of Won 0.5 billion or less) to financial institutions, and, as determined by the Review Committee (defined below), (i) whose income exceeds the minimum cost of living or (ii) who are able to repay their debts. The individual work-out plans under the Individual Work-out Plan Agreement consists of (i) the swift work-out plan for debtors owing to two or more financial institutions where delinquency period of one of the debts is between 1 day and 30 days, (ii) the pre-work-out plan for debtors owing to two or more financial institutions where delinquency period of one of the debts is between 31 day and 89 days and (iii) the regular work-out plan for debtors owing to one or more financial institutions where delinquency period of one of the debts is 3 months or more. Any individual who satisfies one of the foregoing requirements and does not fall within any of the disqualifications under the Individual Work-out Plan Agreement (e.g., any loan or credit facilities incurred in the six-month period prior to the application is 30 per cent. or more of the aggregate outstanding credit balance) may apply for protection under the scheme to the Credit Counselling and Recovery Service.

On receipt of such an application, the Credit Counselling and Recovery Service notifies each of the debtor's creditor financial institutions and requests them to certify the amount owed to them and their opinion on the application. From the time that the financial institutions receive such a notice, they are subject to a moratorium on their ability, among other things, to enforce any security, including any residential mortgage that they hold for the relevant debt.

The application is then considered by a review committee (the **“Review Committee”**) established under the Individual Work-out Plan Agreement. The Review Committee can recommend a plan (which can be either a **“Swift Work-out Plan”**, a **“Pre-Work-out Plan”** or **“Regular Work-out Plan”**) for the rehabilitation of the debtor, including (a) in the case of a Regular Work-out Plan, extending the repayment period to up to eight or ten years depending on the income of the individual (for unsecured debt) or 20 years (for secured debt), adjusting interest rates, setting up an instalment plan for a period not exceeding eight or 20 years, granting a grace period of up to three years (with annual interest rate during the grace period of up to 2 per cent.) and writing off the principal amount of the outstanding debt (i) in respect of the debt written-off by a financial institution, in case of unsecured debt up to an amount equal to from 20 per cent. to 70 per cent. thereof, and in case of secured debt, the amount exceeding the value of the collateral or (ii) in respect of the debt not written-off, up to an amount equal to from 0 per

cent. to 30 per cent. thereof only if the period elapsed after the occurrence of such debt is not less than 12 months and the delinquency period is not less than 3 months (while all of the interest and default interest due on the debts may be written off irrespective of such debt being written off or not, other than the secured debt not written-off, the default interest exceeding the amount of the contracted secured obligations) and in case of the outstanding debt only consisting of the interest or overdue interest, the amount of such debt up to an amount equal to 90 per cent. thereof, (b) in the case of a Pre-Work-out Plan, extending the repayment period to up to 10 (for unsecured debt) or 20 (for secured debt) years, adjusting interest rates, setting up an instalment plan for a period not exceeding 10 or 20 years, granting a grace period of up to three years (with annual interest rate during the grace period of 2 per cent.) and writing off all of the default interest due on the unsecured debt not written-off, the default interest exceeding the amount of the contracted secured obligations in case of the secured debt not written-off and in case of the outstanding debt only consisting of the interest or overdue interest, the amount of such debt up to an amount equal to 90 per cent. thereof and (c) in the case of a Swift Work-out Plan, extending the repayment period to up to 10 (for unsecured debt) or 20 (for secured debt) years, adjusting interest rates, setting up an instalment plan for a period not exceeding 10 or 20 years, granting a grace period of up to three years (with annual interest rate during the grace period of the contracted interest rates up to 15 per cent., but 10 per cent. for credit card debts) and writing off all of the default interest due on the unsecured debt not written-off, the default interest exceeding the amount of the contracted secured obligations in case of the secured debt not written-off and in case of the outstanding debt only consisting of the interest or overdue interest, the amount of such debt up to an amount equal to 90 per cent. thereof, as applicable.

The Swift Work-out Plan, Pre-Work-out Plan or Regular Work-out Plan, as applicable, of the Review Committee is put to a vote of the creditors of the relevant debtor and, to be adopted, must be approved by creditor financial institutions representing more than 50 per cent. of the debtor's outstanding unsecured debt and more than 50 per cent. of the debtor's outstanding secured debt. If the Swift Work-out Plan, Pre-Work-out Plan or Regular Work-out Plan is rejected, the Review Committee may submit a revised Swift Work-out Plan, Pre-Work-out Plan or Regular Work-out Plan, as applicable, to the creditor financial institutions, which must be approved by the same majorities.

If the Swift Work-out Plan, Pre-Work-out Plan or Regular Work-out Plan is adopted, the creditor financial institutions are bound by its terms. Any creditor financial institution which violates the Swift Work-out Plan, Pre-Work-out Plan or Regular Work-out Plan, for example, by seeking to enforce its security, could be subject to a penalty by the Credit Counselling and Recovery Service of an amount not exceeding Won 2 million.

### **Corporate Restructuring Promotion Act**

The original Corporate Restructuring Promotion Act (Act No. 6504) (“**Old CRPA**”) was enacted on 14 August 2001 in order to facilitate the out-of-court restructuring of insolvent companies. This law expired on 31 December 2005, and new Corporate Restructuring Promotion Acts were enacted on 3 August 2007 (expired on 31 December 2010), 19 May 2011 (expired on 31 December 2013) and 1 January 2014 (expired on 31 December 2015), 18 March 2016 (expired on 30 June 2018, 16 October 2018 (expired on 15 October 2023) and 26 December 2023 (to be expired on 25 December 2026, the new CRPA enacted and implemented on 26 December 2023 is hereinafter referred to as the “**CRPA**”).

However, if the ‘main Creditor Financial Institution’ of a Failing Company provided notice of the convening of a Creditor Committee (defined below) on or before 25 December 2026, any proceedings commenced by such Creditor Committee will remain subject to the CRPA even after 25 December 2026 unless and until such proceedings are completed or discontinued.

The following is a summary of the key provisions of the CRPA. The CRPA applies to a financial creditor (the “**Financial Creditor**”) who has financial claims against a debtor company by ‘providing credit’ to such debtor company or other third parties. “**Provision of Credit**” is defined in the CRPA as any transaction determined by the FSC to fall under any of the following:

- loans;
- purchase of promissory notes and debentures or bonds;
- equipment leasing;
- payment guarantees;
- providing advance payments on acceptances and guarantees under a payment guarantee;
- any direct or indirect financial transaction which may cause a loss to a counter party as a consequence of a payment failure by a debtor company; or
- any transaction other than the transactions set out above which may have in substance the same effect as the transactions set out above.

The “**debtor company**” is defined under the CRPA as a company established under the Korean Commercial Code or other person performing profit-making activities. The “**Failing Company**” means a debtor company deemed, through a credit evaluation carried out in the manner set out in the CRPA, by its ‘main Creditor Financial Institution’ as having difficulty to repay debts to its financial creditor without external financial support or an additional loan (excluding loans obtained in the course of conducting normal financial transactions).

Once the debtor company is notified by the main Creditor Financial Institution to fall under the definition of Failing Company, such company may submit its business restructuring plan and the list of its Financial Creditors, and apply to such main Creditor Financial Institution for commencement of the management procedure to be assumed by a committee of Financial Creditors (the “**Creditor Committee**”) or such main Creditor Financial Institution.

Under the CRPA, upon the Failing Company’s application for the commencement of the management by the Creditor Committee, the main Creditor Financial Institution of a Failing Company is required to convoke the first meeting of the Creditor Committee to decide whether to commence the management of the Failing Company by the Creditor Committee. Upon the Failing Company’s application for the commencement of the management by the main Creditor Financial Institution, the main Creditor Financial Institution may solely commence the management procedures if it determines that there is a possibility that the financial condition of the Failing Company may be rehabilitated or brought back to normal in accordance with its business restructuring plan.

Under the CRPA, in order to call for the first meeting of the Creditor Committee, the main Creditor Financial Institution is required to notify the Financial Creditors, the Failing Company, the coordination committee established under the CRPA and the FSS. However, the main Creditor Financial Institution may omit the notification to some extent of the Financial Creditors who are set out in the CRPA such as a Financial Creditor who does not perform the financial business or a Financial Creditor who has only small claims against the Failing Company. The Financial Creditors who do not receive the notification from the main Creditor Financial Institution will be excluded from the Creditor Committee; provided that if they nevertheless want to attend the meeting, the main Creditor Financial Institution may not exclude such Financial Creditors. When the main Creditor Financial Institution calls for the first meeting of the Creditor Committee, it may require the Financial Creditors to grant a moratorium on the enforcement of claims (including the enforcement of security interests) until the end of the first meeting of the Creditor Committee. In addition, at the first meeting of the Creditor Committee, the Financial Creditors may resolve to declare a moratorium for up to one month (or three months if an investigation of the Failing Company’s financial status is necessary) from the commencement date of the management procedure (which may be extended by one additional month by resolutions of the Creditor Committee).

The Financial Creditors who attend the first meeting of the Creditor Committee may resolve, among other things: (i) commencement of the management procedure, (ii) composition of the Financial Creditors who will participate in such management procedure and (iii) declaration of moratorium mentioned above.

Once the management procedure commences, the main Creditor Financial Institution is required to prepare the corporate restructuring plan of the Failing Company considering the investigation results of the Failing Company's financial status and submit such plan to the Creditor Committee for approval thereof. The corporate restructuring plan may include, among other things, the matters regarding rescheduling of debt owed by the Failing Company, provision of new credit and the business restructuring plan of the Failing Company. If the corporate restructuring plan is not approved by the date the moratorium period ends, the Creditor Committee's management of the Failing Company shall be deemed to have terminated.

The resolution at the Creditor Committee is generally passed by an approval of the Financial Creditors representing at least 75 per cent. of the outstanding credit to the Failing Company of the Financial Creditors who constitute the Creditor Committee; provided that if a single Financial Creditor holds at least 75 per cent. of the outstanding credit, the resolution shall be passed by an approval of not less than 40 per cent. of the total number of the Financial Creditors who constitute the Creditor Committee, including such single Financial Creditor. An additional approval of the Financial Creditors holding interests in 75 per cent. or more of the total amount of the secured claims owned by the Financial Creditors constituting the Creditor Committee against the Failing Company is required with respect to the debt rescheduling of the Failing Company.

A Financial Creditor which has opposed the resolutions of the Creditor Committee in respect of the commencement of management of the Failing Company by the Creditor Committee, establishment of or amendment to the corporate restructuring plan, extension of management procedure, the rescheduling of claims or provision of new credit or any other matter the Credit Committee determines to include by resolution (the "**Opposing Financial Creditor**") may, within seven days of such resolutions, request the main Creditor Financial Institutions to purchase its outstanding claims against the Failing Company, stating the type and number of claims. The Financial Creditors that have approved such resolutions (the "**Approving Financial Creditors**") shall jointly purchase such claims within six months of such request.

The purchase price and terms of such purchase shall be determined by mutual agreement of the Approving Financial Creditors and the Opposing Financial Creditor. Pending the agreement of such matters, the payments shall be made at a provisional price, and adjusting payments made once an agreement has been reached. If no such agreement is reached, then such matters shall be determined by the coordination committee established under the CRPA.

### **The Act on the Structural Improvement of the Financial Industry**

The ASIF provides regulations regarding the improvement of insolvent financial institutions. According to the ASIF, where any financial institution's financial status does not meet certain standards such as its capital adequacy ratio or any financial institution's financial status falls below certain standards due to the occurrence of a major financial scandal or accrual of non-performing loans, the FSC, in order to protect the financial institution from becoming insolvent and help the financial institution manage its business soundly, may recommend, request or order the financial institution concerned or the officers of such financial institution to implement the following measures or order them to furnish its implementation plan, including but not limited to:

- (a) admonition, warning, reprimand, or pay reduction in relation to the financial institution concerned and its executive officers and employees;

- (b) capital increase or capital deduction, disposal of property holdings or reduction in the number of its branches and downsizing;
- (c) ban on the acquisition of such assets as claims with high risks of default or assets prone to price fluctuations, or restrictions on the receiving of deposits at exorbitantly high interest rates;
- (d) suspension of officers' duties or appointment of managers to act on behalf of officers;
- (e) amortisation or consolidation of stocks;
- (f) suspension of all or part of its business;
- (g) merger with or assumption of a financial institution;
- (h) business transfers or contract transfers pertaining to financial transactions such as deposits or loans (hereinafter referred to as "**contract transfers**"); and
- (i) other measures equivalent to those listed in paragraphs (a) to (h) above, which are deemed necessary to improve any financial institution's financial soundness (collectively, "**timely corrective measures**").

In addition, managers may be appointed by the FSC pursuant to the ASIF in connection with any timely corrective measures requested by the FSC. Such managers may have the authority to make any decisions within the scope of authority of the officer of whom the managers act on behalf. Such managers may also have the authority to manage and dispose of any assets and liabilities in connection with any decisions made by the FSC with respect to contract transfers.

When the FSC intends "**timely corrective measures**" to be taken, it shall in advance determine and notify the standards and contents of such measures.

Among the timely corrective measures, certain measures such as suspension of all business, transfer of all business, transfer of all contracts or orders on amortisation of the total stocks and any equivalent measures, may only be taken if (i) the financial institution is insolvent or (ii) its financial status falls considerably short of certain standards and is deemed to pose a clear credit risk or to clearly prejudice the rights and interests of depositors. In addition, the ASIF also stipulates measures to be taken by the Government to support insolvent institutions and financial institutions merging with the insolvent financial institutions.

According to the ASIF, the FSC, where any financial institution fails to execute any request or order regarding timely corrective measures, may, on the recommendation of the Governor of the FSS, order the officers of the financial institution concerned to suspend the execution of their business and may appoint managers to conduct the business on behalf of such officers.

In cases where:

- (a) an insolvent financial institution fails to execute an order regarding timely corrective measures or is unable to execute such order;
- (b) the merger of an insolvent financial institution under an order or arrangement given and made under the provisions of the ASIF fails to complete;
- (c) where an insolvent financial institution is deemed incapable of either complying with orders or merging with or being acquired by another entity under the provisions of the ASIF due to its liabilities clearly exceeding its assets; or

- (d) an insolvent financial institution prejudices depositors' rights and interests and becomes a credit risk after it has been unable to pay claims including deposits and repay borrowings due to its poor financial standing,

the FSC may take necessary measures such as a decision for the transfer of contracts, suspension of business for a certain period against the insolvent financial institution, and cancellation of the authorisation or permission of its business.

Where financial institutions have their authorisation or permission to carry on business cancelled pursuant to the above, they shall be dissolved. If a decision for the transfer of contracts mentioned above is made, the rights and duties of the insolvent financial institution under the contracts which are subject to transfer shall be transferred to the financial institution which takes over those contracts (hereafter referred to as the "**undertaking financial institution**") at the time when such decision is made (except mortgage backed by secured claims under a contract subject to transfer, which shall be transferred to the undertaking financial institutions at the time when the public announcement of such transfer of contracts is made). In relation to this, the insolvent financial institution and the undertaking financial institution shall announce the transfer of the contracts in two or more daily newspapers. When the announcement is made, the legal relations of creditors, debtors, pledgors or other interested persons to the insolvent financial institution shall remain the same with the undertaking financial institution.

The FSC, where any financial institution is dissolved or becomes bankrupt, may, notwithstanding the provisions of the Korean Commercial Code and the DRBA, recommend a liquidator or a receiver to be appointed from among financial experts and officers or employees of the KDIC. In addition, when the FSC knows that the total amount of debt of a financial institution exceeds the total amount of its assets, it may make an application for declaration of bankruptcy.

### **General Laws Relating to the Mortgage Loan Business**

There is no specific legislation in Korea for regulating mortgage loan businesses other than basic private laws, including, among others, the Civil Code, the Civil Enforcement Act and the Registration of Real Estate Act. Financial institutions carrying on mortgage loan businesses, however, are subject to specific laws that regulate such financial institutions, such as the Bank Act, the Credit Specialised Finance Business Act and the Insurance Business Act. Commercial banks, credit specialised finance companies and insurance companies must comply with the relevant laws and regulations in originating and servicing mortgage loans and are regulated by the FSC under such laws.

### **Keun-Mortgages**

The most frequently used form of loan security for residential property in Korea is the *Keun*-mortgage, which differs from a more traditional mortgage. With more traditional mortgages, a mortgagee's rights are automatically extinguished upon satisfaction of the underlying debt, whereas with a *Keun*-mortgage, the mortgagee's rights are not automatically extinguished upon satisfaction of the underlying debt. Instead, a mortgagee's rights are extinguished when the term of the *Keun*-mortgage agreement expires or if terminated earlier by the parties. Furthermore, the amount of the secured claim may be increased or decreased within the maximum amount as agreed upon by the mortgagee and the borrower of the secured claim (which is duly registered in the relevant real estate registry) during the term of the *Keun*-mortgage agreement. Since the mortgage rights and obligations are not automatically extinguished, the contracting parties are not required to enter into and record separate mortgage agreements each time a subsequent loan is made.

*Keun*-mortgages can be enforced in the same manner as various other real estate rights, including enforcement through petition for auction and entitlement to distribution in accordance with recorded priorities.

Korea is a “race” jurisdiction that assigns claim priority in chronological order according to the date of the registration of the mortgages and other security interests. Statutory liens are exceptions to this rule and may rank senior to prior recorded mortgages and other security interests.

## **General Description of Judicial Auction Laws in Korea**

### **General**

A mortgagee of record, a creditor in possession of a validly notarised promissory note or a judgement creditor may apply for a court auction of real estate. All foreclosures of real estate based on general claims or mortgage loans must be carried out through a judicial auction. Nevertheless, financial institutions generally use mortgage agreements which provide that, if a mortgagor consents, creditors may dispose of the mortgaged property by any method that is reasonable and customary, with the proceeds of such disposition being applied to satisfy its secured obligations. The procedures for auction are governed by the Civil Enforcement Act.

### **Requirements for Exercising Remedies**

The *Gyongmae Shinchung*, or petition for auction, must be filed with the relevant court having jurisdiction over the district in which the real estate is located. The petition for auction must set forth supporting facts and grounds for requesting an auction, and must be accompanied by various documents including a copy of the mortgage agreement, a certified copy of the court register relevant to the subject property and a registration tax payment certificate.

The court will order an appraisal to determine the value of the real estate. Fees and expenses incurred in connection with an auction generally amount to between 2 per cent. and 3 per cent. of the real estate’s appraised value. In addition, a registration tax of 0.2 per cent. of the claim amount and an educational surtax of 20 per cent. of the registration tax must be paid to the relevant municipal office. This registration tax is separate and distinct from the registration tax imposed on the transfer of title to the property.

### **Procedures for Auction**

Once a petition for auction has been filed, the court will examine the petition and the supporting documents and will issue its order to commence the auction (usually within two to three days of the petition). Typically within seven days, the court order for auction is then entered in the Deungki-Bu (real estate registry) of the subject property.

The first auction date is generally set approximately five to six months from the date of petition filing. In the absence of any objection filed by the mortgagor or any other interested party, the auction will take place on the date set by the court. On the day of the auction, bidders must deposit 10 per cent. of the minimum price set by the court with the court unless the court decides otherwise. Distribution of auction proceeds will take place approximately 70 to 80 days after the auction date. However, it is not common that the property is sold at a first auction, thus necessitating subsequent auctions. A subsequent auction date is set for a date approximately one month following the first auction date.

Each time an auction closes without a successful bid, the minimum price is lowered by 20 per cent. to 30 per cent.

There are no restrictions preventing the mortgagee of a property to be auctioned from bidding in the auction for such property. A mortgagee may decide to purchase such property if the minimum auction price falls below a certain level. If a mortgagee is selected as the successful bidder, then such mortgagee may off-set its claim amount against its bidding price. However, the mortgagee purchaser must still pay in cash the amount sufficient to cover the senior claims and statutory liens having priority over its claim.

## Priority of Distribution

Although priority among mortgages is determined by the chronological order of their registration with the court, certain statutory liens and expenses (arising by operation of law) are given priority over registered mortgages. The statutory liens and expenses that have priority over mortgage claims which are registered prior to the due date of tax claims on the auctioned real estate are as follows (listed in the order of priority):

- (a) Auction expenses;
- (b) Refunds of key money deposits for small leases (see “– *Super-Priority Right for Small Leases*”) up to the statutory limit on residential properties (see “– *Key Money Deposit Protection*” below); back wages of the mortgagor’s employees for the last three months of employment, severance payments accrued within the last three years and accident compensation allowances under the Labour Standards Act;
- (c) Certain national taxes and additional dues thereon (e.g., inheritance tax, gift tax and asset revaluation tax) and local taxes and additional dues thereon (e.g., property tax, aggregate real estate tax, city planning tax and common facility tax) directly connected with the auctioned real estate; and
- (d) Mortgage claims and *Chonsei-kwon* claims registered prior to the due date of tax claims/refund of key money deposit having Priority Rights for residential properties (see “– *Key Money Deposit Protection*” below).

For mortgage claims registered after the due date of tax claims on the auctioned real estate, other national and local taxes (lower in priority than those identified in paragraph (c) above) would have priority over the mortgage claims.

With respect to the priority among the mortgage claim, a *Chonsei-kwon* claim and the refund of the key money deposit, priority is determined by chronological order of their registration with the court (in the case of a mortgage claim and a *Chonsei-kwon* claim) or satisfaction of all the requirements as specified in “– *Rights of Tenants of Residential Leases – Priority Right*” below (in the case of refund of the key money deposit) (see “– *Key Money Deposit Protection*” below for more detail).

## Key Money Deposit Protection

It is common practice in Korea for tenants to pay a lump sum deposit, known as a “**key money deposit**”, to be held by a landlord until the expiration of a lease. In the case of a *Chonsei-kwon*, the tenant is not required to make monthly rental payment during the lease term. Instead, the landlord is free to invest the key money deposit and keep the proceeds thereof in lieu of such monthly rental payment. Upon the termination or expiration of the lease, the landlord is required to return the key money deposit to the tenant without any interest thereon.

## Chonsei-kwon

A *Chonsei-kwon* is a type of mortgage granted by a lessor to a lessee as security for the repayment of a lessee’s key money deposit and also allows the lessee to occupy the leased premises until the later of the date on which (i) the lease term expires or (ii) the lessor returns the key money deposit to the lessee. A *Chonsei-kwon* must be registered with the court. Upon such registration, the lessee with the *Chonsei-kwon* is afforded similar protections as a mortgagor and can initiate foreclosure proceedings against the lessor/debtor upon the expiration or termination of the lease. Typically, a *Chonsei-kwon* is granted on the building and not on the land. With respect to priority between a mortgage claim and a *Chonsei-kwon* claim, priority is determined by chronological order of their registration with the court.

## **Rights of Tenants of Residential Leases**

Under the Residential Tenant Protection Act, there are three levels of protection that are afforded to tenants of residential leases (even if they are not registered with the real estate registry) for their key money deposits: the Super-Priority Rights for Small Leases, the priority right (the “**Priority Right**”) and the holdover right (the “**Holdover Right**”).

### **Super-Priority Right for Small Leases**

In order to secure a Super-Priority Right for Small Leases, the tenant must take possession of the relevant property (“**Occupancy Requirement**”) and file his relocation to the property with the local government office (“**Move-in Report Requirement**”). In addition, the key money deposits must be equal to or less than the following amounts (depending on where the property is located): (a) Won 165 million for Seoul, (b) Won 145 million for “**concentration control region**” (as defined in Seoul Metropolitan Area Readjustment Planning Act but other than Seoul), Sejong Metropolitan Autonomous City, Yongin, Hwaseong and Gimpo, (c) Won 85 million for other metropolitan areas (such as Busan, Daegu etc.), Ansan, Gwangju, Paju, Icheon and Pyeongtaek, and (d) Won 75 million for other areas. The tenants satisfying the above requirements have super-priority rights in terms of refund of key money deposits over all mortgages and other security interests on the property, for the following amounts out of the total amount of the key money deposit: (a) Won 55 million for Seoul, (b) Won 48 million for “**concentration control region**” (other than Seoul), Sejong Metropolitan Autonomous City, Yongin, Hwaseong and Gimpo, (c) Won 28 million for other metropolitan areas (such as Busan, Daegu etc.), Ansan, Gwangju, Paju, Icheon and Pyeongtaek, and (d) Won 25 million for other areas; provided that such amounts do not exceed one-half of the sale or auction price of the relevant property.

### **Priority Right**

The requirements for a Priority Right are the Occupancy Requirement and Move-in Report Requirement, plus an additional requirement that the lease document be fixed date-stamped by a notary public, post office, or other government office. Upon the perfection of the Priority Right, the tenant has priority in terms of the refund of the entire key money deposit over all mortgages that are registered after the date on which all of the requirements are satisfied.

### **Holdover Right**

The requirements for a Holdover Right are the Occupancy Requirement and the Move-in Report Requirement. Upon the perfection of the Holdover Right, the tenant has the following rights: (i) if there are no other mortgages perfected ahead of the tenant’s rights at the time of auction sale, then the tenant is deemed to have a Holdover Right, in which case the acquirer of the relevant property pursuant to an auction must assume all of the terms and conditions of the lease, including the key money deposits; and (ii) if there is any mortgage perfected ahead of the tenant’s rights, then the tenant is not deemed to have Holdover Right, in which case the acquirer of the relevant property pursuant to an auction need not assume any of the terms and conditions of the lease, including the key money deposits.

Generally, if a tenant has a Holdover Right, the acquirer of the relevant property will reduce the purchase price by the amount of the Holdover Right which it is obliged to assume. In the case that a tenant does not have a Holdover Right but still refuses to vacate the premises after acquisition from an auction sale, the acquirer may take the following actions to evict the tenant.

Within six months after the acquirer has paid the purchase price for the property, the acquirer may obtain an eviction order from the court that handled the auction process to evict the tenant. If the tenant refuses to vacate the premises, the tenant may be forcibly removed by court appointed persons. Following the six month period, the acquirer has to initiate an eviction proceeding, which is separate from the auction proceeding and handled by a different court. In such case, it can take from six months to one year to obtain a court order to evict the tenant. As such, it is more efficient and less time

consuming for the acquirer to obtain the eviction order during the six-month period following the payment of the purchase price. Moreover, the acquirer may seek an injunction to enjoin the tenant from transferring the lease to a third party.

### **Objections**

An interested party, including the mortgagor, may file an objection to an auction at any time prior to a successful bidder paying the balance of its bid amount. Such parties may also file an objection to the declaration of the successful bidder within one week of such declaration. Objections can be made based on either procedural (e.g., irregularities or defects in the auction procedure) or substantive (e.g., defects in the title of the property or the underlying obligation) grounds. An objecting party may apply for an injunction (to delay the auction) by filing an action challenging the validity of the mortgagee's underlying claim and posting a bond that is usually equivalent to all or substantial part of the amount claimed by the mortgage in the auction petition.

### **Enforcement of English or New York Judgements in Korea**

A judgement duly obtained in the courts of England or New York will be recognised by the Korean courts without re-examination of the merits of the case if:

- (a) such judgement was finally and conclusively given by a court having valid jurisdiction in accordance with international jurisdiction principles under Korean law and applicable treaties;
- (b) the Issuer received service of process, other than by publication or similar means, in sufficient time to enable such party to prepare its defence in conformity with the laws of England or the State of New York, as applicable (or in conformance with the laws of Korea if it were made to the Issuer in Korea) or responded to the action without being served with process;
- (c) such judgement is not contrary to the public policy of Korea; and
- (d) (i) Judgements of the courts of Korea are accorded reciprocal treatment under the laws of England or the State of New York or (ii) Judgements of the courts of Korea are not treated in England or the State of New York in a manner which is considerably prejudicial to their recognition and their treatment is substantially the same as treatment by the courts of Korea of the Judgements obtained in England or the State of New York in material respects.

## TAXATION

### Korean Taxation

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

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

### Income Tax and Corporation Tax on Interest

Interest on the Notes paid to Non-Residents (excluding payments to their Permanent Establishment in Korea) is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the “**STTCL**”), so far as the Notes fall within “foreign currency denominated bonds” under the STTCL and the issuance of the Notes is deemed to be an overseas issuance under the STTCL. The term “foreign currency denominated bonds” in this context is not defined under the STTCL. In this regard, the Korean tax authority issued a ruling on 1 September 1990 to the effect that “Notes Issuance Facility, USCP, Euro CP and Banker’s Acceptance, etc.” are not treated as “foreign currency denominated bonds”.

If not exempt under the STTCL, the rate of income tax or corporation tax applicable to interest or any premium paid on the Notes, for a Non-Resident without a Permanent Establishment in Korea, is currently 14.0%. In addition, a local income tax is imposed at the rate of 10.0% of the income tax or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer of the interest or, where the transfer takes place before interest payment is made, by the purchaser of the instrument, or a designated withholding agent of such payer or purchaser.

The tax rates may be reduced or exempted by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the interest. The relevant tax treaties are discussed below.

### Capital Gains Tax

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a Permanent Establishment in Korea from the sale of the Notes to a Non-Resident (other than to its Permanent Establishment in Korea). In addition, capital gains earned by a Non-Resident with or without a Permanent Establishment from the transfer outside Korea of the Notes are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance.

In the absence of an applicable tax treaty or any other special tax laws eliminating capital gains tax, the applicable rate of tax is the lower of 11.0% of the gross realization proceeds (the “**Gross Realization Proceeds**”) and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Notes) 22.0% of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and certain direct transaction costs. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax would be payable. There is no provision under the relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of securities issued by Korean companies.

The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty or in the absence of the seller producing satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11.0% of the Gross Realization Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the relevant Korean tax authority no later than the tenth day of the month following the month in which the sale of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or the withholding agent who is obliged to withhold such tax, is subject to the Korean tax authorities seeking enforcement through attachment of, or other legal proceedings against, payments due to it from its Korean investments and to enforcement against the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

### **Inheritance Tax and Gift Tax**

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was a Korean resident (as such term is defined under Inheritance Tax and Gift Tax Law); and (b) all property located in Korea which passes on death (irrespective of the residence of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary from 10% to 50% depending on the value of the relevant property and the identity of the parties involved.

Under the Inheritance Tax and Gift Tax Law, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are held.

### **Stamp Duty and Securities Transaction Tax**

No stamp, issue or registration duties will be payable in Korea by the Noteholders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea. A securities transaction tax will not be imposed on the transfer of the Notes.

### **Tax Treaties**

At the date of this Offering Circular, Korea has tax treaties with, *inter alios*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Republic of Italy ("**Italy**"), Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 5% and 15% (including local income tax), and the tax on capital gains is often eliminated.

Each Noteholder should enquire for itself whether it is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer, the purchaser or the withholding agent, as applicable, a certificate as to its residence. In the absence of sufficient proof, the Issuer, the purchaser or the withholding agent, as applicable, must undertake to withhold taxes in accordance with the above discussion.

In order to claim the benefit of a reduced tax rate or tax exemption available under the applicable tax treaties, a Non-Resident holder must submit to the payer of such Korean-sourced income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for tax exemption" under a tax treaty along with a certificate of the non-resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("**BO Application**"), provided that if such tax exemption is being sought by an entity for an amount that is 1 billion Won or more (including where

the aggregate amount exempted within one year from the last day of the month in which the payment was made, is 1 billion Won or more), in addition to the certificate of tax residence issued by a competent authority of the Non-Resident holder's residence country, it will also be required to submit the names and addresses of all of the members of board of directors, the identities and shareholding percentages of all of shareholders (provided that if there are more than 100 shareholders, the Non-Resident holder may instead provide a statement showing the total number of shareholders and aggregate investment amount from each country), and audit reports for the most recent three years submitted to the country of residence (or, if the entity has been in existence for less than three years, audit reports since incorporation). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is defined as an organisation established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing of, or otherwise investing in proprietary targets and then distributes the outcome of such management to investors, "OIV") and such OIV is not the beneficial owner of such income, a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners (together with the applicable BO Application and certificate of the non-resident holder's tax residence in case of exemption from withholding tax), to the withholding agent prior to the payment date of such income. In the case of an application for tax exemption, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income. If there is no change in the contents of such application or OIV report, it is not required to submit such application or OIV report again within three years thereafter. Effective from 1 January 2022, an OIV is deemed to be a beneficial owner of the Korean source income if (i) under the applicable tax treaty, the OIV bears tax liabilities in the country in which it is established; and (ii) the Korean source income is eligible for the treaty benefits under the tax treaty. The benefits under a tax treaty between Korea and the country of such OIV's residence will apply with respect to the relevant income paid to such OIV, subject to certain application requirements as prescribed by the Corporate Income Tax Law or Individual Income Tax Law. However, this requirement does not apply to exemptions under Korean tax law.

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

### **Certain U.S. Federal Income Tax Considerations**

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder as defined below (except that the discussion under "Fungible Issue" applies to all holders). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes in their initial offering at their initial offering price and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws (such as estate or gift tax laws). This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside the United States, U.S. citizens or lawful permanent residents living abroad, U.S. holders that are required to take certain amounts into income no later than the time when such amounts

are reflected on an applicable financial statement or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Pricing Supplement.

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States; (ii) a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax adviser concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended (the “**Code**”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and the Republic of Korea (the “**Treaty**”) all as of the date hereof and all subject to change at any time, possibly with retroactive effect. No rulings have been requested from the U.S. Internal Revenue Service (the “**IRS**”) and there can be no guarantee that the IRS would not challenge, possibly successfully, the treatment described below.

Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Code. This discussion does not otherwise address Bearer Notes.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF THE NOTES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

## **Payments of Interest**

### *General*

Interest on a Note, whether payable in U.S. dollars or a single currency other than U.S. dollars (a “**foreign currency**”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “– *Original Issue Discount – General*”), will generally be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder’s method of accounting for U.S. federal income tax purposes, reduced by the allocable amount of amortisable bond premium, subject to the discussion below. Interest paid by the Issuer on the Notes and original issue discount (“**OID**”), if any, accrued with respect to the Notes (as described below under “– *Original Issue Discount*”) generally will constitute income from sources outside the United States.

### *Effect of Korean Withholding Taxes*

As discussed in “*Taxation – Korean Taxation*”, under current law payments of interest in respect of the Notes may be subject to Korean withholding taxes. As discussed under “*Terms and Conditions of the Notes – Taxation*”, the Issuer may be liable for the payment of additional amounts to U.S. Holders so that U.S. Holders receive the same amounts they would have received had no Korean withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders will be treated as having actually received the amount of Korean taxes withheld by the Issuer with respect to a Note, and as then having actually paid over the withheld taxes to the Korean taxing authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest or OID may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain complex limitations, a U.S. Holder may be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Korean income taxes withheld (at a rate not exceeding any applicable Treaty rate). An election to deduct creditable foreign taxes instead of claiming foreign tax credits must be applied to all creditable foreign taxes paid or accrued in the U.S. Holder’s taxable year. Interest generally will constitute “passive category income” for purposes of the foreign tax credit. The rules governing foreign tax credits are complex and recently issued final U.S. Treasury Regulations (“**Final FTC Regulations**”) have imposed additional requirements that must be met for a foreign tax to be creditable, and the Issuer does not intend to determine whether such requirements will be met in case non-U.S. taxes are withheld (if any). However, recent notices (the “**Notices**”) from the IRS indicate that the U.S. Treasury and the IRS are considering proposing amendments to the Final FTC Regulations and allow taxpayers, subject to certain conditions, to defer the application of many aspects of the Final FTC Regulations until the date when a notice or other guidance withdrawing or modifying this temporary relief is issued (or any later date specified in such notice or other guidance). Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Korean withholding taxes and the creditability (or deductibility) of such taxes as well as any applicable limitations in their particular circumstances.

### *Pre-Issuance Accrued Interest*

If a portion of the price paid for a Note is attributable to an amount of interest accrued prior to the date the Note is issued (the “**pre-issuance accrued interest**”), a portion of the first interest payment on the Notes equal to the amount of the pre-issuance accrued interest may be treated as a nontaxable return of the pre-issuance accrued interest. This discussion assumes that the first interest payment on Notes with pre-issuance accrued interest will be so treated, and references to interest in the remainder of this discussion exclude pre-issuance accrued interest. This discussion assumes that in determining the issue price of a Note, there will be excluded an amount equal to the pre-issuance accrued interest. Pre-issuance accrued interest not included in income should not form part of any amortisable bond premium (as described below under “– Notes Purchased at a Premium”). A U.S. Holder’s tax basis in a Note will be reduced by any nontaxable return of pre-issuance accrued interest. This discussion does not otherwise address the treatment of pre-issuance accrued interest, and U.S. Holders should consult their tax advisers concerning the U.S. federal income tax treatment of pre-issuance accrued interest, including in the case of a foreign currency Note, the potential recognition of exchange gain or loss upon receipt of amounts otherwise treated as a nontaxable return of pre-issuance accrued interest.

## **Original Issue Discount**

### *General*

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event that the Issuer issues contingent payment debt instruments the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “**Short-Term Note**”), will be treated as issued with OID (a “**Discount Note**”) if the excess of the Note’s “stated redemption price at maturity” over its issue price is equal to or more than a *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “**instalment obligation**”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is equal to or greater than 0.25% of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. A qualified stated interest payment generally is any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under “– *Variable Interest Rate Notes*”), applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

#### *Acquisition Premium*

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “**acquisition premium**”), and that does not make the election described below under “– *Election to Treat All Interest as Original Issue Discount*”, is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

### *Short-Term Notes*

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### *Market Discount*

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price", exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount". For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the sale or retirement of a Market Discount Note (including any payment on a Note that is not qualified stated interest) generally will be treated as ordinary income to the extent of the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may avoid such treatment by electing to include market discount in income currently over the life of the Note. This election applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the IRS.

A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently may be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note. Such interest is deductible when paid or incurred to the extent of income from the Market Discount Note for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that such excess exceeds the portion of the market discount allocable to the days during the taxable year on which such Note was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

### *Variable Interest Rate Notes*

Notes that provide for interest at variable rates (“**Variable Interest Rate Notes**”) generally will bear interest at a “qualified floating rate” and thus will be treated as “variable rate debt instruments” under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a “variable rate debt instrument” if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates; (ii) a single fixed rate and one or more qualified floating rates; (iii) a single objective rate; or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g. two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e. a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g. one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note’s term. A “qualified inverse floating rate” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note’s issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “current value” of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument”, then any stated interest on the Note which is unconditionally payable in cash or property (other than debt

instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” generally will not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate; or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a “variable rate debt instrument” will be converted into an “equivalent” fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an “equivalent” fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note’s issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a “variable rate debt instrument” and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note’s issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the “equivalent” fixed rate debt instrument by applying the general OID rules to the “equivalent” fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the “equivalent” fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement.

#### *Notes Purchased at a Premium*

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with

respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Special rules may limit the amortization of premium in the case of Notes subject to early redemption. See also “– *Original Issue Discount – Election to Treat All Interest as Original Issue Discount*”.

#### *Election to Treat All Interest as Original Issue Discount*

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “– *Original Issue Discount – General*”, with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described above under “– *Notes Purchased at a Premium*”) or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “– *Market Discount*” to include market discount in income currently over the life of all debt instruments having market discount that are acquired on or after the first day of the first taxable year to which the election applies. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

#### **Sale or Retirement of Notes**

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments; and (ii) the amount of any amortisable bond premium or acquisition premium applied to reduce interest on the Note. The amount realised does not include the amount attributable to accrued but unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under “– *Original Issue Discount – Market Discount*” or “– *Original Issue Discount – Short-Term Notes*” or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year.

Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilize foreign tax credits attributable to any non-U.S. taxes imposed on a sale or disposition. Moreover, subject to the Notices described above, under the Final FTC Regulations, any Korean tax imposed on the sale or retirement of Notes by a U.S. Holder is unlikely to be treated as a creditable tax for the U.S. Holder. In addition, any Korean tax imposed on the sale or retirement of Notes will not be creditable to the extent that the U.S. Holder is entitled to an exemption under the Treaty or Korean law. The application of the foreign tax credit rules is very complex, and U.S. Holders should consult their own tax advisers regarding the U.S. federal income tax consequences if any non-U.S. taxes are imposed on a sale or retirement of Notes, including the creditability (or deductibility) of such taxes, the determination of the amount realized and any applicable limitations, in their particular circumstances.

## Foreign Currency Notes

### *Interest*

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the accrual basis U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

See “**Payments of Interest – Effect of Korean Withholding Taxes**” above for a discussion regarding U.S. federal income tax implication if any Korean taxes are withheld on interest payments.

### *OID*

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or retirement of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

### *Market Discount*

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder’s taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income

currently will recognise, upon the sale or retirement of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

#### *Bond Premium*

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income (or OID) in units of the foreign currency. On the date when bond premium offsets interest income (or OID), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date when the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

#### *Sale or Retirement*

As discussed above under “– *Sale or Retirement of Notes*”, a U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about how to account for proceeds received on the sale or retirement of Notes that are not paid in U.S. dollars.

A U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder’s purchase price for the Note (as adjusted for amortised bond premium, if any) (i) on the date of sale or retirement; and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

See “Sale or Retirement of Notes” above for a discussion regarding U.S. federal income tax implications if any non-U.S. taxes are imposed on disposition gains.

#### **Fungible Issue**

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional notes with identical terms. These additional notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional notes are not otherwise distinguishable from the original Notes.

#### **Backup Withholding and Information Reporting**

In general, payments of principal and interest and accruals of OID on, and the proceeds of a sale or retirement of, the Notes by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. Backup withholding will apply to these payments, including payments of accrued OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes, including requirements related to the holding of certain “specified foreign financial assets”.

**Reportable Transactions**

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases generally is imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

## UNITED STATES ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of ERISA, plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or Similar Law, and entities or accounts whose underlying assets are considered to include “plan assets” of such plans, accounts and arrangements. A detailed description of the ERISA considerations relating to any Notes will be provided in the applicable Pricing Supplement.

ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, including entities and accounts such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “**ERISA Plans**”) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Each purchaser or subsequent transferee of any Notes (or any interest therein) will be deemed to represent, warrant and agree that if it is, or is acting on behalf of, a Benefit Plan Investor, (i) none of the Dealers, nor any of their respective affiliates, has provided any investment advice within the meaning of Section 3(21) of ERISA and regulations thereunder to the Benefit Plan Investor or any fiduciary or other person making a decision to invest the assets of the Benefit Plan Investor (the “**Fiduciary**”) in connection with the Benefit Plan Investor’s acquisition of the Notes; and (ii) the Fiduciary is exercising its own independent judgment in evaluating the transaction.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts, and entities or accounts whose underlying assets are considered to include “plan assets” of such plans (together with ERISA Plans, “**Plans**”)) and certain persons (defined as “parties in interest” or “disqualified persons” under ERISA and the Code, respectively) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which any of the Issuer, the Arranger, the Dealers or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire the Notes and the circumstances under which such decision is made. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire the Notes and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption (“**PTCE**”) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers) and Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, regarding certain transactions with non-fiduciary service providers for “adequate consideration”. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes (or an interest in the Notes) whether in the case of the initial purchase or in the case of a subsequent transfer, the purchaser thereof will be deemed to have represented and agreed that either (i) it is not and is not acting on behalf of, and for so long as it holds the Notes (or an interest in the Notes), will not be and will not be acting on behalf of, a Plan, an entity whose underlying assets include the assets of any such Plan, or a governmental or other

employee benefit plan which is subject to Similar Law; or (ii) its purchase and holding of the Notes (or an interest in the Notes) will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any Similar Law) for which an exemption is not available.

Governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) and other non-U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Any insurance company proposing to invest assets of its general account in Notes should consider the extent to which such investment would be subject to the requirements of Title I of ERISA, Section 406 of ERISA and Section 4975 of the Code in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA on August 20, 1996. In particular, such an insurance company should consider (i) the exemptive relief granted by the U.S. Department of Labor for transactions involving insurance company general accounts in PTCE 95-60 and (ii) if such exemptive relief is not available, whether its acquisition of Notes will be permissible under the final regulations issued under Section 401(c) of ERISA.

Regulations promulgated by the United States Department of Labor at 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Asset Regulation**"), describe what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA and Section 4975 of the Code, including the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" (other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features) of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, nor an entity that qualifies as an "operating company" under the Plan Asset Regulation, the Plan's assets could include both the equity interest and an undivided interest in each of the entity's underlying assets. The Issuer believes that it would qualify as an 'operating company' within the meaning of the Plan Asset Regulation. In addition, the Issuer also believes that the Notes should be treated as indebtedness for purposes of the Plan Asset Regulation.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code or Similar Law to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA, the Code or Similar Law.

The sale of the Notes to a Plan is in no respect a representation by the Issuer or the Dealers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan. Any Plan that purchases or holds a Note (or any interest therein) will be deemed to agree by its purchase or holding of a Note (or any interest therein) that neither the Issuer, the Dealer or any of their affiliates has provided any investment advice or recommendations with respect to the purchase, holding or any subsequent sale or transfer of the Note (or any interest therein) and that the Plan's decision to purchase and hold a Note (or any interest therein) was made by a fiduciary to the Plan that acted independently and with the expertise needed to make such a decision on behalf of the ERISA Plan or Plan. Any Plan purchasing the Notes should carefully examine the applicable Pricing Supplement and consult its own advisers.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations (“**Direct Participants**”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default (as defined the Conditions) under the Notes, DTC will exchange the DTC Notes for Definitive Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Registered Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

## **CMU**

The CMU is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Notes**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and “authorized institutions” under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike Euroclear and Clearstream, Luxembourg), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU.

#### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

#### **Book-entry Ownership of and Payments in Respect of DTC Notes**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Arranger and/or the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Subscription and Sale and Transfer and Selling Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Paying Agent and any custodian with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date, transfers of the Notes between accountholders in Clearstream, Luxembourg and Euroclear and transfers of the Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Paying Agent and the custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents, the Registrar, the Arranger or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and

procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Arranger and the Dealers have in a programme agreement dated 4 August 2023 (as amended, supplemented and/or restated from time to time, the “**Programme Agreement**”) agreed with the Issuer a basis upon which they or any other Dealer appointed from time to time in respect of a specific issue of Notes may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Summary of Provisions Relating to the Notes While in Global Form*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Arranger and the Dealers for certain of their expenses in connection with the establishment and the update of the Programme and the issue of Notes under the Programme and to indemnify the Arranger and the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations, stabilising activities may only be carried on by the Stabilising Manager named in the applicable Pricing Supplement and must end no later than the earlier of 30 days following the Issue Date of the relevant Tranche of Notes and 60 days following the date of the allotment of the relevant Tranche of Notes.

### **Certain Relationships**

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

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

### **Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMI(s) (including private banks):**

This notice to CMI(s) (including private banks) is a summary of certain obligations the SFC Code imposes on CMI(s), which require the attention and cooperation of other CMI(s) (including private banks). Certain CMI(s) may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a “principal” basis may require the relevant affiliated Manager(s) (if any) to categorise it as a proprietary order and apply the “proprietary orders” requirements of the SFC Code to such order.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any “Associations” (as used in the SFC Code);
- Whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Managers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMI's and investors is personal and/or confidential in nature, CMI's (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMI's that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMI's (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMI's (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

### **Transfer Restrictions**

Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of the Notes.

The Notes have not been and will not be registered under the Securities Act or any other securities laws and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold in the United States only to QIB/QPs in reliance on the registration exemption in Rule 144A of the Securities Act. The international offering is being made outside the United States in offshore transactions pursuant to Regulation S under the Securities Act.

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

### **U.S. Transfer Restrictions**

Each purchaser of the Notes will be deemed to acknowledge, represent and agree and each person wishing to transfer an interest from one Registered Global Note to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that in the case of a Rule 144A Note, it, and each person for which it is acting, is both a QIB and a QP and is acquiring such Note (or beneficial interest therein) for its own account or for the account or accounts of one or more other persons, each of which is both a QIB and a QP and:
  - (1) it, and each person for which it is acting, is aware that the sale, resale, pledge, exchange or other transfer of such Note (or beneficial interest therein) is being made in a transaction that is exempt from the registration requirements of the Securities Act pursuant to the requirements of Rule 144A;
  - (2) it, and each person for which it is acting, is not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of issuers unaffiliated with such broker-dealer;

- (3) it, and each person for which it is acting, is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, such as a 401(k) plan, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A, holding the assets of such plan unless the investment decisions with respect to such plan are made solely by the fiduciary, trustee or sponsor of such plan or trust fund;
- (4) it, and each account for which it is purchasing or otherwise acquiring such Note (or beneficial interest therein), will purchase, hold or transfer at least EUR100,000 (or its equivalent in any other currency in which the Notes may be issued) of the Notes (or beneficial interest therein);
- (5) it, and each person for which it is acting, was not formed, reformed or recapitalised for the specific purpose of investing in such Notes (or beneficial interest therein) and/or other securities of the Issuer (unless all of the beneficial owners of such entity's securities are both QIBs and QPs);
- (6) if it, or any person for which it is acting, is an investment company excepted from the Investment Company Act pursuant to Section 3(c)(1) or Section 3(c)(7) thereof (or a foreign investment company under Section 7(d) thereof relying on Section 3(c)(1) or 3(c)(7) with respect to its holders that are U.S. Persons) and was formed on or before 30 April 1996, it has received the consent of its beneficial owners who acquired their interests on or before 30 April 1996, with respect to its treatment as a QP in the manner required by Section 2(a)(51)(C) of the Investment Company Act and the rules and regulations promulgated thereunder;
- (7) it, and each person for which it is acting, is not a corporation, partnership, common trust fund, special trust, pension fund or retirement plan, or other entity, in which the shareholders, partners, beneficiaries, beneficial owners, participants or other equity owners, as the case may be, may designate the particular investments to be made, or the allocation thereof, unless all such shareholders, partners, beneficiaries, owners, participants or other equity owners are both QIBs and QPs;
- (8) it, and each person for which it is acting, has not invested more than 40% of its assets in such Notes (or beneficial interest therein) and/or other securities of the Issuer after giving effect to the purchase of such Note (or beneficial interest therein) (unless all of the beneficial owners of such entity's securities are both QIBs and QPs);
- (9) it, and each person for which it is acting, understands that the Issuer will not register as an investment company under the Investment Company Act and that the Issuer is relying on the exemption provided by Section 3(c)(7) of the Investment Company Act in doing so. It, and each person for which it is acting, also understands and agrees that the Issuer and the Transfer Agent shall have the right to request and receive such additional documents, certifications, representations and undertakings, from time to time, as the Issuer and the Transfer Agent may deem necessary in order to comply with applicable legal requirements;
- (10) it, and each person for which it is acting, agrees that the Issuer shall be entitled to require any holder of a Rule 144A Note (or any holder of a beneficial interest therein) that is determined not to have been both a QIB and a QP (and to have met the other requirements set forth in this paragraph (a)) at the time of acquisition of such Rule 144A Note (or such beneficial interest) to sell such Rule 144A Note (or such beneficial interest) or, alternatively, the Issuer shall be entitled to redeem such Rule 144A Note (or such beneficial interest), in accordance with the provisions applicable to such Note;

- (11) it, and each person for which it is acting, understands that the Issuer may receive a list of the participants from Euroclear, Clearstream, Luxembourg, CMU, DTC or any other depository holding beneficial interests in the Rule 144A Global Notes;
  - (12) it, and each person for which it is acting, will provide notice of these transfer restrictions to any subsequent transferees and agrees not to act as a swap counterparty or other type of intermediary whereby any other party will acquire an economic or beneficial interest in the Notes acquired or reoffer, resell, pledge or otherwise transfer a Note (or any beneficial interest therein) to any person except to a person that (x) meets all of the requirements in paragraphs (1) through this paragraph (12), and (y) agrees not to subsequently transfer such Note or such beneficial interest therein except in accordance with these transfer restrictions; and
  - (13) it, and each person for which it is acting, understands that any sale or transfer to a person that does not comply with the requirements set forth in these paragraphs (1) through (12) will be null and void *ab initio* and not honoured by the Issuer;
- (b) that in the case of a Regulation S Note, it is outside the United States and is not a U.S. Investor and:
- (1) it, and each person for which it is acting, is a Non-U.S. Investor acquiring the Notes (or a beneficial interest therein) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S and in a principal amount of not less than EUR100,000 (or its equivalent in any other currency in which the Notes may be issued);
  - (2) it, and each person for which it is acting, understands that any resale or other transfer of the Notes (or beneficial interests therein) in the United States or to any U.S. Persons to any person other than a person who is both a QIB and a QP, taking delivery in the form of a Rule 144A Global Note (or a beneficial interest therein), and meets the other requirements set forth under these transfer restrictions, shall not be permitted; and
  - (3) it, and each person for which it is acting, agrees that the Issuer shall be entitled to require any holder of a Regulation S Note (or any holder of a beneficial interest therein) that is determined not to have been a Non-U.S. Investor acquiring such Regulation S Note (or beneficial interest therein) in an offshore transaction at the time of acquisition of such Note (or such beneficial interest) to sell such Note (or such beneficial interest) or, alternatively, the Issuer shall be entitled to redeem such Regulation S Note (or such beneficial interest), in accordance with the provisions applicable to such Note;
- (c) that in addition to the restrictions set forth in paragraphs (a) and (b) above:
- (1) it understands that the Notes are being offered only in transactions not involving any public offering within the meaning of the Securities Act and will not be registered under the Securities Act, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a person that is both a QIB and a QP purchasing for its own account or for the account of a person that is both a QIB and a QP as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A; or (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and (B) in accordance with all applicable securities laws of the states of the United States, the transfer restrictions and the legend on such Notes;
  - (2) it is not purchasing the beneficial interests in the Notes with a view towards the resale, distribution or other disposition thereof in violation of the Securities Act. It understands that an investment in the Notes involves certain risks, including the risk of loss of its entire investment in the Notes under certain circumstances. It, and each person for whom it is

acting, has had access to this Offering Circular and such additional financial and other information concerning the Issuer and the Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the beneficial interest in the Notes, including an opportunity to ask questions of and request information from the Issuer and to verify the accuracy of the information included or incorporated by reference herein that the Issuer or the Dealers could provide without unreasonable effort or expense. It understands and acknowledges that it must be prepared to hold its beneficial interest in the Note until maturity and that no representation has been made as to availability of any exemption under the Securities Act or any state securities laws or securities laws of any other jurisdiction for resale of the beneficial interests in the Notes;

- (3) if a beneficial interest in a Rule 144A Global Note is transferred to a Non-U.S. Investor that is acquiring such Note in an offshore transaction in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act, the transferee will take such beneficial interest in the form of a beneficial interest (in the denomination so transferred) in a Regulation S Global Note;
- (4) if a beneficial interest in a Regulation S Global Note is transferred to a person that is both a Q IB and a QP in a transaction exempt from the registration requirements of the Securities Act pursuant to Rule 144A (in which case the transferor will inform the transferee that the transfer is being made in reliance on Rule 144A, the transferee will take such beneficial interest in the form of a beneficial interest (in the denomination so transferred) in a Rule 144A Global Note;
- (5) unless otherwise stated in an applicable pricing supplement, either: (A) it is not, and for so long as it holds any beneficial interest in any Notes will not be (i) an “**employee benefit plan**” subject to Part 4 of Subtitle B of Title I of ERISA; (ii) a “**plan**” to which Section 4975 of the Code applies; (iii) an entity whose underlying assets include “**plan assets**” (within the meaning of Section 3(42) of ERISA and United States Department of Labour Regulation 29 C.F.R. § 2510.3-101) by reason of such employee benefit plan or plan’s investment in such entity (each of (i), (ii), and (iii), a “**Benefit Plan Investor**”); or (iv) a governmental plan (within the meaning of Section 3(32) of ERISA), a church plan (within the meaning of Section 3(33) of ERISA) that has not made an election under section 4 10(d) of the Code, or a non-United States plan (within the meaning of Section 4(b)(4) of ERISA) that is subject to any federal, state, local or non-United States laws that regulate its investments (“**Similar Law**”); or (B) its purchase and holding of this Note will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-United States plan that is subject to Similar Law, a violation of Similar Law) for which an applicable statutory, regulatory or administrative exemption is not available;
- (6) in connection with the purchase of the Notes: (A) none of the Issuer, the Agents or the Dealers, is acting as a fiduciary or financial or investment adviser for the holder; (B) it is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuer, the Agents or the Dealers other than any such representations of the Issuer as may be specifically set forth in the Offering Circular or applicable Pricing Term Sheet for such Notes, and any representations expressly set forth in a written agreement with such party, (C) none of the Issuer, the Agents or the Dealers has given to the holder (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Notes; (D) it has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own

investment decisions (including decisions regarding the suitability of any transaction) based upon its own judgement and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuer, the Paying Agent or the Dealers; (E) it has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (F) it is a sophisticated investor;

- (7) for so long as the Issuer relies on the exemption from the Investment Company Act provided by Section 3(c)(7) and the Notes are held through Euroclear, Clearstream, Luxembourg, CMU or DTC, the Notes shall bear the applicable Rule 144A and Regulation S legend, the applicable legends shall not be removed and the Issuer shall provide the information needed for a QIB/QP to transfer the Notes pursuant to Rule 144A; and
- (8) any purported transfer of a Note not in accordance with these transfer restrictions shall be null and void *ab initio* and shall not be given effect for any purpose;
- (d) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraphs (a), (b) and (c) above;
- (e) that Notes initially offered in the United States to QIB/QPs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (f) that the Notes represented by Rule 144A Global Notes and Rule 144A Notes that are Definitive Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

**“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND KOREA HOUSING FINANCE CORPORATION (THE “ISSUER”) HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”), IN RELIANCE ON THE EXEMPTION FROM THE DEFINITION OF “INVESTMENT COMPANY” PROVIDED BY SECTION 3(c)(7) THEREOF. BENEFICIAL INTERESTS IN THIS NOTE MAY BE SOLD, REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY: (A) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE SELLER REASONABLY BELIEVES IS BOTH A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A), (A “QUALIFIED INSTITUTIONAL BUYER” OR “QIB”) AND A “QUALIFIED PURCHASER” (AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND THE RULES AND REGULATIONS THEREUNDER) (A “QUALIFIED PURCHASER” OR “QP”), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS ALSO A QUALIFIED PURCHASER OR (B) TO A PERSON THAT IS NEITHER A U.S. PERSON (AS DEFINED IN REGULATION S OF THE SECURITIES ACT (“REGULATION S”) NOR A U.S. RESIDENT (DEFINED AS A “U.S. PERSON” UNDER REGULATION S, AS SUCH TERM HAS BEEN INTERPRETED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION IN THE CONTEXT OF SECTION 7(D) OF THE INVESTMENT COMPANY ACT) (A “NON-U.S. INVESTOR”), IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S TAKING AN INTEREST IN A REGULATION S GLOBAL NOTE, AND IN EACH CASE (1) UPON DELIVERY OF ALL CERTIFICATIONS, OPINIONS AND OTHER DOCUMENTS THAT THE ISSUER OR THE**

**TRANSFER AGENT MAY REQUIRE AND (2) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.**

**ANY SALE OR TRANSFER OF THE NOTE EVIDENCED BY THIS RULE 144A GLOBAL NOTE OR BENEFICIAL INTERESTS THEREIN TO A PERSON THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH HEREIN WILL BE NULL AND VOID AB INITIO AND NOT HONORED BY THE ISSUER. IF AT ANY TIME THE ISSUER DETERMINES IN GOOD FAITH THAT A HOLDER OR BENEFICIAL OWNER OF THE NOTES EVIDENCED BY THIS RULE 144A GLOBAL NOTE OR BENEFICIAL INTERESTS THEREIN IS IN BREACH, AT THE TIME GIVEN, OF ANY OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT, THE ISSUER SHALL REQUIRE SUCH HOLDER TO TRANSFER THE NOTES EVIDENCED BY THIS RULE 144A GLOBAL NOTE (OR INTEREST THEREIN) TO A TRANSFEREE ACCEPTABLE TO THE ISSUER WHO IS ABLE TO AND WHO DOES SATISFY ALL OF THE REQUIREMENTS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT. PENDING SUCH TRANSFER, SUCH HOLDER WILL BE DEEMED NOT TO BE THE HOLDER OF THE NOTES EVIDENCED BY THIS RULE 144A GLOBAL NOTE (OR INTEREST THEREIN) FOR ANY PURPOSE, INCLUDING BUT NOT LIMITED TO RECEIPT OF PRINCIPAL AND INTEREST PAYMENTS ON THE NOTES EVIDENCED BY THIS RULE 144A GLOBAL NOTE, AND SUCH HOLDER WILL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN THE NOTES EVIDENCED BY THIS RULE 144A GLOBAL NOTE EXCEPT AS OTHERWISE REQUIRED TO SELL ITS INTEREST THEREIN AS DESCRIBED HEREIN.”;**

- (g) if it is outside the United States and is not a U.S. Person, that if it should resell or otherwise transfer the Notes, it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB/QP in compliance with Rule 144A; and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Notes represented by Regulation S Global Notes and Regulation S Notes that are Definitive Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

**“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND KOREA HOUSING FINANCE CORPORATION (THE “ISSUER”) HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”), IN RELIANCE ON THE EXEMPTION FROM THE DEFINITION OF “INVESTMENT COMPANY” PROVIDED BY SECTION 3(c)(7) THEREOF. BENEFICIAL INTERESTS IN THIS NOTE MAY BE SOLD, REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO A PERSON THAT IS NEITHER A U.S. PERSON (AS DEFINED IN REGULATION S OF THE SECURITIES ACT (“REGULATION S”)) NOR A U.S. RESIDENT (DEFINED AS A “U.S. PERSON” UNDER REGULATION S, AS SUCH TERM HAS BEEN INTERPRETED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION IN THE CONTEXT OF SECTION 7(D) OF THE INVESTMENT COMPANY ACT) (A “NON-U.S. INVESTOR”), IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S TAKING AN INTEREST IN A REGULATION S GLOBAL NOTE OR (B) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE SELLER REASONABLY BELIEVES IS BOTH A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A) (A “QUALIFIED INSTITUTIONAL BUYER” OR “QIB”) AND A “QUALIFIED PURCHASER” (AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND THE**

**RULES AND REGULATIONS THEREUNDER) (A “QUALIFIED PURCHASER” OR “QP”), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS ALSO A QUALIFIED PURCHASER (AND MEETS THE OTHER REQUIREMENTS FOR RULE 144A NOTES) AND (C) IN EACH CASE (1) UPON DELIVERY OF ALL CERTIFICATIONS, OPINIONS AND OTHER DOCUMENTS THAT THE ISSUER OR THE TRANSFER AGENT MAY REQUIRE AND (2) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.**

**ANY SALE OR TRANSFER OF THE NOTE EVIDENCED BY THIS REGULATION S GLOBAL NOTE OR BENEFICIAL INTERESTS THEREIN TO A PERSON THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH HEREIN WILL BE NULL AND VOID AB INITIO AND NOT HONOURED BY THE ISSUER. IF AT ANY TIME THE ISSUER DETERMINES IN GOOD FAITH THAT A HOLDER OR BENEFICIAL OWNER OF THE NOTES EVIDENCED BY THIS REGULATION S GLOBAL NOTE OR BENEFICIAL INTERESTS THEREIN IS IN BREACH, AT THE TIME GIVEN, OF ANY OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT, THE ISSUER SHALL REQUIRE SUCH HOLDER TO TRANSFER THE NOTES EVIDENCED BY THIS REGULATION S GLOBAL NOTE (OR INTEREST THEREIN) TO A TRANSFEREE ACCEPTABLE TO THE ISSUER WHO IS ABLE TO AND WHO DOES SATISFY ALL OF THE REQUIREMENTS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT. PENDING SUCH TRANSFER, SUCH HOLDER WILL BE DEEMED NOT TO BE THE HOLDER OF NOTES EVIDENCED BY THIS REGULATION S GLOBAL NOTE (OR INTEREST THEREIN) FOR ANY PURPOSE, INCLUDING BUT NOT LIMITED TO RECEIPT OF PRINCIPAL AND INTEREST PAYMENTS ON THE BONDS EVIDENCED BY THIS REGULATION S GLOBAL NOTE, AND SUCH HOLDER WILL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN THE NOTES EVIDENCED BY THIS REGULATION S GLOBAL NOTE EXCEPT AS OTHERWISE REQUIRED TO SELL ITS INTEREST THEREIN AS DESCRIBED HEREIN.”; and**

- (h) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

In connection with any Notes which are offered or sold outside the United States in reliance on Regulation S (being the Regulation S Notes), no Regulation S Note has been offered, sold or delivered nor will be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons (i) as part of its distribution at any time; or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date of the relevant Tranche (being the Distribution Compliance Period), and except in either case the purchaser, if a “**U.S. Resident**”, is a QP, and the transaction is made in accordance with Regulation S under the Securities Act. Each Dealer has further agreed that it will send to each purchaser to which it sells any Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of the Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

## **Selling Restrictions**

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

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

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Programme Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers who are also qualified purchasers in reliance on Rule 144A. In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person, other than any qualified institutional buyer who is also a qualified purchaser within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any qualified institutional buyer who is also a qualified purchaser in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer who is also a qualified purchaser and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer who is also a qualified purchaser with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to

any such U.S. person or other person within the United States, other than any qualified institutional buyer who is also a qualified purchaser and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer who is also a qualified purchaser, is prohibited.

#### **Prohibition of Sales to EEA Retail Investors**

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the final terms in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129, as amended.

### **Prohibition of Sales to UK Retail Investors**

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”);
  - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of the UK domestic law by virtue of the EUWA;
  - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the final terms in relation thereto to the public in the UK except that it may make an offer of such Notes to the public in the UK:

- (a) at any time to any legal entity which is a qualified investor as defined in the UK Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the UK Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the UK Prospectus Regulation,

provided that no such offer of Notes above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the UK Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public in the UK**” means in relation to any Notes, the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the offer of the Notes is made to a person in the UK. The expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129, as it forms part of the UK domestic law by virtue of the EUWA.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the UK.

### **Republic of Italy**

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, Notes may not be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to any Notes be distributed in Italy, except in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Offering Circular or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-*ter*, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;

- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

### **Switzerland**

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor the Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to supervision by any Swiss regulatory authority (e.g. the Swiss Financial Markets Supervisory Authority (“**FINMA**”)), and investors in the Notes will not benefit from protection or supervision by such authority.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

### **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA; or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Any reference to the SFA is a reference to the Securities and Futures Act 2001 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

### **Hong Kong**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”)) other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

### **Korea**

The Notes have not been and will not be registered under the FSCMA. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that the Notes have not been and will not be offered, delivered or sold, directly or indirectly, in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law) or to others for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea, except as otherwise permitted under applicable Korean laws and regulations.

Each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, to ensure that any securities dealer to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

### **Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2011 of the Commonwealth of Australia, the “Corporations Act”) in relation to any Notes has been or will be lodged with the Australian Securities and Investments Commission (“ASIC”), ASX Limited or the financial market operated by it (“ASX”), or any other stock exchange or trading facility licenced under the Corporations Act. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it:

- (a) has not (directly or indirectly) offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of any Notes in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this Offering Circular or any other offering material or advertisement relating to any Notes in Australia,

unless:

- (a) the aggregate consideration payable on acceptance of the offer or invitation by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies but disregarding moneys lent by the offeror, inviter or its associates (as defined in the Corporations Act)) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act;
- (b) the offer or invitation does not constitute an offer to a “retail client” for the purposes of Sections 761G and 761GA of the Corporations Act;
- (c) such action complies with the conditions of the Australian financial services licence of the person making the offer or invitation or an applicable exemption from the requirement to hold such a licence;
- (d) such action complies with all applicable laws, regulations and directives (including, without limitation, the licencing requirements set out in Chapter 7 of the Corporations Act) in Australia; and
- (e) such action does not require any document to be lodged with, or registered by, ASIC or ASX.

#### **Kingdom of Saudi Arabia**

This Offering Circular may not be distributed in the Kingdom of Saudi Arabia (“**Saudi Arabia**”) except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of Saudi Arabia (the “**Capital Market Authority**”). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of the Notes should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Offering Circular, he or she should consult an authorised financial adviser.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that no action has been or will be taken in Saudi Arabia that would permit a public offering of the Notes. Any investor in Saudi Arabia or who is a Saudi person (a “**Saudi Investor**”) who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 10 and/or Article 11 of the “Offers of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the “**KSA Regulations**”), through a person authorised by the Capital Market Authority to carry on the securities activity of arranging and following a notification to the Capital Market Authority under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in Saudi Arabia other than to “sophisticated investors” under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that any offer of Notes to a Saudi Investor will be made in compliance with the KSA Regulations.

#### **Dubai International Finance Centre**

This Offering Circular relates to an Exempt Offer in accordance with the Markets Rules Module of the Dubai Financial Services Authority (the “**DFSA**”) Rulebook (the “**DFSA Rulebook**”). This Offering Circular is intended for distribution only to Professional Clients who are not natural persons. It must not be delivered to, or relied on by, any other person.

The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set out in it, and has no responsibility for it. The Notes to which this Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes.

If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the DFSA Rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

### **Qatar**

The Notes will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (“**Qatar**”) (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Offering Circular has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Stock Exchange or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar and the Qatar Financial Centre. The Notes are not and will not be traded on the Qatar Stock Exchange.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Notes in Qatar (including the Qatar Financial Centre), except:

- (a) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and
- (b) through persons or corporate entities authorised and licenced to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

### **United Arab Emirates**

This Offering Circular is strictly private and confidential and is being issued to a limited number of investors who are exempt from the requirements of the Securities and Commodities Authority (the “**SCA**”) Board of Directors’ Chairman Decision No.(3/R.M.) of 2017 on the Regulation of Promotion and Introduction (the “**PIRs**”).

No Notes have been or are being publicly offered, sold, promoted or advertised in the United Arab Emirates (the “**UAE**”) in accordance with the PIRs. The Notes will be sold outside the UAE and are not part of a public offering. This Offering Circular and the relevant documents have not been reviewed, approved or licenced by the UAE Central Bank, SCA or any other relevant licencing authorities or governmental agencies in the UAE. This Offering Circular is strictly private and confidential and has not been reviewed, deposited or registered with any licencing authority or governmental agency in the UAE.

This Offering Circular must not be shown, made available or provided to any person other than the original recipient and may not be reproduced or used for any other purpose. The Notes may not be offered or sold directly or indirectly to the public in the UAE. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

### **General**

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Offering Circular, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries, and none of the Issuer, the Arranger or any other Dealer shall have any responsibility therefor.

If a jurisdiction requires that any offering of the Notes under the Programme be made by a licenced broker or dealer and the Arranger or any Dealer or any affiliate of the Arranger or any Dealer is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arranger, such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer, the Arranger or any of the Dealers represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the Arranger and the relevant Dealer will be required to comply with such other additional restrictions as the Issuer, the Arranger and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

## GENERAL INFORMATION

### Authorization

The establishment of the Programme was duly authorized by an internal approval document dated 10 May 2023, signed by the Head of Securitization Business Group of the Issuer. Each issue of the Notes under the Programme will be authorized by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of the Notes to be issued in the following fiscal year.

### Listing of the Notes on the SGX-ST

Approval in-principle has been received from the SGX-ST in connection with the Programme and application will be made for the listing and quotation of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed and quoted on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000 (or its equivalent in foreign currencies).

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

### Documents Available

From the date hereof and so long as the Notes are capable of being issued under the Programme, copies of the following documents (and for item (a), (d) and (g), to the extent the same have been made available to the Paying Agent by the Issuer), when published, may be obtained at all reasonable times during normal business hours (being between 9:00 a.m. (London time) and 3:00 p.m. (London time)), on any Business Day (as defined in the Conditions) (except Saturdays and Sundays and legal holidays) at the specified office of the Paying Agent, being at the time of this Offering Circular at Citibank, N.A., London Branch, Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland:

- (a) the Issuer's articles of incorporation (together with English translations);
- (b) this Offering Circular;
- (c) each of the following transaction documents (the "**Transaction Documents**"):
  - Agency Agreement;
  - Programme Agreement;
  - Deed Poll;
  - Deed of Covenant;
- (d) the most recently published (if available) audited consolidated annual financial statements of the Issuer and the most recently published interim financial statements of the Issuer (together with English translations);

- (e) forms of the Bearer Global Notes, the Registered Global Notes, the Definitive Notes, the Coupons and the Talons;
- (f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplement (save that Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of the Note and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg, along with the Issuer's LEI (9884002AAOBT56QW9B80), will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or Alternative Clearing System, the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is 1 Boulevard du Roi Albert II, B. 1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg; and the address of DTC is 55 Water Street, New York, New York 10041-0099, USA.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 31 December 2023 and there has been no material adverse change in the prospects of the Issuer and its subsidiaries since 31 December 2023.

### **Litigation**

Neither the Issuer nor any of its subsidiaries is or has been involved in any legal, arbitration, administrative or other proceedings, which might have or have had in the recent past (covering at least the previous 12 months preceding the date of this document) a significant effect on the financial position or the operations of the Issuer and its subsidiaries, nor is the Issuer aware of any such proceedings pending or being threatened, except as described under "*Korea Housing Finance Corporation – Legal Proceedings*".

### **Legal Matters**

Certain legal matters in connection with the offering of the Notes will be passed upon for the Issuer by Kim & Chang, Korean legal counsel to the Issuer. Certain legal matters in connection with the offering of the Notes will be passed upon for the Arranger by Linklaters LLP, English legal counsel to the Arranger and the Dealers.

### **Independent Auditors**

The Issuer's consolidated financial statements as of and for the years ended 31 December 2023 and 31 December 2022 have been audited by Ernst & Young Han Young, independent auditors, as stated in their reports appearing herein.

## INDEX TO FINANCIAL STATEMENTS

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**Independent auditor's report**  
(English Translation of a Report Originally Issued in Korean)

**The Shareholders and Board of Directors**  
**Korea Housing Finance Corporation**

**Opinion**

We have audited the consolidated financial statements of Korea Housing Finance Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2023, and the notes to the consolidated financial statements, including material accounting policy information.

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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the two years in the period ended December 31, 2023 in accordance with the Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea ("Government Accounting Standards").

**Basis for opinion**

We conducted our audit in accordance with Korean Standards on Auditing ("KSA"). 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 audit opinion.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. As described in Note 2, the consolidated financial statements are prepared in accordance with the Government Accounting Standards and, in accordance with Article 2 (5) of the Government Accounting Standards, the Group applies International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS") where specific accounting treatments are not prescribed by the Government Accounting Standards. There are no significant matters where Government Accounting Standards applied differently from KIFRS.

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

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

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 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 KSA 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 KSA, 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 obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Group to express an opinion of the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 audits.



February 19, 2024

This audit report is effective as of February 19, 2024, 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.

# **Korea Housing Finance Corporation and its subsidiaries**

Consolidated financial statements  
for each of the two years in the period ended December 31, 2023

“The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group.”

Joon Woo Choi  
Chief Executive Officer  
Korea Housing Finance Corporation

**Korea Housing Finance Corporation and its subsidiaries**  
**Consolidated statements of financial position**  
**as of December 31, 2023 and 2022**

(Korean won)

	Notes	2023	2022
<b>Assets</b>			
Cash and due from banks:			
Cash and due from banks	4,5,6	₩ 6,138,729,391,426	₩ 2,513,988,459,182
		6,138,729,391,426	2,513,988,459,182
Securities:			
Securities at fair value through profit or loss	4,5,7,8	241,898,645,765	1,309,184,185,498
Securities at fair value through other comprehensive income		1,725,556,395,279	936,477,831,850
		1,967,455,041,044	2,245,662,017,348
Other financial assets:			
Derivative financial assets	4,5,33	466,861,553,047	197,378,959,134
Other financial assets	9	478,731,058,854	344,018,564,304
	15	945,592,611,901	541,397,523,438
Loan receivables at amortized costs:			
Purchased mortgage-backed loans	4,5,10,11	14,111,105,254,225	9,650,613,162,264
Premium (discount) on loan receivables		(111,071,811,131)	(71,287,831,835)
Deferred loan origination fees and costs		59,168,275,996	34,244,767,607
(Allowance for doubtful accounts)		(18,031,609,106)	(12,795,238,341)
Purchased student loans		22,496,500,031	30,786,551,432
Discount on loan receivables		(195,438,735)	(318,432,728)
(Allowance for doubtful accounts)		(3,253,219,321)	(3,412,477,130)
Mortgage-backed loans by trusts		165,554,688,425,635	146,369,855,200,749
Premium (discount) on loan receivables		(405,714,955,321)	(401,556,538,939)
Deferred loan origination fees and costs		478,921,944,462	472,763,230,975
(Allowance for doubtful accounts)		(136,646,614,783)	(127,415,249,784)
		179,551,466,751,952	155,941,477,144,270
Property and equipment:			
Lands	12,14	19,802,165,846	19,802,165,846
Buildings		117,127,512,503	117,127,512,503
(Accumulated depreciation)		(19,623,077,446)	(16,694,889,670)
Vehicles		234,874,400	234,874,400
(Accumulated depreciation)		(234,863,400)	(234,863,400)
Office equipment		120,866,317,089	108,424,423,236
(Accumulated depreciation)		(84,927,420,904)	(74,736,046,819)
Right-of-use assets	14	31,511,127,665	28,463,778,680
(Accumulated depreciation)		(11,952,620,341)	(9,514,740,855)
Other property and equipment		37,975,778,116	36,403,149,126
(Accumulated depreciation)		(23,223,357,683)	(18,716,298,075)
Construction-in-progress		-	1,314,919,288
		187,556,435,845	191,873,984,260
Intangible assets:			
Software	13	67,152,082,291	67,148,582,291
(Accumulated amortization)		(40,233,023,020)	(29,251,146,837)
Copyright, patent and other industrial property rights		25,875,736	25,875,736
(Accumulated amortization)		(25,864,736)	(25,864,736)
Membership		897,829,540	755,583,500
		27,816,899,811	38,653,029,954
Other assets:			
Advanced payments		18,816,200	2,000,000
Prepaid expenses		16,609,837,856	9,337,335,648
Other assets		36,500,000	36,500,000
		16,665,154,056	9,375,835,648
Deferred tax assets		91,174,102,708	62,528,354,958
<b>Total assets</b>		<b>₩ 188,926,456,388,743</b>	<b>₩ 161,544,956,349,058</b>

(continued)

**Korea Housing Finance Corporation and its subsidiaries**  
**Consolidated statements of financial position**  
**as of December 31, 2023 and 2022 (cont'd)**

(Korean won)

	Notes	2023	2022
<b>Liabilities</b>			
Debts:	4,5,16		
Borrowings		200,000,000,000	150,000,000,000
Public bonds issued		16,270,920,000,000	8,950,000,000,000
(Discout on public bonds)		<u>(18,167,779,498)</u>	<u>(610,098,658)</u>
		16,452,752,220,502	9,099,389,901,342
Securitized liabilities:	4,5,17		
Mortgage-backed bonds		11,060,988,900,000	7,624,001,000,000
(Discout on bonds)		<u>(13,321,953,612)</u>	<u>(9,532,466,496)</u>
Securitized securities		155,592,998,000,000	139,594,485,000,000
(Discout on securities)		<u>(67,204,470,856)</u>	<u>(65,397,597,042)</u>
		166,573,460,475,532	147,143,555,936,462
Other financial liabilities:	4,5		
Derivative financial liabilities	9	425,053,173,174	467,090,379,360
Other payables		50,673,676,007	32,741,188,168
Other financial liabilities	19,20	<u>730,478,133,665</u>	<u>496,200,345,430</u>
		1,206,204,982,846	996,031,912,958
Provisions:	21		
Provisions for employee benefits		1,361,948,162	1,324,316,476
Provisions for conversion incentives		27,664,990,208	23,053,428,072
Provisions for restoration costs		<u>3,002,175,984</u>	<u>3,215,881,660</u>
		32,029,114,354	27,593,626,208
Employee benefit liabilities:	18		
Net defined benefit liabilities		<u>97,083,640,075</u>	<u>76,772,252,775</u>
		97,083,640,075	76,772,252,775
Other liabilities:			
Advances received		<u>14,749,393,671</u>	<u>12,380,347,006</u>
		14,749,393,671	12,380,347,006
Current tax liabilities	30	39,320,919,469	113,769,531,096
Deferred tax liabilities	30	-	-
<b>Total liabilities</b>		<b>184,415,600,746,449</b>	<b>157,469,493,507,847</b>
<b>Equity</b>			
Paid-in capital	22		
Capital contributions		2,737,400,000,000	2,340,600,000,000
Capital adjustments		<u>(7,227,840,000)</u>	<u>(5,323,200,000)</u>
		2,730,172,160,000	2,335,276,800,000
Retained earnings:	24		
Legal reserves		497,811,132,161	473,015,939,566
Regulatory reserve for credit losses		337,687,541,738	390,471,430,875
Unappropriated retained earnings		<u>1,042,581,009,086</u>	<u>1,021,316,768,433</u>
		1,878,079,682,985	1,884,804,138,874
Other components of equity:	23		
Accumulated other comprehensive income (loss)		<u>(97,396,200,691)</u>	<u>(144,618,097,663)</u>
		(97,396,200,691)	(144,618,097,663)
<b>Total equity</b>		<b>4,510,855,642,294</b>	<b>4,075,462,841,211</b>
<b>Total liabilities and equity</b>		<b>₩ 188,926,456,388,743</b>	<b>₩ 161,544,956,349,058</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Korea Housing Finance Corporation and its subsidiaries**  
**Consolidated statements of profit or loss and other comprehensive income**  
**for each of the two years in the period ended December 31, 2023**

(Korean won)

	Notes	2023	2022
<b>Operating income:</b>			
Interest income	25	₩ 4,862,296,433,703	₩ 4,057,297,701,007
Fee and commission income	27	13,876,463,696	15,361,425,154
Gain on disposal of financial assets at fair value through OCI	8	533,579,094	-
Gain on valuation and transaction of derivatives	9	872,975,412,801	499,575,748,154
Gain on foreign currency translation		10,942,029,039	36,361,165,734
Gain on foreign currency transaction		26,795,126,180	27,650,000,000
Other operating income		122,672,396,000	89,219,532,724
		<u>5,910,091,440,513</u>	<u>4,725,465,572,773</u>
<b>Operating expenses:</b>			
Interest expenses	26	4,282,655,903,786	3,313,801,330,186
Fee and commission expenses	27	119,629,914,864	122,574,998,755
Bad debt expenses		27,439,217,195	75,568,225,847
Loss on valuation and transaction of derivatives	9	708,036,050,879	816,591,310,093
Loss on foreign currency translation		480,560,052,819	50,983,676,408
Other operating expenses		5,790,091,030	12,292,129,893
Selling and administrative expenses	28	221,333,767,191	213,512,521,069
		<u>5,845,444,997,764</u>	<u>4,605,324,192,251</u>
<b>Operating profit</b>		64,646,442,749	120,141,380,522
<b>Other loss:</b>			
Loss on disposal of property and equipment		(299,639,616)	(2,611,322)
Other losses, net	29	(2,645,914,951)	(3,178,477,045)
		<u>(2,945,554,567)</u>	<u>(3,181,088,367)</u>
<b>Profit before income taxes</b>		61,700,888,182	116,960,292,155
<b>Income tax expense</b>	30	16,197,156,105	32,304,277,965
<b>Profit for the year</b>		45,503,732,077	84,656,014,190
<b>Other comprehensive income:</b>			
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements of net defined benefit liabilities		(8,836,600,926)	10,088,412,417
Net gain (loss) on equity instruments measured at fair value through OCI		113,880,000	(152,775,000)
		<u>(8,722,720,926)</u>	<u>9,935,637,417</u>
Items that will or may be reclassified to profit or loss in subsequent periods:			
Net gain (loss) on debt instruments measured at fair value through OCI		20,681,516,253	(8,434,773,349)
Net gain (loss) on valuation of cash flow hedges		26,426,500,719	(180,156,615,847)
		<u>47,108,016,972</u>	<u>(188,591,389,196)</u>
		<u>38,385,296,046</u>	<u>(178,655,751,779)</u>
<b>Total comprehensive income (loss)</b>		<u>₩ 83,889,028,123</u>	<u>₩ (93,999,737,589)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Korea Housing Finance Corporation and its subsidiaries  
Consolidated statements of changes in equity  
for each of the two years in the period ended December 31, 2023  
(Korean won)

	Paid-in capital	Other components of equity	Retained earnings	Total
<b>As of January 1, 2022</b>	₩ 2,057,616,000,000	₩ 44,126,066,533	₩ 1,855,691,857,747	₩ 3,957,433,924,280
Increase in capital	277,660,800,000	-	-	277,660,800,000
Dividends paid	-	-	(65,632,145,480)	(65,632,145,480)
Profit for the year	-	-	84,656,014,190	84,656,014,190
Net loss on equity instruments measured at fair value through OCI	-	(152,775,000)	-	(152,775,000)
Net loss on debt instruments measured at fair value through OCI	-	(8,434,773,349)	-	(8,434,773,349)
Net loss on valuation of cash flow hedges	-	(180,156,615,847)	-	(180,156,615,847)
Remeasurements of net defined benefit liabilities	-	-	10,088,412,417	10,088,412,417
<b>As of December 31, 2022</b>	<b>₩ 2,335,276,800,000</b>	<b>₩ (144,618,097,663)</b>	<b>₩ 1,884,804,138,874</b>	<b>₩ 4,075,462,841,211</b>
<b>As of January 1, 2023</b>	₩ 2,335,276,800,000	₩ (144,618,097,663)	₩ 1,884,804,138,874	₩ 4,075,462,841,211
Increase in capital	394,895,360,000	-	-	394,895,360,000
Dividends paid	-	-	(43,391,587,040)	(43,391,587,040)
Profit for the year	-	-	45,503,732,077	45,503,732,077
Net gain on equity instruments measured at fair value through OCI	-	113,880,000	-	113,880,000
Net gain on debt instruments measured at fair value through OCI	-	20,681,516,253	-	20,681,516,253
Net gain on valuation of cash flow hedges	-	26,426,500,719	-	26,426,500,719
Remeasurements of net defined benefit liabilities	-	-	(8,836,600,926)	(8,836,600,926)
<b>As of December 31, 2023</b>	<b>₩ 2,730,172,160,000</b>	<b>₩ (97,396,200,691)</b>	<b>₩ 1,878,079,682,985</b>	<b>₩ 4,510,855,642,294</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Korea Housing Finance Corporation and its subsidiaries**  
**Consolidated statements of cash flows**  
**for each of the two years in the period ended December 31, 2023**

(Korean won)

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Profit for the year	₩ 45,503,732,077	₩ 84,656,014,190
Adjustments to reconcile profit for the year to net cash used in operating activities:		
Interest expenses	4,282,655,903,786	3,313,801,330,186
Retirement benefits	12,595,324,103	12,627,031,692
Increase in provisions for conversion incentives	4,631,229,311	4,534,983,474
Depreciation	27,180,708,299	23,105,859,605
Amortization	10,981,876,183	10,981,046,992
Loss on disposal of property and equipment	299,639,616	2,611,322
Loss on transaction of acquisition commitments	163,739,083,912	320,852,224,882
Loss on valuation of derivatives held for trading	386,921,591,989	300,624,008,849
Loss on valuation of derivatives held for hedging	10,941,000,000	36,359,000,000
Loss on valuation of securities at fair value through profit or loss	-	1,701,540,649
Loss on foreign currency translation	480,560,052,819	50,983,676,408
Impairment loss on loan receivables at amortized cost	78,938,847,736	92,626,245,574
Other impairment loss	2,197,165,272	652,430,027
Income tax expense	16,197,156,105	32,304,277,965
Interest income	(4,862,296,433,703)	(4,057,297,701,007)
Gain on transaction of acquisition commitments	(208,989,051,443)	(14,317,469,944)
Gain on valuation of acquisition commitments	(10,529,958,615)	(18,697,605,012)
Gain on valuation of derivatives held for trading	-	(131,824,498,245)
Gain on valuation of derivatives held for hedging	(480,558,900,000)	(50,983,000,000)
Gain on valuation of securities at fair value through profit or loss	(643,452,967)	(2,201,318,989)
Gain on foreign currency translation	(10,942,029,039)	(36,361,165,734)
Reversal of allowance for doubtful accounts	(52,984,669,355)	(16,203,838,012)
Reversal of other allowance for doubtful accounts	(712,126,458)	(1,506,611,742)
Dividend income	(104,115,980)	(59,154,730)
Gain from cancellation of lease contract	(225,187)	-
Gain on disposal of debt instruments at fair value through OCI	(533,579,094)	-
Reversal of restoration liabilities	(104,170,077)	(267,475,626)
	<u>(150,559,132,787)</u>	<u>(128,563,571,416)</u>
Changes in operating assets and liabilities:		
Due from banks	(3,627,761,612,928)	3,288,492,759,128
Securities at fair value through profit or loss	1,067,928,992,700	390,664,433,875
Loan receivables at amortized cost	(23,642,868,240,826)	(4,343,157,832,370)
Deferred loan origination fees and costs	(242,541,083,985)	(137,959,664,012)
Accrued income	170,634,297	(943,949,907)
Advanced payments	(16,816,200)	179,725,000
Prepaid expenses	(7,272,502,208)	734,416,091
Derivatives held for trading	31,443,028,036	(449,526,267)
Other receivables	9,629,322,312	(6,705,169,023)
Other assets	(15,870,387,590)	6,861,631,477
Other payables	17,932,487,839	7,088,809,778
Accrued expenses	470,846,099	(1,085,937,643)
Advances received	2,369,046,665	(29,472,077,303)
Unearned revenue	384,558,814	37,873,423
Withholdings	(30,653,212)	148,582,927
Provision for employee benefits	37,631,686	49,911,233
Provision for conversion incentives	(16,110,595)	(11,885,049)
Provision for restoration costs	(374,918,000)	(57,116,000)
Payment of retirement benefits	(3,815,944,478)	(2,621,549,003)
Plan assets	74,709,675	-
	<u>(26,410,127,011,899)</u>	<u>(828,206,563,645)</u>
Interest received	4,786,717,095,296	4,178,925,532,567
Interest paid	(4,030,509,246,982)	(3,231,941,254,267)
Dividends received	104,115,980	59,154,730
Income tax paid	(139,555,181,166)	(152,936,966,618)
<b>Net cash flows used in operating activities</b>	<u>(25,898,425,629,481)</u>	<u>(78,007,654,459)</u>

(continued)

**Korea Housing Finance Corporation and its subsidiaries**  
**Consolidated statements of cash flows**  
**for each of the two years in the period ended December 31, 2023 (cont'd)**

(Korean won)

	<b>2023</b>	<b>2022</b>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of securities at fair value through OCI	₩ 539,990,242,311	₩ 328,723,500,110
Decrease in leasehold deposits	16,362,067,565	12,244,691,228
Decrease in loans	457,773,000	581,431,400
Acquisition of property and equipment in government grants	-	300,000,000
Disposal of property and equipment	255,494	364,996
Acquisition of property and equipment	(14,633,973,698)	(32,796,537,315)
Acquisition of intangible assets	(3,500,000)	(19,291,909)
Acquisition of securities at fair value through OCI	(1,301,323,344,233)	-
Increase in leasehold deposits	(12,625,768,291)	(19,730,015,535)
Increase in loans	(171,801,000)	(202,707,000)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(771,948,048,852)</b>	<b>289,101,435,975</b>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in public bonds issued	10,985,756,153,240	7,749,364,480,000
Issuance of securitized securities	33,247,375,833,972	14,937,115,558,989
Issuance of foreign securitized securities	3,629,226,857,294	2,165,934,133,188
Increase in capital	394,895,360,000	277,660,800,000
Increase in borrowings	790,000,000,000	350,000,000,000
Repayment of securitized securities	(17,262,187,000,000)	(22,451,961,000,000)
Repayment of foreign securitized securities	(648,805,000,000)	(565,100,000,000)
Repayment of borrowings	(740,000,000,000)	(200,000,000,000)
Repayment of public bonds issued	(3,680,000,000,000)	(2,470,000,000,000)
Payment of dividends	(43,391,587,040)	(65,632,145,480)
Payment of principal portion of lease liabilities	(5,517,487,863)	(4,727,647,089)
<b>Net cash flows provided by (used in) financing activities</b>	<b>26,667,353,129,603</b>	<b>(277,345,820,392)</b>
<b>Net foreign exchange difference</b>	<b>(131,954)</b>	<b>(676,408)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,020,680,684)</b>	<b>(66,252,715,284)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>46,216,693,895</b>	<b>112,469,409,179</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>₩ 43,196,013,211</b>	<b>₩ 46,216,693,895</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Korea Housing Finance Corporation and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2023 and 2022**

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**1. Company overview**

Korea Housing Finance Corporation (the “Company”) was incorporated on March 1, 2004, under *the Korea Housing Finance Corporation Act* (the KHFC Act), and subsequently took over the mortgage-backed loan securitization business from Korea Mortgage Corporation (the “KoMoCo”) on March 17, 2004.

The Company is primarily engaged in the acquisition of mortgage loan originated by the financial institutions and other related activities in accordance with the KHFC Act. The Company also issues mortgage-backed securities (MBS) by using the loans acquired, and subsequently transferring them to its trust account, as the underlying asset on behalf of the trust. The issuance of MBS is facilitated by the Company establishing a trust, and the Company is involved in the administration, management and disposition of the trust.

At the inception of the Company, its capital contribution amounted to ₩320,000 million, and as of December 31, 2023, capital contribution has increased to ₩2,737,400 million as a result of a subsequent capital increase.

As of December 31, 2023, details of the shareholders of the Company and their shareholdings are as follows (Korean won in millions):

Shareholders	Amounts	Percentage of ownership (%)
The Korean Government	₩ 1,742,400	63.65%
The Bank of Korea	995,000	36.35%
	₩ 2,737,400	100.00%

**1.1 Scope of consolidation**

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses its control of the subsidiary.

Balances of receivables and payables, income and expenses and unrealized gains arising from intercompany transactions are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiaries (collectively referred to as the “Group”).

As of December 31, 2023, the consolidated subsidiaries included in the consolidated financial statements are trusts held by the Company and the Company acts as a trustee for such trusts.

**Korea Housing Finance Corporation and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2023 and 2022**

**1.2 Summary of financial information of the subsidiaries**

A summary of financial information of subsidiaries as of and for the year ended December 31, 2023 is as follows (Korean won in millions):

Trusts	2023					
	Assets	Liabilities	Retained earnings	Revenue	Expenses	Profit (loss)
KHFCMB2005S-09 and 3 others	₩ 93,143	₩ 82	₩ 93,061	₩ 6,643	₩ 127	₩ 6,516
KHFCMB2006S-05 and 1 others	29,556	41	29,515	2,162	77	2,085
KHFCMB2007S-06 and 1 others	17,252	1,351	15,901	845	47	798
KHFCMB2008S-07 and 2 others	16,110	1,726	14,384	2,918	67	2,851
KHFCMB2009S-14 and 2 others	24,610	15,476	9,134	(268)	982	(1,250)
KHFCMB2010S-18 and 3 others	41,228	39,233	1,995	(3,979)	2,616	(6,595)
KHFCMB2011S-21 and 5 others	70,263	82,317	(12,054)	(9,425)	4,767	(14,192)
KHFCMB2012S-41 and 32 others	441,629	499,948	(58,319)	(12,107)	24,561	(36,668)
KHFCMB2013S-40 and 37 others	856,055	844,385	11,670	30,059	39,732	(9,673)
KHFCMB2014S-22 and 21 others	1,016,508	938,184	78,324	27,519	35,176	(7,657)
KHFCMB2015S-28 and 27 others	12,009,971	11,804,963	205,008	366,943	396,398	(29,455)
KHFCMB2016S-29 and 28 others	7,353,348	6,996,846	356,502	191,621	220,448	(28,827)
KHFCMB2017S-30 and 29 others	10,710,538	10,535,109	175,429	331,402	341,834	(10,432)
KHFCMB2018S-31 and 30 others	9,316,802	9,208,119	108,683	343,578	332,506	11,072
KHFCMB2019S-13 and 27 others	17,194,237	16,958,547	235,690	456,146	414,908	41,238
KHFCMB2020S-39 and 38 others	33,251,805	32,982,640	269,165	794,229	773,852	20,377
KHFCMB2021S-26 and 25 others	29,051,806	28,947,318	104,488	767,730	751,904	15,826
KHFCMB2022S-20 and 19 others	14,198,371	14,313,995	(115,624)	531,873	601,494	(69,621)
KHFCMB2023S-36 and 35 others	33,315,251	33,379,880	(64,629)	699,700	764,329	(64,629)
	<u>₩ 169,008,483</u>	<u>₩ 167,550,160</u>	<u>₩ 1,458,323</u>	<u>₩ 4,548,318</u>	<u>₩ 4,726,554</u>	<u>₩ (178,236)</u>

Subsidiaries	2023					
	Assets	Liabilities	Retained earnings	Revenue	Expense	Profit (loss)
HF PARTNERS CORP.	₩ 5,666	₩ 4,378	1,288	₩ 12,136	₩ 12,265	₩ (129)
Specified Money Trust (*)	-	-	-	10,727	266	10,461

(\*) It is newly incorporated as a subsidiary in the previous year, and it consists of multiple accounts, but the number of accounts has not been indicated.

**Korea Housing Finance Corporation and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2023 and 2022**

**1.3 Changes in the scope of consolidation**

Subsidiaries newly included in consolidation and those excluded from consolidation for the year ended December 31, 2023 are as follows:

**1.3.1 Subsidiaries newly included in consolidation**

Trusts and Subsidiaries	Reason
KHFCMB2023S-01~36(Total of 36 trusts)	Payment guarantees for senior beneficiary securities issued by trusts of the Company

**1.3.2 Subsidiaries excluded from consolidation**

Trusts	Reason
KHFCSL2005S-07,08 KHFCSL2006S-02 KHFCMB2008S-03,07 KHFCMB2009S-11 KHFCMB2010S-13,15 KHFCMB2011S-10,12,14,16,19 KHFCMB2012S-03,08,09,13,15,19,21,23 (Total of 21 trusts)	Liquidation of trusts

**2. Basis of preparation and summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1. Basis of preparation**

The accompanying consolidated financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the consolidated financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements of the Group have been prepared in accordance with the Accounting Standards for Public Enterprises and Quasi-governmental Institutions in the Republic of Korea ("Government Accounting Standards"), and the Group applies International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS") for specific accounting treatments that are not prescribed by the Government Accounting Standards.

There are no significant matters where Government Accounting Standards applied differently from KIFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings classified as property and equipment, derivative financial instruments, debt and equity financial assets, contingent consideration and non-cash distribution liabilities that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Korean won (KRW, won or ₩) and all values are rounded to the nearest million, except when otherwise indicated.

The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements.

## **2.2 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

## **2.3 Summary of material accounting policy information**

### **2.3.1 Fair value measurement**

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

	Notes
➤ Disclosures for valuation methods, significant estimates and assumptions	3, 5
➤ Investment in non-listed equity shares	5.2, 8
➤ Financial instruments (including those carried at amortized cost)	5

### **2.3.2 Revenue recognition**

The Group engages in the business of securitizing residential mortgage receivables, etc. Interest income generated from residential mortgages receivables, etc., which are the basic assets for securitization, and the interest expenses generated from residential mortgage debt obligations (MBBs) and residential mortgage securities (MBS) issued by the Group during the securitization process are recognized using the EIR method.

#### **(1) Interest income and expense**

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future loan loss. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **(2) Fee and commission income**

The Group recognizes financial service fees in accordance with the accounting standards for financial instrument and the objective of charging the fees.

#### **Fees that are an integral part of the effective interest of a financial instrument**

Such fees are generally treated as adjustments of effective interest. Such fees may include

compensation for activities such as evaluating the borrower's financial condition, collateral and other security arrangements, evaluating and recording guarantees, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost.

**Fees earned as services are provided**

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

**Fees that are earned upon the execution of a significant act**

Such fees are recognized as revenue when the significant act has been completed.

**2.3.3 Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants related to assets are presented in the consolidated statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from related expense.

**2.3.4 Taxes**

**(1) Current income tax**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**(2) Deferred tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax

liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### **2.3.5 Foreign currencies**

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

#### **Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss is also recognized in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

### **2.3.6 Cash dividend**

The Company recognizes a liability to pay a dividend when the distribution is authorized and the distribution is no longer at the discretion of the Company. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

### **2.3.7 Property and equipment**

Construction in progress is stated at cost, net of accumulated impairment losses, and property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Property, plant and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

Classification	Depreciation method	Useful life
Buildings	Straight-line method	40 years
Vehicles	Straight-line method	5 years
Office equipment	Straight-line method	5 years
Other property and equipment	Straight-line method	5 years

The Group reviews the estimated residual values and expected useful lives of assets at least annually. In particular, the Group considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values. Furthermore, the Group considers climate-related matters, including physical and transition risks. Specifically, the Group determines whether climate-related legislation and regulations might impact either the useful life or residual values, e.g., by banning or restricting the use of the Group's fossil fuel-driven machinery and equipment or imposing additional energy efficiency requirements on the Group's buildings and office properties.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 2.3.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### **Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### **(1) Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Buildings(Office etc.) - 2 to 5 years
- Motor vehicles and other equipment - 3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.3.13 Impairment of non-financial assets.

#### **(2) Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably

certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

### **(3) Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

#### **2.3.9 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### **2.3.10 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

A summary of the policies applied to the Group's intangible assets is, as follows:

	Classification	Amortization method	Useful life
Patent		Straight-line method	10 years
Software		Straight-line method	5 years

### **2.3.11 Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **(1) Financial assets**

##### **Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Assets measured at amortised cost are included in the business model which manages financial assets to collecting contractual cash flows while assets measured at fair value through OCI are included in the business model which manages financial assets to collect contractual cash flows and sell the assets both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the transaction date, i.e., the date that the Group commits to purchase or sell the asset.

##### **Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified into the following four categories:

- financial assets at amortised cost (debt instruments)
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition; and
- financial assets at fair value through profit or loss.

##### **Financial assets at amortised cost (debt instruments)**

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at amortised cost include loan receivables and other loans.

### **Financial assets at fair value through OCI (debt instruments)**

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

### **Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Impairment of financial assets**

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Notes

**Korea Housing Finance Corporation and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2023 and 2022**

➤ Disclosures for significant assumptions	3
➤ Debt instruments at fair value through OCI	4.2, 8
➤ Loan at amortised cost	4.2, 11

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For financial assets at fair value through OCI, the Group applies a simplified approach in calculating ECLs. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Good Credit Rating Agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## **(2) Financial liabilities**

### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

### **Financial liabilities at amortised cost (Loans and borrowings)**

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 16.

### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

### **(3) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

#### **2.3.12 Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

##### **(1) Derivative financial instruments held for trading**

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss.

##### **(2) Derivative financial instruments held for hedging**

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment;

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge

effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

### ***Cash flow hedges***

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognized as other expense and the ineffective portion relating to commodity contracts is recognized in other operating income or expenses. Refer to Note 9 for more details.

The Group designates currency swap as a hedging instrument. For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

### **(3) Derivative financial instruments held for acquisition commitments**

The Group recognizes changes in the fair value of loan receivables under acquisition commitments as derivative financial instruments, and gains or losses on valuation due to changes in the fair value are recognized in profit or loss within the consolidated statements of profit or loss and other comprehensive income.

#### **2.3.13 Impairment of non-financial assets**

- Disclosure of significant assumptions: Note 3
- Property and equipment: Note 12
- Intangible assets: Note 13

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recorded in profit or loss as an expense item consistent with the function of the impaired assets.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

#### **2.3.14 Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

#### **2.3.15 Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. When the Group expects some or all of a provision to be reimbursed by a third party, the reimbursement is recognized as a separate asset, but only when it is virtually certain that the third party will reimburse upon the Group's fulfillment of the obligation. The expense relating to a provision is presented in the statements of profit or loss and other comprehensive income net of any reimbursement.

Where time value of money effects are material, provisions are discounted at current pre-tax interest rates that reflect the specific risks of the liability. When provisions are evaluated at its present value, the increase in the carrying amount due to the passage of time is recognized as finance cost.

##### **(1) Provisions for employment benefits**

The Group recognizes provisions for employee benefits by estimating the expected performance incentives to be received by employees as a result of business assessment.

##### **(2) Provision for conversion incentives**

Provisions for conversion incentives are recorded by estimating the cumulative amount of preferential interests that will accrue if borrowers over a certain age pledge to subscribe to the housing pension program when they take loans from the Group.

##### **(3) Provision for restoration costs**

The Group recognizes a provision for the restoration of each leased office. Restoration costs are calculated as the present value of the estimated costs of fulfilling the obligation based on estimated cash flows and are recognized as part of the cost of the related asset. Estimated cash flows are measured discounted at current pre-tax interest rates that reflect the specific risks of the restoration liability. Thereafter, over time, the amortization amount for the discount is reflected in the consolidated statements of profit or loss and other comprehensive income at finance cost. Estimates for future restoration cost are reviewed and adjusted at the end of each reporting period. Changes in estimated future costs or applicable discount rates are adjusted by adding to or subtracting from the cost of the asset.

#### **2.3.16 Pension benefits and other post-employment benefits**

The Group operates a defined benefit pension plan.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses, the effect of the asset

ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the net defined benefit obligation interest and past service cost under 'selling and administrative expenses' in the consolidated statement of profit or loss.

### **2.3.17 Approval of the consolidated financial statements**

The consolidated financial statements for the year ended December 31, 2023 were approved for issue by the Chief Executive Officer on February 19, 2024.

## **2.4 Changes in accounting policies and disclosures**

### **2.4.1 New and amended standards**

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### **(1) KIFRS 1117 Insurance Contracts**

KIFRS 1117 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. KIFRS 1117 replaces KIFRS 1104 *Insurance Contracts*. KIFRS 1117 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of KIFRS 1117 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. KIFRS 1117 is based on a general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach mainly for short-duration contracts (the premium allocation approach).

The new standard had no impact on the Group's consolidated financial statements.

#### **(2) Definition of Accounting Estimates - Amendments to KIFRS 1008**

The amendments to KIFRS 1008 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group's consolidated financial statements.

#### **(3) Disclosure of Accounting Policies - Amendments to KIFRS 1001 and KIFRS Practice Statement 2**

The amendments to KIFRS 1001 and KIFRS Practice Statement 2 *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

**(4) *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to KIFRS 1012***

The amendments to KIFRS 1012 *Income Tax* narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the Group's consolidated financial statements.

**(5) *International Tax Reform—Pillar Two Model Rules – Amendments to KIFRS 1012***

The amendments to KIFRS 1012 have been introduced in response to the OECD's BEPS Pillar Two Model Rules and include:

- a mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two Model Rules; and
- disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after January 1, 2023, but not for any interim periods ending on or before December 31, 2023.

The amendments had no impact on the Group's consolidated financial statements.

#### **2.4.2 Standards issued but not yet effective**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

**(1) Amendments to KIFRS 1116: *Lease Liability in a Sale and Leaseback***

The amendments to KIFRS 1116 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of KIFRS 1116. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

**(2) Amendments to KIFRS 1001: *Classification of Liabilities as Current or Non-current***

The amendments to paragraphs 69 to 76 of KIFRS 1001 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

**(3) Supplier Finance Arrangements - Amendments to KIFRS 1007 and KIFRS 1107**

The amendments to KIFRS 1007 *Statement of Cash Flows* and KIFRS 1107 *Financial Instruments: Disclosures* clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after January 1, 2024. Early adoption is permitted, but will need to be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

**3. Critical accounting estimates and assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management Note 4.5
- Financial instruments risk management and policies Note 4.1
- Sensitivity analyses disclosures Notes 4.4, 5.2, 18.(6)

**3.1. Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

**3.1.1 Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually and other non-financial assets are tested when circumstances indicate that the carrying value may be impaired. To calculate value in use, management must estimate the future cash flows that will arise from the asset or cash-generating unit and select an appropriate discount rate to calculate the present value of these future cash flows.

**3.1.2 Loan receivables at amortized costs and allowance for expected loss**

The allowance for losses on loan receivables measured at amortized cost is measured based on assumptions of default and expected loss rates. In selecting the input variables used in these assumptions and loss models, the Group takes into account its past experience, current market conditions, and forward-looking information as of the financial reporting date.

**3.1.3 Retirement benefit plan**

The cost of defined benefit pension plans and the present value of retirement pension obligations are determined based on actuarial valuation methods. Applying actuarial valuation methods requires making various assumptions. Setting these assumptions includes determining discount rates, future wage growth rates, mortality rates and future pension growth rates. Due to the complex and long-term nature of the valuation method, defined benefit obligations are sensitive to these assumptions. All assumptions are reviewed at the end of each reporting period.

To determine the appropriate discount rate, management references interest rates on AAA-rated corporate bonds. Mortality rates are based on publicly available data, and future wage growth and future pension growth rates are based on the country's expected inflation rate.

Further details are described in Note 18.

### **3.1.4 Fair value of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

### **3.1.5 Provision for restoration cost**

The Group recognized provision for restoration costs related to offices that are leased and occupied.

As of December 31, 2023, the carrying amount of the provision for restoration costs recognized based on the best estimate is KRW 3,002 million. The Group estimates that the expense will be realized in two to five years and calculates the provision using the DCF method based on the following assumptions:

- Estimated cost range per area(3.30579 m<sup>2</sup>): KRW 234 thousand ~254 thousand
- Discount rate: 1.303%~5.424%

If the pre-tax discount rate applied to calculate the provision increases by 1% from the management's estimate, the carrying amount of the provision will decrease by KRW 88 million from the amount recorded in the consolidated financial statements.

### **3.1.6 Leases – Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## **4 Financial risk management**

### **4.1 Overview**

#### **4.1.1 Overview of financial risk management policy**

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk and others.

The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk and others have been recognized as the Group's key risks.

#### **4.1.2 Risk management organization**

##### **Risk Management Committee**

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

**Risk Management Council**

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

**Risk Management Group**

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management and monitoring and managing limits of group economic capital.

**4.2 Credit risk**

**4.2.1 Overview of credit risk**

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

**4.2.2 Credit risk management**

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance sheet and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

#### 4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments to credit risk without consideration of collateral values as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		2022
Financial assets:			
Cash and due from banks	₩ 6,138,729	₩	2,513,988
Securities at FVPL	241,899		1,309,184
Debt securities at FVOCI	1,570,261		781,093
Loan receivables at amortized costs	179,551,467		155,941,477
Derivative financial assets	466,862		197,379
Other financial assets	478,731		344,019
	<u>₩ 188,447,949</u>	<u>₩</u>	<u>161,087,140</u>

#### 4.2.4 Credit risk of loan receivables

The Group sets and manages expected credit loss and recognizes loss manage credit risks on loan receivables.

The Group measures expected credit loss and recognizes loss allowance at the end of the reporting period for financial assets at amortized costs and fair value through other comprehensive income with exception of financial asset measured at fair value through profit or loss.

Expected credit losses are a probability-weighted estimate of credit losses reflecting time value of money. The Group measures expected credit losses by reflecting information that is reasonably available at the report date without undue cost of effort, including information about past events, current conditions and forecasts of future economic conditions.

The Group uses the following two measurement techniques in accordance with KIFRS.

- General approach: for financial assets and off-balance-sheet unused credit line that are not applied below approach
- Credit-impaired approach: for purchased or originated credit-impaired financial assets

Different measurement approaches are applied depending on significant increase in credit risk. 12 month expected credit losses is recognized when credit risk has not significantly increased since initial recognition. A loss allowance at an amount equal to lifetime expected credit losses is recognized when credit risk has significantly increased since initial recognition. Lifetime is presumed to be a period to the contractual maturity date of a financial asset (the expected life of the financial asset).

One or more of the following items is deemed significant increase in credit risk. When the contractual cash flows of a financial asset are renegotiated or otherwise modified the Group determines whether the credit risk has increased significantly since initial recognition using the following information.

- Overdue over 30 days
- Decline in credit rating at period end by more than certain notches as compared to that at initial recognition
- High risk listing (listed below asset quality prudence, lowest credit rating and no grades)

The Group generally considers credit is impaired if one or more of the followings are met:

- Overdue over 90 days
- Legal proceedings
- Listing in faulty information of banking association

#### A. Forward-looking information

The Group uses forward-looking information when determining whether credit risk increases

significantly and estimating expected credit loss

The Group assumes the risk component has a certain correlation with the business cycle and calculates the expected credit loss by reflecting the forward-looking information with macroeconomic variables such as interest rates, Gross Domestic Product (GDP), household credit elasticity and others.

The risk management team of the Group measures expected credit loss by reflecting business plan scenarios and outlook from external agency comprehensively.

**B. Measuring expected credit loss of financial assets at amortized cost**

Expected credit loss of financial assets at amortized cost is measured as the difference between the present value of the cash flows expected to be received and the contractual cash flow of the asset in the year. For this purpose, the Group measures expected cash flows for individually significant financial assets (individual assessment of impairment).

For financial assets that are not individually significant, the Group collectively estimates expected credit loss by grouping loans with homogeneous credit risk profile (collective assessment of impairment).

**a. Individual assessment of impairment**

Individual assessment of impairment losses is calculated using management's best estimate on present value of expected future cash flows. The Group uses all the available information including operating cash flow of the borrower and net realizable value of any collateral held.

**b. Collective assessment of impairment**

Collective assessment of allowance involves historical loss experience along with incorporation of forward-looking information. Such process incorporates factors such as type of collateral, product and borrowers, credit rating, size of portfolio and recovery period and applies probability of default (PD) on a group of assets and loss given default (LGD) by type of recovery method. Also, the expected credit loss model involves certain assumption to determine input based on loss experience and forward-looking information. These models and assumptions are periodically reviewed to reduce gap between loss estimate and actual loss experience.

Lifetime expected credit loss as of the end of the reporting period is calculated by product of carrying amount net of expected repayment, PD for each period and LGD adjusted by change in carrying amount.

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**4.2.4. Credit risk of loan receivables (cont'd)**

Loan receivables as of December 31, 2023, are categorized as follows (Korean won in millions):

Credit worthiness	2023			Total
	12 months expected credit loss	Lifetime expected credit loss		
		Not impaired	Impaired	
Mortgage loan receivables (*1):				
Excellent	₩ 148,358,976	2,035,697	-	150,394,673
Good	13,436,941	10,115,308	-	23,552,249
Normal or under	421,498	4,870,011	-	5,291,509
Impairment	-	-	427,362	427,362
	162,217,415	17,021,016	427,362	179,665,793
Deduction:				
Allowance for doubtful accounts	(6,198)	(107,767)	(40,713)	(154,678)
	162,211,217	16,913,249	386,649	179,511,115
Student loan receivables (*1):				
Excellent	-	-	-	-
Good	10,916	9	-	10,925
Normal or under	861	504	-	1,365
Impairment	-	-	10,207	10,207
	11,777	513	10,207	22,497
Deduction:				
Allowance for doubtful accounts	(44)	(17)	(3,192)	(3,253)
	11,733	496	7,015	19,244
	₩ 162,222,950	16,913,745	393,664	179,530,359

(\*1) The above loan receivables exclude deferred loan origination fees and costs, present value discounts and present value premium amounts.

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**4.2.4. Credit risk of loan receivables (cont'd)**

Loan receivables as of December 31, 2022 are categorized as follows (Korean won in millions):

Credit worthiness	2022			Total
	12 months expected credit loss	Lifetime expected credit loss		
		Not impaired	Impaired	
Mortgage loan receivables (*1):				
Excellent	₩ 127,757,140	2,188,978	-	129,946,118
Good	11,611,440	10,025,246	-	21,636,686
Normal or under	248,246	3,938,269	-	4,186,515
Impairment	-	-	251,149	251,149
	139,616,826	16,152,493	251,149	156,020,468
Deduction:				
Allowance for doubtful accounts	(5,927)	(98,347)	(35,936)	(140,210)
	139,610,899	16,054,146	215,213	155,880,258
Student loan receivables (*1):				
Excellent	-	-	-	-
Good	18,135	13	-	18,148
Normal or under	1,402	590	-	1,992
Impairment	-	-	10,647	10,647
	19,537	603	10,647	30,787
Deduction:				
Allowance for doubtful accounts	(73)	(20)	(3,319)	(3,412)
	19,464	583	7,328	27,375
	₩ 139,630,363	16,054,729	222,541	155,907,633

(\*1) The above loan receivables exclude deferred loan origination fees and costs, present value discounts and present value premium amounts.

Credit qualities of loan receivables graded based on the internal credit ratings as of December 31, 2023 and 2022 are as follows:

Credit worthiness	Grade of individuals	Range of default ratio
Excellent	Grade 1 to 5	0.0%~1.0% or under
Good	Grade 6 to 8	Over 1.0%~5.0% or under
Normal or under	Grade 9 to 10, No grade	Over 5.0%

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**4.2.4. Credit risk of loan receivables (cont'd)**

C. Credit risk mitigation effect by collateral

A quantification of the extent to which collaterals and other credit enhancements mitigate credit risk as of December 31, 2023 and 2022 is as follows (Korean won in millions):

	2023		2022	
	Impaired loan		Impaired loan	
Guarantee	₩	6,866	₩	7,328
Real estate property		361,429		215,764
	₩	368,295	₩	223,092

**4.2.5. Credit risk of securities**

The method of measurement of the expected credit loss of financial assets at fair value through other comprehensive income is equal to that of the expected credit loss of financial assets at amortized cost, except for changes in loss allowances are recognized in other comprehensive income. Loss allowances on financial assets at fair value through other comprehensive income are reclassified from other comprehensive income to profit or loss when the financial assets at fair value through other comprehensive income are repaid or disposed.

The securities (debt securities) that are exposed to credit risk as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023			
	12 months expected credit risk	Lifetime expected credit risk	Impaired receivables	Total
Securities at FVOCI				
Grade1	₩ 1,359,158	₩ -	₩ -	₩ 1,359,158
Grade2	211,103	-	-	211,103
Grade3	-	-	-	-
Grade4	-	-	-	-
Grade5	-	-	-	-
	₩ 1,570,261	₩ -	₩ -	₩ 1,570,261
	2022			
	12 months expected credit risk	Lifetime expected credit risk	Impaired receivables	Total
Securities at FVOCI				
Grade1	₩ 781,093	₩ -	₩ -	₩ 781,093
Grade2	-	-	-	-
Grade3	-	-	-	-
Grade4	-	-	-	-
Grade5	-	-	-	-
	₩ 781,093	₩ -	₩ -	₩ 781,093

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

	Korea Investors Services Inc.	Korea Ratings Corporation	NICE Holdings Co., Ltd
Grade1	AA0 to AAA	AA0 to AAA	AA0 to AAA
Grade2	A- to AA-	A- to AA-	A- to AA-
Grade3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+
Grade4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-
Grade5	BB- or under	BB- or under	BB- or under

#### 4.2.6. Credit risk concentration analysis

Details of the securities (debt securities) and derivatives by industry as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		2022	
	Amount	Ratio (%)	Amount	Ratio (%)
Derivative financial assets:				
Banking and insurance	₩ 466,862	100.00	₩ 197,379	100.00
	466,862	100.00	197,379	100.00
Securities at FVOCI:				
Government and government-invested institutions	586,593	37.36	340,737	43.62
Banking and insurance	964,111	61.40	411,993	52.75
Other	19,557	1.24	28,363	3.63
	1,570,261	100.00	781,093	100.00
	₩ 2,037,123		₩ 978,472	

#### 4.3. Liquidity risk

##### 4.3.1. Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of financial assets, liabilities and off-balance sheet items such as commitments. The Group discloses them by maturity groups in five categories: Up to six months, between over six months and one year, between over one year and two years, between over two years and five years and over five years.

##### 4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by risk management guidelines and related regulations which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

For the purpose on liquidity management, liquidity ratio related to liquidity risk on transactions affecting the inflows and outflows of funds and transactions of off-balance sheet items are measured, managed and reported to the Risk Management Committee and Risk Management Council on a regular basis.

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**4.3.3. Analysis of remaining contractual maturity of financial liabilities and derivatives**

The remaining contractual maturities of financial liabilities and derivatives as of December 31, 2023 and 2022 are as follows (Korean won in millions):

Category (*1)	2023					Total
	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
<b>Financial liabilities</b>						
Borrowings	200,242	-	-	-	-	200,242
Public bonds issued	1,933,150	2,748,553	5,240,631	7,378,081	456,691	17,757,106
Securitized liabilities	11,959,015	12,058,212	35,788,100	64,725,549	68,566,751	193,097,627
Other financial liabilities (*2)	714,044	-	-	-	-	714,044
Other payables	50,674	-	-	-	-	50,674
<b>Derivatives</b>						
Derivatives held for trading						
Inflow of interest rate swap	766	140,178	74,302	167,754	126,390	509,390
Outflow of interest rate swap	(331)	(89,737)	(66,242)	(155,285)	(113,637)	(425,232)
Inflow of acquisition commitments	258	-	-	-	-	258
Outflow of acquisition commitments	(306,136)	-	-	-	-	(306,136)
Derivatives held for hedging						
Inflow of currency swap	714,008	303,697	3,801,707	9,204,363	476,272	14,500,047
Outflow of currency swap	(676,120)	(353,231)	(3,635,221)	(9,135,678)	(462,873)	(14,263,123)

(\*1) Includes cash flows for both principal and interest.

(\*2) Excludes lease liabilities.

Category (*1)	2022					Total
	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
<b>Financial liabilities</b>						
Borrowings	150,478	-	-	-	-	150,478
Public bonds issued	686,479	1,267,850	3,374,658	4,260,187	-	9,589,174
Securitized liabilities	10,795,634	9,381,573	20,622,432	67,457,037	57,354,207	165,610,883
Other financial liabilities (*2)	480,981	-	-	-	-	480,981
Other payables	32,741	-	-	-	-	32,741
<b>Derivatives</b>						
Derivatives held for trading						
Inflow of interest rate swap	15,522	2,786	156,812	224,870	405,164	805,154
Outflow of interest rate swap	(8,782)	(1,649)	(53,870)	(193,181)	(334,134)	(591,616)
Inflow of acquisition commitments	5	-	-	-	-	5
Outflow of acquisition commitments	(264,424)	-	-	-	-	(264,424)
Derivatives held for hedging						
Inflow of currency swap	-	653,671	669,346	5,651,806	763,489	7,738,312
Outflow of currency swap	-	(661,234)	(684,229)	(5,859,690)	(828,514)	(8,033,667)

(\*1) Includes cash flows for both principal and interest.

(\*2) Excludes lease liabilities.

#### 4.4. Market Risk

##### 4.4.1. Overview of market risk

###### A. Definition of market risk

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors that affect the fair value of future cash flows of financial instruments, such as securities and derivative financial instruments amongst others. The most significant risks associated with trading positions are interest rate risks, and other risks include stock price risks and currency risks. In addition, the Group manages interest rate risks only which is the most significant risks associated with trading or non-trading positions.

###### B. Interest rate risk management

The purpose of the Group's interest rate risk management is to minimize uncertainty and volatility of profit or loss due to changes in interest rate.

###### C. Foreign exchange rate risk

The Group is exposed to foreign exchange rate risk in respect of the US dollar from investing activities. Foreign exchange rate risk arises from liabilities denominated in foreign currency. The foreign exchange rate risk is managed to the extent that it affects the cash flows of the Group.

(a) Carrying amount of monetary liabilities denominated in foreign currencies other than the Group's functional currency as of December 31, 2023 and 2022 are as follows (US dollar in millions, EUR in millions, CHF in millions, AUD in millions):

		2023		2022
Financial liabilities				
Foreign currency borrowings	USD	1,787	USD	-
Securitized liabilities in foreign currencies	USD	609	USD	200
Securitized liabilities in foreign currencies	EUR	6,393	EUR	5,144
Securitized liabilities in foreign currencies	CHF	564	CHF	299
Securitized liabilities in foreign currencies	AUD	319	AUD	-

(b) Sensitivity analysis of foreign exchange risk are as follows (Korean won in millions):

	2023		2022	
	10% appreciation	10% depreciation	10% appreciation	10% depreciation
Increase (decrease) in profit before income taxes	₩ (1,338,191)	₩ 1,338,191	₩ (762,400)	₩ 762,400

#### 4.5. Capital management

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Regulation on Supervision of Korea Housing Finance Corporation. The Group is required to maintain a minimum key capital of at least 6%.

## **5. Financial assets and liabilities**

### **5.1. Classification and fair value**

The fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

#### **5.1.1. Methods of determining fair value for instruments are as follows:**

<b>Cash and due from bank</b>	Carrying amount is regarded as reasonable approximation of fair value as due from banks mostly consist of short-term deposits.
<b>Loan receivables</b>	Fair value is determined by discounting the expected cash inflow at discount rate considering market rate, the borrower's credit risk and others.
<b>Investment securities</b>	Fair value is determined as an average closing price at the settlement date that is provided by NICE Pricing & Information, KIS Corporation and FnPricing.
<b>Derivatives</b>	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The bank use internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models.
<b>Debts, securitized liabilities and financial guarantee contract liabilities</b>	Fair value is determined by discounting the expected contractual cash flow at appropriate discount rate using DCF model.
<b>Other financial assets, Other payables, lease liabilities, Other financial liabilities</b>	Its book value is measured at amortized cost, fair value is used to estimate the book value because the maturity is short or the difference between book value and fair value is not significant.

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**5.1.2. Carrying amounts and fair values of financial assets and liabilities as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and due from banks	₩ 6,138,729	₩ 6,138,729	₩ 2,513,988	₩ 2,513,988
Derivative financial assets held for trading	55,013	55,013	149,299	149,299
Derivative financial assets held for hedging	411,849	411,849	48,080	48,080
Loan receivables at AC	179,551,467	156,531,796	155,941,477	146,946,203
Securities at FVPL	241,899	241,899	1,309,184	1,309,184
Securities at FVOCI	1,725,556	1,725,556	936,478	936,478
Other financial assets	478,731	478,731	344,019	344,019
	<u>₩ 188,603,244</u>	<u>₩ 165,583,573</u>	<u>₩ 161,242,525</u>	<u>₩ 152,247,251</u>
<b>Financial liabilities</b>				
Derivative financial liabilities held for trading	₩ 370,059	₩ 370,059	₩ 290,640	₩ 290,640
Derivative financial liabilities held for hedging	54,994	54,994	176,451	176,451
Borrowings	200,000	200,000	150,000	150,000
Public bonds issued	16,252,752	16,270,586	8,949,390	8,949,390
Securitized liabilities	166,573,460	162,315,467	147,143,556	135,427,143
Other payables	50,674	50,674	32,741	32,741
Lease liabilities	16,434	16,434	15,219	15,219
Other financial liabilities	714,044	714,044	480,981	480,981
	<u>₩ 184,232,417</u>	<u>₩ 179,992,258</u>	<u>₩ 157,238,978</u>	<u>₩ 145,522,565</u>

**5.1.3. Fair value hierarchy**

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the consolidated statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the consolidated statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses fair value of the financial instruments into the following three level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. The Group has no financial instruments classified in Level 1.

Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The Group classified securities at FVOCI, swap and other as Level 2.

Level 3: The fair values are based on unobservable inputs for the asset or liability. The Group classified derivatives for acquisition commitments as Level 3.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on a basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

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**5.1.3. Fair value hierarchy (cont'd)**

The fair value hierarchy of financial assets or liabilities measured at fair value in the consolidated statements of financial position as of December 31, 2023 and 2022 is as follows (Korean won in millions):

	2023			
	Classification			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Financial assets				
Derivative financial assets held for trading	₩ -	₩ 54,755	₩ 258	₩ 55,013
Derivative financial assets held for hedging	-	411,849	-	411,849
Securities at FVPL	-	241,899	-	241,899
Securities at FVOCI	384,191	1,186,070	155,295	1,725,556
	384,191	1,894,573	155,553	2,434,317
Financial liabilities				
Derivative financial liabilities held for trading	-	63,922	306,137	370,059
Derivative financial liabilities held for hedging	-	54,994	-	54,994
	-	118,916	306,137	425,053
Disclosed fair value				
Cash and due from banks	-	6,138,729	-	6,138,729
Loan receivables	-	-	156,531,796	156,531,796
Other financial assets	-	-	478,731	478,731
Borrowings	-	200,000	-	200,000
Public bonds issued	-	13,950,000	2,320,586	16,270,586
Securitized liabilities	-	-	162,315,467	162,315,467
Other payables	-	-	50,674	50,674
Lease liabilities	-	-	16,434	16,434
Other financial liabilities	-	-	714,044	714,044
	-	20,288,729	322,427,732	342,716,461
	384,191	₩ 22,302,218	₩ 322,889,422	₩ 345,575,831

	2022			
	Classification			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Financial assets				
Derivative financial assets held for trading	₩ -	₩ 149,294	₩ 5	₩ 149,299
Derivative financial assets held for hedging	-	48,080	-	48,080
Securities at FVPL	-	1,309,184	-	1,309,184
Securities at FVOCI	351,271	429,822	155,385	936,478
	351,271	1,936,380	155,390	2,443,041
Financial liabilities				
Derivative financial liabilities held for trading	-	26,216	264,424	290,640
Derivative financial liabilities held for hedging	-	176,451	-	176,451
	-	202,667	264,424	467,091
Disclosed fair value				
Cash and due from banks	-	2,513,988	-	2,513,988
Loan receivables	-	-	146,946,203	146,946,203
Other financial assets	-	-	344,019	344,019
Borrowings	-	150,000	-	150,000
Public bonds issued	-	8,949,390	-	8,949,390
Securitized liabilities	-	-	135,427,143	135,427,143
Other payables	-	-	32,741	32,741
Lease liabilities	-	-	15,219	15,219
Other financial liabilities	-	-	480,981	480,981
	-	11,613,378	283,246,306	294,859,684
	₩ 351,271	₩ 13,752,425	₩ 283,666,120	₩ 297,769,816

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**5.2. Disclosure of fair value level 3**

**5.2.1. Changes in financial instruments that are categorized within level 3 for each of the two years in the period ended December 31, 2023 for each of the two years in the period ended December 31, 2022 are as follows (Korean won in millions):**

	2023		2022	
Derivatives for acquisition commitments				
Beginning, net	₩	(264,419)	₩	(77,161)
Total profit or loss				
Amount recognized in profit or loss		(275,590)		(255,709)
Others		234,130		68,451
Ending, net	₩	(305,879)	₩	(264,419)
Securities at FVOCI				
Beginning	₩	155,385	₩	155,670
Valuation		(90)		(285)
Ending	₩	155,295	₩	155,385

**5.2.2. Sensitivity analysis of changes in unobservable inputs**

A. Fair value measurements using unobservable inputs as of December 31, 2023 are as follows (Korean won in millions):

	2023				
	Fair value	Valuation method	Input	Unobservable input	Range of unobservable input (%)
Financial assets					
Acquisition commitments	₩ (305,879)	Discounted cash flow method	Interest rate on government bonds, Extension spread	Extension spread	1.84
Financial assets at FVOCI	₩ 155,295	Net asset value method	Net asset value	Net asset value	-

B. Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Financial instruments subject to sensitivity analysis are derivatives for acquisition commitments and equity securities of which changes in fair value are recognized as other comprehensive income, which are classified as level 3.

The results of sensitivity analysis by the changes in inputs of each financial instruments as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023			
	Favorable changes		Unfavorable changes	
	Profit or loss	OCI	Profit or loss	OCI
Derivative financial instruments (*1)	₩ 591,978	₩ -	₩ (554,675)	₩ -
Financial assets at FVOCI (*2)	-	-	-	-

(\*1) The change in fair value is calculated by increasing or decreasing the additional spread interest rate, a major unobservable input variable, by 100 bp

(\*2) Financial assets at fair value through other comprehensive income (Korea Expressway Corporation's shares) are excluded from the list of calculations because it is practically impossible to calculate the sensitivity analysis by the changes in inputs.

**5.2.2. Sensitivity analysis of changes in unobservable inputs (cont'd)**

	2022			
	Favorable changes		Unfavorable changes	
	Profit or loss	OCI	Profit or loss	OCI
Derivative financial instruments (*1)	₩ 466,846	₩ -	₩ (435,587)	₩ -
Securities at FVOCI (*2)	-	-	-	-

(\*1) The change in fair value is calculated by increasing or decreasing the additional spread interest rate, a major unobservable input variable, by 100 bp

(\*2) Financial assets at fair value through other comprehensive income (Korea Expressway Corporation's shares) are excluded from the list of calculations because it is practically impossible to calculate the sensitivity analysis by the changes in inputs.

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**5.3. Financial Instruments by category**

Financial assets and liabilities are measured at fair value or amortized cost. Measurement policies for each class of financial assets and liabilities are disclosed in above in Note 5.1 Classification and fair value. Carrying amounts of financial assets and liabilities by category as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023				
	Financial assets at FVPL	Financial assets at FVOCI	Financial assets at AC	Derivative financial assets held for hedging	Total
Financial assets					
Cash and due from banks	₩ -	₩ -	₩ 6,138,729	₩ -	₩ 6,138,729
Securities at FVPL	241,899	-	-	-	241,899
Securities at FVOCI	-	1,725,556	-	-	1,725,556
Derivative financial assets	55,013	-	-	411,849	466,862
Loan receivables	-	-	179,551,467	-	179,551,467
Other financial assets	-	-	478,731	-	478,731
	₩ 296,912	₩ 1,725,556	₩ 186,168,927	₩ 411,849	₩ 188,603,244

	2023			
	Financial liabilities at FVPL	Financial liabilities at AC	Derivative financial liabilities held for hedging	Total
Financial liabilities				
Borrowings	₩ -	₩ 200,000	₩ -	₩ 200,000
Public bonds issued	-	16,252,752	-	16,252,752
Securitized liabilities	-	166,573,460	-	166,573,460
Derivative financial liabilities	370,059	-	54,994	425,053
Other payables	-	50,674	-	50,674
Lease liabilities	-	16,434	-	16,434
Other financial liabilities	-	714,044	-	714,044
	₩ 370,059	₩ 183,807,364	₩ 54,994	₩ 184,232,417

	2022				
	Financial assets at FVPL	Financial assets at FVOCI	Financial assets at AC	Derivative financial assets held for hedging	Total
Financial assets					
Cash and due from banks	₩ -	₩ -	₩ 2,513,988	₩ -	₩ 2,513,988
Securities at FVPL	1,309,184	-	-	-	1,309,184
Securities at FVOCI	-	936,478	-	-	936,478
Derivative financial assets	149,299	-	-	48,080	197,379
Loan receivables	-	-	155,941,477	-	155,941,477
Other financial assets	-	-	344,019	-	344,019
	₩ 1,458,483	₩ 936,478	₩ 158,799,484	₩ 48,080	₩ 161,242,525

	2022			
	Financial liabilities at FVPL	Financial liabilities at AC	Derivative financial liabilities held for hedging	Total
Financial liabilities				
Borrowings	₩ -	₩ 150,000	₩ -	₩ 150,000
Public bonds issued	-	8,949,390	-	8,949,390
Securitized liabilities	-	147,143,556	-	147,143,556
Derivative financial liabilities	290,640	-	176,451	467,091
Other payables	-	32,741	-	32,741
Lease liabilities	-	15,219	-	15,219
Other financial liabilities	-	480,981	-	480,981
	₩ 290,640	₩ 156,771,887	₩ 176,451	₩ 157,238,978

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**6. Cash and due from banks**

Cash and due from banks as of December 31, 2023 and 2022 are as follows (Korean won in millions):

		Financial institutions	Interest rate (%)	2023		2022	
				₩		₩	
Cash and cash equivalents	Ordinary deposits	Kookmin Bank and others	0.01~1.20	28,377		29,343	
	Corporation deposits	Hana Bank	0.10~1.73	14,819		16,874	
				43,196		46,217	
Due from banks in Korean won	Time deposits	Hana Bank and others	3.48~4.93	2,255,915		572,098	
	Certificate of deposits	Woori Bank and others	3.60~5.98	3,839,618		1,895,674	
				6,095,533		2,467,772	
				₩ 6,138,729		₩ 2,513,989	

**7. Securities at fair value through profit or loss**

**7.1. Securities at fair value through profit or loss as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023		2022	
Beneficiary securities	₩	223,204	₩	239,624
Other corporate bonds	₩	18,695	₩	137,306
Repurchase agreements		-		25,947
Commercial paper		-		906,307
	₩	241,899	₩	1,309,184

**7.2. Amounts recognized in profit or loss related to securities at fair value through profit or loss for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023		2022	
Gain on disposal of securities at fair value through profit or loss	₩	55,047	₩	20,681
Gain on valuation of securities at fair value through profit or loss		643		602
	₩	55,690	₩	21,283

**8. Securities at fair value through other comprehensive income**

**8.1. Details of securities at fair value through other comprehensive income as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Debt securities		
Government bonds	₩ 334,111	₩ 321,345
Public bonds	222,356	-
Provincial bonds	30,126	19,392
Finance bonds	873,973	333,794
Other corporate bonds	109,695	106,562
	<u>1,570,261</u>	<u>781,093</u>
Equity securities(*)		
Unlisted shares	155,295	155,385
	<u>155,295</u>	<u>155,385</u>
	<u>₩ 1,725,556</u>	<u>₩ 936,478</u>

(\*) A Group has exercised the fair value option for equity securities designated as fair value through other comprehensive income (OCI) measurement items due to policy reasons such as holding requirements

**8.2. Changes in accumulated gains (losses) on securities at fair value through other comprehensive income are as follows (Korean won in millions):**

	2023	2022
Beginning balance	₩ (11,013)	₩ (2,425)
Other comprehensive income (loss)	19,650	(12,037)
Reclassification to profit or loss	8,054	398
Tax effect	(6,909)	3,051
Ending balance	<u>₩ 9,782</u>	<u>₩ (11,013)</u>

**8.3. There was no impairment loss or reversal of impairment loss on securities at fair value through other comprehensive income incurred for the year ended December 31, 2023.**

**8.4. As of December 31, 2023, ₩86,000 million (2022: ₩140,000 million) out of the above securities is provided as trading margin collaterals to financial institutions (Kyobo Securities Co., Ltd. And others).**

**8.5. As of December 31, 2023, ₩106,100 million is pledged as collateral for the bonds sold under the repurchase agreements. No amount was pledged as collateral for the bonds as of December 31, 2022.**

**9. Derivative financial instruments and hedge accounting**

The Group's derivative transactions focus on hedging the Group's risk. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities.

The Group provides and trades a range of derivative products, including:

- Interest rate swaps, interest rate futures and acquisition commitments relating to interest rate risks in Korean won.
- Currency swaps relating to foreign exchange rates of financial debentures in foreign currencies.

In particular, the Group uses currency swaps to hedge the risk of changes in cash flow due to changes in interest rates and foreign exchange rates of financial bonds in foreign currencies.

**9.1. Details of derivatives as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023		2022
Derivative financial assets			
Interest rate swaps	₩ 54,755	₩	149,294
Currency swaps	411,849		48,080
Acquisition commitments	258		5
	₩ 466,862	₩	197,379
Derivative financial liabilities			
Interest rate swaps	₩ 63,923	₩	26,217
Currency swaps	54,994		176,450
Acquisition commitments	306,136		264,423
	₩ 425,053	₩	467,090

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**9.2. Details of currency swap contracts for cash flow hedge as of December 31, 2023 and 2022 are as follows (Korean won in millions, USD in millions, EUR in millions, CHF in millions, AUD in millions):**

		2023					
		Contractual amounts		Contractual interest rate (%)		Contractual exchange rate	
Contractual period		Sold (USD)	Purchased (KRW)	Sold	Purchased		
KB Kookmin Bank	Dec.16, 2022 ~ Nov.16, 2025	50	66,100	4.956	3.919	1,322.00	
Hana Bank	Dec.16, 2022 ~ Nov.16, 2025	150	198,300	4.956	3.980	1,322.00	
KB Kookmin Bank	Feb. 24, 2023~ Feb. 24, 2028	100	128,500	4.625	3.734	1,285.00	
JPMorgan Chase Bank	Feb. 24, 2023~ Feb. 24, 2028	200	257,000	4.625	3.755	1,285.00	
Korea Development Bank	Feb. 24, 2023~ Feb. 24, 2028	250	321,250	4.625	3.763	1,285.00	
Hana Bank	Feb. 24, 2023~ Feb. 24, 2028	200	257,000	4.625	3.823	1,285.00	
Industrial Bank of Korea	Feb. 24, 2023~ Feb. 24, 2028	200	257,000	4.625	3.835	1,285.00	
ING Bank	Feb. 24, 2023~ Feb. 24, 2028	50	64,250	4.625	3.858	1,285.00	
Hana Bank	Feb. 24, 2023~ Feb. 24, 2033	100	128,500	4.625	3.977	1,285.00	
JPMorgan Chase Bank	Feb. 24, 2023~ Feb. 24, 2033	100	128,500	4.625	3.993	1,285.00	
NOMURA	Feb. 24, 2023~ Feb. 24, 2033	50	64,250	4.625	4.030	1,285.00	
Korea Development Bank	Feb. 24, 2023~ Feb. 24, 2033	50	64,250	4.625	4.115	1,285.00	
ING Bank	Jun. 22, 2023~ Jun. 22, 2026	100	128,100	5.222	3.880	1,281.00	
Hana Bank	Jul. 28, 2023~ Jul. 28, 2028	100	128,000	Compounded Daily SOFR+1.0	4.113	1,280.00	
Hana Bank	Aug. 08, 2023~ Jun.30, 2026	100	128,400	5.327	3.877	1,284.00	
Korea Development Bank	Aug. 08, 2023~ Jun.30, 2026	110	141,240	5.327	3.920	1,284.00	
KB Kookmin Bank	Nov.15, 2023~ Nov.15, 2026	50	65,550	5.375	4.093	1,311.00	
Hana Bank	Nov.15, 2023~ Nov.15, 2026	100	131,100	5.375	4.095	1,311.00	
Korea Development Bank	Nov.15, 2023~ Nov.15, 2026	200	262,200	5.375	4.120	1,311.00	
ING Bank	Nov.15, 2023~ Nov.15, 2026	100	131,100	5.375	4.171	1,311.00	
Bank Of America	Nov.15, 2023~ Nov.15, 2026	50	65,550	5.375	4.212	1,311.00	

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**9.2. Details of currency swap contracts for cash flow hedge as of December 31, 2023 and 2022 are as follows (Korean won in millions, USD in millions, EUR in millions, CHF in millions, AUD in millions): (cont'd)**

	Contractual period	2023		Contractual interest rate (%)		Contractual exchange rate
		Contractual amounts		Sold	Purchased	
		Sold (EUR)	Purchased (KRW)			
BNP Bank	Jun.18, 2019 ~ Jun.18, 2024	200	267,204	0.100	1.225	1,336.02
Korea Development Bank	Jun.18, 2019 ~ Jun.18, 2024	200	267,204	0.100	1.205	1,336.02
Hana Bank	Jun.18, 2019 ~ Jun.18, 2024	100	133,602	0.100	1.210	1,336.02
BNP Bank	Feb.5, 2020 ~ Feb.5, 2025	400	518,812	0.010	1.200	1,297.03
ING Bank	Feb.5, 2020 ~ Feb.5, 2025	300	389,109	0.010	1.192	1,297.03
Korea Development Bank	Feb.5, 2020 ~ Feb.5, 2025	300	389,109	0.010	1.196	1,297.03
Hana Bank	Jul.7, 2020 ~ Jul.7, 2025	200	270,000	0.010	0.522	1,350.00
BNP Bank	Jul.7, 2020 ~ Jul.7, 2025	100	135,000	0.010	0.540	1,350.00
Korea Development Bank	Jul.7, 2020 ~ Jul.7, 2025	200	270,000	0.010	0.545	1,350.00
ING Bank	Jun.29, 2021~ Jun.29, 2026	200	271,400	0.010	1.129	1,357.00
Korea Development Bank	Jun.29, 2021~ Jun.29, 2026	300	407,100	0.010	1.130	1,357.00
SC Bank	Jun.29, 2021 ~ Jun.29, 2026	200	271,400	0.010	1.127	1,357.00
BNP Bank	Jun.29, 2021 ~ Jun.29, 2026	300	407,100	0.010	1.119	1,357.00
BNP Bank	Oct.27, 2021 ~ Oct.27, 2028	100	136,700	0.258	1.709	1,367.00
KB Kookmin Bank	Oct.27, 2021 ~ Oct.27, 2028	100	136,700	0.258	1.709	1,367.00
Korea Development Bank	Oct.27, 2021 ~ Oct.27, 2028	200	273,400	0.258	1.690	1,367.00
Hana Bank	Oct.27, 2021 ~ Oct.27, 2028	100	136,700	0.258	1.692	1,367.00
SC Bank	Oct.27, 2021 ~ Oct.27, 2028	50	68,350	0.258	1.714	1,367.00
ING Bank	Mar.22, 2022 ~ Mar.22, 2025	100	135,700	0.723	1.987	1,357.00
KB Kookmin Bank	Mar.22, 2022 ~ Mar.22, 2025	200	271,400	0.723	1.984	1,357.00
Korea Development Bank	Mar.22, 2022 ~ Mar.22, 2025	100	135,700	0.723	1.979	1,357.00
Hana Bank	Mar.22, 2022 ~ Mar.22, 2025	200	271,400	0.723	1.975	1,357.00
Korea Development Bank	Jul.19, 2022 ~ Jul.19, 2026	200	264,200	1.963	3.192	1,321.00
BNP Bank	Jul.19, 2022 ~ Jul.19, 2026	100	132,100	1.963	3.208	1,321.00
Hana Bank	Jul.19, 2022 ~ Jul.19, 2026	200	264,200	1.963	3.210	1,321.00
KB Kookmin Bank	Apr.11, 2023~ Apr.11, 2027	50	70,400	3.714	3.728	1,408.00

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**9.2 Details of currency swap contracts for cash flow hedge as of December 31, 2023 and 2022 are as follows (Korean won in millions, USD in millions, EUR in millions, CHF in millions, AUD in millions): (cont'd)**

SC Bank	Apr.11, 2023~ Apr.11, 2027	100	140,800	3.714	3.742	1,408.00
Industrial Bank of Korea	Apr.11, 2023~ Apr.11, 2027	200	281,600	3.714	3.744	1,408.00
ING Bank	Apr.11, 2023~ Apr.11, 2027	100	140,800	3.714	3.748	1,408.00
BNP Bank	Apr.11, 2023~ Apr.11, 2027	50	70,400	3.714	3.753	1,408.00
KB Kookmin Bank	Jul.26, 2023~ Apr.11, 2027	50	70,950	3.714	3.869	1,419.00
ING Bank	Jul.26, 2023~ Apr.11, 2027	50	70,950	3.714	3.878	1,419.00
BNP Bank	Apr.11, 2027	50	70,950	3.714	3.911	1,419.00
KB Kookmin Bank	Sep.25, 2023~ Sep.25, 2027	100	141,900	4.082	4.362	1,419.00
Hana Bank	Sep.25, 2023~ Sep.25, 2027	200	283,800	4.082	4.384	1,419.00
BNP Bank	Sep.25, 2023~ Sep.25, 2027	100	141,900	4.082	4.396	1,419.00
Korea Development Bank	Sep.25, 2023~ Sep.25, 2027	200	283,800	4.082	4.410	1,419.00
SC Bank	Sep.25, 2023~ Sep.25, 2027	200	283,800	4.082	4.422	1,419.00
Industrial Bank of Korea	Sep.25, 2023~ Sep.25, 2027	200	283,800	4.082	4.438	1,419.00
Korea Development Bank	Dec.07, 2023~ Sep.25, 2027	100	142,800	4.082	4.215	1,428.00

		2023					
		Contractual amounts		Contractual interest rate (%)		Contractual exchange rate	
Contractual period		Sold (CHF)	Purchased (KRW)	Sold	Purchased		
Korea Development Bank	Oct.14, 2022~ Oct.14, 2025	160	231,360	2.155	4.186	1,446.00	
Korea Development Bank	Oct.14, 2022~ Oct.14, 2027	140	202,440	2.465	4.522	1,446.00	
BNP Bank	Feb.10, 2023~ Feb.10, 2026	165	221,100	1.815	3.887	1,340.00	
BNP Bank	Feb.10, 2023~ Feb.10, 2028	100	134,000	1.893	4.079	1,340.00	

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**9.2 Details of currency swap contracts for cash flow hedge as of December 31, 2023 and 2022 are as follows (Korean won in millions, USD in millions, EUR in millions, CHF in millions, AUD in millions): (cont'd)**

		2023					
		Contractual amounts		Contractual interest rate (%)		Contractual exchange rate	
Contractual period		Sold (AUD)	Purchased (KRW)	Sold	Purchased		
Korea Development Bank	Apr.06, 2023~ Apr.06, 2026	120	104,400	BBSW 3M+1.05	3.610	870.00	
Hana Bank	Apr.06, 2023~ Apr.06, 2026	100	87,000	4.475	3.660	870.00	
Industrial Bank of Korea	Apr.06, 2023~ Apr.06, 2026	100	87,000	4.475	3.678	870.00	

		2022					
		Contractual amounts		Contractual interest rate (%)		Contractual exchange rate	
Contractual period		Sold (USD)	Purchased (KRW)	Sold	Purchased		
KB Kookmin Bank	Dec.16, 2022 ~ Nov.16, 2025	50	66,100	4.956	3.919	1,322.00	
Hana Bank	Dec.16, 2022 ~ Nov.16, 2025	150	198,300	4.956	3.980	1,322.00	

		2022					
		Contractual amounts		Contractual interest rate (%)		Contractual exchange rate	
Contractual period		Sold (EUR)	Purchased (KRW)	Sold	Purchased		
BNP Bank	Oct.30, 2018 ~ Oct.30, 2023	300	389,283	0.750	1.911	1,297.60	
Korea Development Bank	Oct.30, 2018 ~ Oct.30, 2023	100	129,761	0.750	1.935	1,297.60	
Hana Bank	Oct.30, 2018 ~ Oct.30, 2023	100	129,761	0.750	1.910	1,297.60	
BNP Bank	Jun.18, 2019 ~ Jun.18, 2024	200	267,204	0.100	1.225	1,336.00	
Korea Development Bank	Jun.18, 2019 ~ Jun.18, 2024	200	267,204	0.100	1.205	1,336.00	
Hana Bank	Jun.18, 2019 ~ Jun.18, 2024	100	133,602	0.100	1.210	1,336.00	
BNP Bank	Feb.5, 2020 ~ Feb.5, 2025	400	518,812	0.010	1.200	1,297.00	
ING Bank	Feb.5, 2020 ~ Feb.5, 2025	300	389,109	0.010	1.192	1,297.00	
Korea Development Bank	Feb.5, 2020 ~ Feb.5, 2025	300	389,109	0.010	1.196	1,297.00	
Hana Bank	Jul.7, 2020 ~ Jul.7, 2025	200	270,000	0.010	0.522	1,350.00	
BNP Bank	Jul.7, 2020 ~ Jul.7, 2025	100	135,000	0.010	0.540	1,350.00	
Korea Development Bank	Jul.7, 2020 ~ Jul.7, 2025	200	270,000	0.010	0.545	1,350.00	
ING Bank	Jun.29, 2021~ Jun.29, 202	200	271,400	0.010	1.129	1,357.00	

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**9.2 Details of currency swap contracts for cash flow hedge as of December 31, 2023 and 2022 are as follows (Korean won in millions, USD in millions, EUR in millions, CHF in millions, AUD in millions): (cont'd)**

Korea Development Bank	Jun.29, 2021~ Jun.29, 2026	300	407,100	0.010	1.130	1,357.00
SC Bank	Jun.29, 2021 ~ Jun.29, 2026	200	271,400	0.010	1.127	1,357.00
BNP Bank	Jun.29, 2021 ~ Jun.29, 2026	300	407,100	0.010	1.119	1,357.00
BNP Bank	Oct.27, 2021 ~ Oct.27, 2028	100	136,700	0.258	1.709	1,367.00
KB Kookmin Bank	Oct.27, 2021 ~ Oct.27, 2028	100	136,700	0.258	1.709	1,367.00
Korea Development Bank	Oct.27, 2021 ~ Oct.27, 2028	200	273,400	0.258	1.690	1,367.00
Hana Bank	Oct.27, 2021 ~ Oct.27, 2028	100	136,700	0.258	1.692	1,367.00
SC Bank	Oct.27, 2021 ~ Oct.27, 2028	50	68,350	0.258	1.714	1,367.00
ING Bank	Mar.22, 2022 ~ Mar.22, 2025	100	135,700	0.723	1.987	1,357.00
KB Kookmin Bank	Mar.22, 2022 ~ Mar.22, 2025	200	271,400	0.723	1.984	1,357.00
Korea Development Bank	Mar.22, 2022 ~ Mar.22, 2025	100	135,700	0.723	1.979	1,357.00
Hana Bank	Mar.22, 2022 ~ Mar.22, 2025	200	271,400	0.723	1.975	1,357.00
Korea Development Bank	Jul.19, 2022 ~ Jul.19, 2026	200	264,200	1.963	3.192	1,321.00
BNP Bank	Jul.19, 2022 ~ Jul.19, 2026	100	132,100	1.963	3.208	1,321.00
Hana Bank	Jul.19, 2022 ~ Jul.19, 2026	200	264,200	1.963	3.210	1,321.00

2022

	Contractual period	Contractual amounts		Contractual interest rate (%)		Contractual exchange rate
		Sold	Purchased	Sold	Purchased	
		(CHF)	(KRW)			
Korea Development Bank	Oct.14, 2022 ~ Oct.14, 2025	160	231,360	2.155	4.186	1,446.00
Korea Development Bank	Oct.14, 2022 ~ Oct.14, 2027	140	202,440	2.465	4.522	1,446.00

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**9.3. Gains and losses arising from derivatives for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	Gains (losses) on valuation		Gains (losses) on transactions		Changes in accumulated OCI	
	2023	2022	2023	2022	2023	2022
Currency swap	₩ 469,617	₩ 14,624	₩ (26,795)	₩ (27,650)	₩ 26,426	₩ (180,157)
Interest rate swap	(100,801)	105,607	77,515	5,480	-	-
Acquisition commitments	(275,590)	(255,709)	45,250	(306,535)	-	-
Government bond futures (*1)	-	-	(24,257)	147,167	-	-
	₩ 93,226	₩ (135,478)	₩ 71,713	₩ (181,538)	₩ 26,426	₩ (180,157)

(\*1) Contractual amount related to futures is ₩1,120,476million as of December 31, 2023 (2022: ₩3,512,754 million). Futures transactions are settled daily and reflected in deposits.

**9.4. Accumulated gains and losses from hedging instruments and hedge items attributable to the hedged risk are as follows (Korean won in millions):**

	2023	2022
Accumulated gains from hedging instruments	₩ 496,229	₩ 53,406
Accumulated losses from hedged items attributable to the hedged risk	(496,229)	(53,406)

**9.5. As of the end of the reporting period, the details of the cash flow hedge and the changes in fair value during the reporting period are as follows.**

	Cash flow hedge reserve		Change in fair value	
	2023	2022	2023	2022
Foreign exchange risk	₩ (496,229)	₩ (53,406)	₩ (469,618)	₩ (14,624)

**9.6. The periods when cash flows are expected to occur and when they are expected to affect profit or losses are a maximum of ten years.**

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**10. Loan receivables at amortized costs**

**10.1. Details of loan receivables at amortized costs as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023				
	Loans	Present value premium (discount)	Allowance for doubtful accounts	Deferred loan origination fees and costs	Book amount
Purchased mortgage-backed loans	₩ 14,111,105	₩ (111,072)	₩ (18,031)	₩ 59,168	₩ 14,041,170
Mortgage-backed loans by trust	165,554,688	(405,715)	(136,647)	478,922	165,491,248
Student loan-backed securities	22,497	(195)	(3,253)	-	19,049
	<u>₩ 179,688,290</u>	<u>₩ (516,982)</u>	<u>₩ (157,931)</u>	<u>₩ 538,090</u>	<u>₩ 179,551,467</u>

	2022				
	Loans	Present value premium (discount)	Allowance for doubtful accounts	Deferred loan origination fees and costs	Book amount
Purchased mortgage-backed loans	₩ 9,650,613	₩ (71,288)	₩ (12,795)	₩ 34,245	₩ 9,600,775
Mortgage-backed loans by trust	146,369,855	(401,557)	(127,414)	472,763	146,313,647
Student loan-backed securities	30,787	(318)	(3,413)	-	27,056
	<u>₩ 156,051,255</u>	<u>₩ (473,163)</u>	<u>₩ (143,622)</u>	<u>₩ 507,008</u>	<u>₩ 155,941,478</u>

**10.2. Changes in deferred loan origination fees and costs for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023			
	Beginning	Increase	Decrease	Ending
Loan receivables in Korean won	₩ 507,008	₩ 242,541	₩ (211,459)	₩ 538,090

	2022			
	Beginning	Increase	Decrease	Ending
Loan receivables in Korean won	₩ 609,122	₩ 137,960	₩ (240,074)	₩ 507,008

**10.3. Changes in present value premium (discount) for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023			
	Beginning	Increase	Decrease	Ending
Present value premium (discount) Loan receivables in Korean won	₩ (473,163)	₩ (188,750)	₩ 144,931	₩ (516,982)

	2022			
	Beginning	Increase	Decrease	Ending
Present value premium (discount) Loan receivables in Korean won	₩ (213,104)	₩ (374,783)	₩ 114,724	₩ (473,163)



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**11.2. Changes in the total book amount that had a significant impact on changes in allowance for doubtful accounts on loan receivables for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023			
	12-month expected credit loss	Lifetime expected credit loss		Total
		Unrecognized impairment	Recognized impairment	
Balance as of Jan 1, 2023	₩ 139,636,363	₩ 16,153,096	₩ 261,796	₩ 156,051,255
Changes due to significant increases in credit risk				
Transfer to 12-month expected credit losses	4,464,645	(4,459,131)	(5,514)	-
Transfer to expected credit losses unrecognized for impairment	(5,796,369)	5,816,324	(19,954)	-
Transfer to expected credit losses recognized for impairment	(57,998)	(228,698)	286,696	-
	(1,389,722)	1,128,495	261,228	-
Loans and repayments	23,982,551	(260,061)	(85,454)	23,637,035
Foreign currency translation and others	-	-	-	-
Balance as of Dec 31, 2023	₩ 162,229,192	₩ 17,021,529	₩ 437,569	₩ 179,688,290
	2022			
	12-month expected credit loss	Lifetime expected credit loss		Total
		Unrecognized impairment	Recognized impairment	
Balance as of Jan 1, 2022	₩ 135,550,502	₩ 15,930,684	₩ 226,911	₩ 151,708,097
Changes due to significant increases in credit risk				
Transfer to 12-month expected credit losses	4,701,177	(4,698,229)	(2,948)	-
Transfer to expected credit losses unrecognized for impairment	(6,117,008)	6,136,207	(19,199)	-
Transfer to expected credit losses recognized for impairment	(37,813)	(107,604)	145,417	-
	(1,453,644)	1,330,374	123,270	-
Loans and repayments	5,539,505	(1,107,962)	(88,385)	4,343,158
Foreign currency translation and others	-	-	-	-
Balance as of Dec 31, 2022	₩ 139,636,363	₩ 16,153,096	₩ 261,796	₩ 156,051,255

**11.3. The coverage ratio of allowance for doubtful accounts on loan receivables at amortized costs as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023		2022	
	₩		₩	
Loan receivables	₩	179,688,290	₩	156,051,255
Allowance for doubtful accounts		(157,930)		(143,622)
Coverage ratio		0.09%		0.09%

**12. Property and equipment**

**12.1. Details of property and equipment as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

Category (*1)	2023			
	Acquisition cost	Accumulated depreciation	Government grant	Book amount
Land	₩ 19,802	₩ -	₩ -	₩ 19,802
Buildings	117,128	(19,623)	-	97,505
Vehicles	235	(235)	-	-
Office equipment	120,866	(84,927)	-	35,939
Others	38,195	(23,223)	(220)	14,752
Construction-in-progress	-	-	-	-
	<u>₩ 296,226</u>	<u>₩ (128,008)</u>	<u>₩ (220)</u>	<u>₩ 167,998</u>

(\*1) Excludes right-of-use assets.

Category (*1)	2022			
	Acquisition cost	Accumulated depreciation	Government grant	Book amount
Land	₩ 19,802	₩ -	₩ -	₩ 19,802
Buildings	117,128	(16,695)	-	100,433
Vehicles	235	(235)	-	-
Office equipment	108,434	(74,736)	(10)	33,688
Others	36,683	(18,716)	(280)	17,687
Construction-in-progress	1,315	-	-	1,315
	<u>₩ 283,597</u>	<u>₩ (110,382)</u>	<u>₩ (290)</u>	<u>₩ 172,925</u>

(\*1) Excludes right-of-use assets.

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**12.2. Changes in property and equipment for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

Category (*1)	2023						Ending balance
	Beginning balance	Acquisitions	Disposals	Depreciation	Transfer(*2)		
Land	₩ 19,802	₩ -	₩ -	₩ -	₩ -	₩ -	19,802
Buildings	100,433	-	-	(2,928)	-	-	97,505
Vehicles	-	-	-	-	-	-	-
Office equipment	33,698	11,982	(9)	(11,419)	1,687	-	35,939
(Government grant)	(10)	-	-	10	-	-	-
Others	17,967	1,563	(291)	(4,984)	717	-	14,972
(Government grant)	(280)	-	-	60	-	-	(220)
Construction-in-progress	1,315	1,089	-	-	(2,404)	-	-
	₩ 172,925	₩ 14,634	₩ (300)	₩ (19,261)	₩ -	₩ -	167,998

(\*1) Excludes right-of-use assets.

(\*2) This is the amount of assets under construction-in-progress transferred to the main account.

Category (*1)	2022						Ending balance
	Beginning balance	Acquisitions	Disposals	Depreciation	Transfer(*2)		
Land	₩ 19,802	₩ -	₩ -	₩ -	₩ -	₩ -	19,802
Buildings	103,361	-	-	(2,928)	-	-	100,433
Vehicles	-	-	-	-	-	-	-
Office equipment	23,472	12,554	(3)	(10,149)	7,824	-	33,698
(Government grant)	(20)	-	-	10	-	-	(10)
Others	9,539	3,475	-	(3,595)	8,548	-	17,967
(Government grant)	-	(300)	-	20	-	-	(280)
Construction-in-progress	865	16,822	-	-	(16,372)	-	1,315
	₩ 157,019	₩ 32,551	₩ (3)	₩ (16,642)	₩ -	₩ -	172,925

(\*1) Excludes right-of-use assets.

(\*2) This is the amount of assets under construction-in-progress transferred to the main account.

**12.3. Details of property and equipment that are insured against damages as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

2023			
Type	Insurance company	Insurance coverage	Insurance period
General property insurance	KB	₩ 54,863	Jul 30, 2023~ Jul 29, 2024
	Meritz	₩ 47,925	Aug 12, 2023~ Aug 12, 2024
2022			
Type	Insurance company	Insurance coverage	Insurance period
General property insurance	KB	₩ 54,462	Jul 30, 2022 ~ Jul 29, 2023
	Meritz	₩ 41,301	Aug 12, 2022 ~ Aug 12, 2023

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**13. Intangible assets**

**13.1. Details of intangible assets as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book amount
Software	₩ 67,152	(40,233)	-	₩ 26,919
Copyright, patents and industrial property rights	26	(26)	-	-
Memberships	922	-	(24)	898
	₩ 68,100	(40,259)	(24)	₩ 27,817

	2022		
	Acquisition cost	Accumulated amortization	Book amount
Software	₩ 67,148	₩ (29,251)	₩ 37,897
Copyright, patents and industrial property rights	26	(26)	-
Memberships	756	-	756
	₩ 67,930	₩ (29,277)	₩ 38,653

**13.2. Changes in intangible assets for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023				
	Beginning	Acquisitions	Amortization	Transfer	Ending
Software	₩ 37,897	₩ 4	₩ (10,982)	₩ -	₩ 26,919
Copyright, patents and industrial property rights	-	-	-	-	-
Memberships	756	-	-	142	898
	₩ 38,653	₩ 4	₩ (10,982)	₩ 142	₩ 27,817

	2022				
	Beginning	Acquisitions	Amortization	Transfer	Ending
Software	₩ 48,859	₩ 19	₩ (10,981)	₩ -	₩ 37,897
Copyright, patents and industrial property rights	-	-	-	-	-
Memberships	756	-	-	-	756
	₩ 49,615	₩ 19	₩ (10,981)	₩ -	₩ 38,653

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**14. Right-of-use assets**

14.1. Details of right-of-use assets as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		
	Acquisition cost	Accumulated depreciation	Book amount
Right-of-use assets – Buildings	₩ 28,630	₩ (10,046)	₩ 18,584
Right-of-use assets – Vehicles	2,881	(1,906)	975
	<u>₩ 31,511</u>	<u>₩ (11,952)</u>	<u>₩ 19,559</u>

	2022		
	Acquisition cost	Accumulated depreciation	Book amount
Right-of-use assets – Buildings	₩ 25,732	₩ (8,235)	₩ 17,497
Right-of-use assets – Vehicles	2,732	(1,280)	1,452
	<u>₩ 28,464</u>	<u>₩ (9,515)</u>	<u>₩ 18,949</u>

14.2. Changes in right-of-use assets for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023				
	Beginning balance	Acquisition	Cancellation	Depreciation	Ending balance
Right-of-use assets – Buildings	₩ 17,497	₩ 8,109	₩ (8)	₩ (7,014)	₩ 18,584
Right-of-use assets – Vehicles	1,452	429	-	(906)	975
	<u>₩ 18,949</u>	<u>₩ 8,538</u>	<u>₩ (8)</u>	<u>₩ (7,920)</u>	<u>₩ 19,559</u>

	2022			
	Beginning balance	Acquisition	Depreciation	Ending balance
Right-of-use assets – Buildings	₩ 7,465	₩ 15,641	₩ (5,609)	₩ 17,497
Right-of-use assets – Vehicles	1,871	436	(855)	1,452
	<u>₩ 9,336</u>	<u>₩ 16,077</u>	<u>₩ (6,464)</u>	<u>₩ 18,949</u>

**15. Other financial assets**

Details of other financial assets as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023	2022
Guarantee deposits	₩ 78,904	₩ 82,913
Loans	1,662	1,948
Other receivables	67,010	62,444
Accrued interest income	329,395	194,784
Fees receivables	1,760	1,930
	<u>₩ 478,731</u>	<u>₩ 344,019</u>

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**16. Debts**

**16.1. Details of debts as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Debentures:		
Bonds sold under repurchase agreements	100,000	-
Short-term borrowing	100,000	150,000
	200,000	150,000
Electronic short-term bonds		
Fixed-rate bonds in Korean won	13,950,000	8,950,000
(Present value discount)	(833)	(610)
Electronic short-term bonds		
Fixed-rate bonds in foreign currency	2,320,920	-
(Present value discount)	(17,335)	-
	<u>16,252,752</u>	<u>8,949,390</u>
	<u>₩ 16,452,752</u>	<u>₩ 9,099,390</u>

**16.2. Details of borrowings as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	Creditor	Annual Interest rate(%)	2023	2022
Bonds sold under repurchase agreements	Multi Asset Global Investment	4.10 ₩	30,000 ₩	-
	JB Bank	4.20	70,000	-
Short-term borrowing	Korea development Bank	4.17 ₩	100,000 ₩	100,000
	Busan Bank	4.32	-	50,000
			<u>₩ 200,000</u>	<u>₩ 150,000</u>

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**16.3. Details of debentures as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	Annual interest rate (%)	Maturity	2023	2022
Bonds in Korean won	1.88	Apr 26, 2024	210,000	210,000
Bonds in Korean won	1.56	Jun 24, 2024	140,000	140,000
Bonds in Korean won	1.55	Jul 8, 2024	100,000	100,000
Bonds in Korean won	1.35	Aug 5, 2024	240,000	240,000
Bonds in Korean won	1.24	Aug 16, 2024	220,000	220,000
Bonds in Korean won	1.13	May 20, 2023	-	220,000
Bonds in Korean won	1.12	Jun 16, 2023	-	170,000
Bonds in Korean won	0.99	Jul 24, 2023	-	180,000
Bonds in Korean won	1.64	Jul 2, 2024	310,000	310,000
Bonds in Korean won	1.48	Jul 21, 2023	-	160,000
Bonds in Korean won	1.53	Sep 10, 2023	-	140,000
Bonds in Korean won	1.92	Oct 7, 2024	290,000	290,000
Bonds in Korean won	2.13	Nov 3, 2023	-	100,000
Bonds in Korean won	2.13	Nov 12, 2024	160,000	160,000
Bonds in Korean won	1.99	Nov 30, 2023	-	90,000
Bonds in Korean won	2.15	Jan 06, 2025	190,000	190,000
Bonds in Korean won	2.43	Feb 07, 2025	310,000	310,000
Bonds in Korean won	2.49	Mar 07, 2025	310,000	310,000
Bonds in Korean won	2.50	Mar 21, 2025	350,000	350,000
Bonds in Korean won	2.77	Apr 04, 2024	250,000	250,000
Bonds in Korean won	3.27	Apr 28, 2025	190,000	190,000
Bonds in Korean won	3.06	May 16, 2024	170,000	170,000
Bonds in Korean won	3.39	May 30, 2025	230,000	230,000
Bonds in Korean won	3.61	Jun 10, 2025	170,000	170,000
Bonds in Korean won	3.97	Jun 16, 2025	450,000	450,000
Bonds in Korean won	2.25	Jul 07, 2023	-	160,000
Bonds in Korean won	3.75	Jul 13, 2025	430,000	430,000
Bonds in Korean won	3.80	Jul 15, 2027	220,000	220,000
Bonds in Korean won	3.70	Jan 19, 2024	320,000	320,000
Bonds in Korean won	2.72	Aug 03, 2023	-	470,000
Bonds in Korean won	3.73	Aug 11, 2027	190,000	190,000
Bonds in Korean won	4.28	Sep 05, 2025	220,000	220,000
Bonds in Korean won	4.25	Sep 15, 2027	150,000	150,000
Bonds in Korean won	5.25	Sep 27, 2024	370,000	370,000
Bonds in Korean won	4.98	Oct 06, 2025	180,000	180,000
Bonds in Korean won	5.61	Oct 20, 2025	130,000	130,000
Bonds in Korean won	5.70	Oct 25, 2024	170,000	170,000
Bonds in Korean won	5.66	Nov 04, 2024	210,000	210,000
Bonds in Korean won	5.54	Nov 11, 2025	210,000	210,000
Bonds in Korean won	5.41	Nov 15, 2027	110,000	110,000
Bonds in Korean won	5.13	Nov 23, 2027	60,000	60,000
Bonds in Korean won	4.01	Jan 05, 2026	370,000	-
Bonds in Korean won	3.76	Jul 17, 2024	190,000	-
Bonds in Korean won	3.58	Jan 27, 2028	200,000	-
Bonds in Korean won	3.43	Feb 03, 2026	320,000	-
Bonds in Korean won	3.60	Feb 11, 2028	290,000	-
Bonds in Korean won	3.76	Aug 27, 2025	220,000	-
Bonds in Korean won	4.10	Mar 10, 2026	260,000	-
Bonds in Korean won	3.76	Mar 17, 2028	150,000	-
Bonds in Korean won	3.60	Mar 27, 2026	130,000	-

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Bonds in Korean won	3.62	Apr 10, 2028	160,000	-
Bonds in Korean won	3.49	Apr 13, 2024	150,000	-
Bonds in Korean won	3.58	Apr 14, 2026	160,000	-
Bonds in Korean won	3.69	May 03, 2026	190,000	-
Bonds in Korean won	3.66	May 16, 2028	150,000	-
Bonds in Korean won	3.75	May 23, 2026	180,000	-
Bonds in Korean won	3.80	May 30, 2024	190,000	-
Bonds in Korean won	3.91	Jun 12, 2026	140,000	-
Bonds in Korean won	3.81	Jun 13, 2024	210,000	-
Bonds in Korean won	3.99	Jun 21, 2028	80,000	-
Bonds in Korean won	3.94	Jun 28, 2026	120,000	-
Bonds in Korean won	3.82	Jul 03, 2024	120,000	-
Bonds in Korean won	4.00	Jul 18, 2026	150,000	-
Bonds in Korean won	3.96	Jul 25, 2028	180,000	-
Bonds in Korean won	3.97	Aug 03, 2025	90,000	-
Bonds in Korean won	4.03	Aug 03, 2028	100,000	-
Bonds in Korean won	3.98	Aug 14, 2025	120,000	-
Bonds in Korean won	4.07	Aug 23, 2025	100,000	-
Bonds in Korean won	3.82	Aug 28, 2024	110,000	-
Bonds in Korean won	4.07	Sep 05, 2026	70,000	-
Bonds in Korean won	4.08	Sep 07, 2025	130,000	-
Bonds in Korean won	4.21	Sep 18, 2025	100,000	-
Bonds in Korean won	4.48	Oct 05, 2026	140,000	-
Bonds in Korean won	4.38	Oct 06, 2025	140,000	-
Bonds in Korean won	4.40	Oct 12, 2027	90,000	-
Bonds in Korean won	4.46	Oct 17, 2028	50,000	-
Bonds in Korean won	4.54	Oct 26, 2026	90,000	-
Bonds in Korean won	4.48	Nov 02, 2026	150,000	-
Bonds in Korean won	4.29	Nov 09, 2025	150,000	-
Bonds in Korean won	3.89	Nov 29, 2025	160,000	-
Bonds in Korean won	3.91	Dec 01, 2028	90,000	-
Bonds in Korean won	3.89	Dec 01, 2025	250,000	-
Bonds in Korean won	3.80	Dec 07, 2026	70,000	-
Bonds in Korean won	3.62	Dec 18, 2026	60,000	-
Bonds in Korean won	3.61	Dec 18, 2026	120,000	-
Less: discount on bonds			(833)	(610)
Adjusted amounts			<u>₩ 13,949,167</u>	<u>₩ 8,949,390</u>

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**16.4. Details of foreign currency bond as of December 31, 2023 are as follows (US dollar in millions, Korean won in millions):**

	Beginning	Maturity	Annual interest rate (%)	USD	KRW
Foreign currency bonds - #1	Feb. 24, 2023	Feb. 24, 2028	3.79%	1,000	1,289,400
Foreign currency bonds - #2	Feb. 24, 2023	Feb. 24, 2033	4.01%	300	386,820
	Nov. 15, 2023	Nov. 15, 2026	4.13%	500	644,700
				1,800	2,320,920
Less: discount on bonds					(17,335)
Adjusted amounts					2,303,585

**16.5. Changes in the face value of debentures for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023				Ending
	Beginning	Issuance	Repayments	Loss on foreign currency translation	
Electronic short-term bonds	₩ -	₩ 1,990,000	₩ (1,990,000)	₩ -	-
Fixed-rate bonds in Korean won	8,950,000	6,690,000	(1,690,000)	-	13,950,000
Fixed-rate bonds in USD dollars	-	2,326,000	-	(5,080)	2,320,920
	8,950,000	11,006,000	(3,680,000)	(5,080)	16,270,920

	2022				Ending
	Beginning	Issuance	Repayments		
Electronic short-term bonds	₩ -	₩ 1,530,000	₩ (1,530,000)	₩ -	-
Fixed-rate bonds in Korean won	3,670,000	6,220,000	(940,000)		8,950,000
	3,670,000	7,750,000	(2,470,000)		8,950,000

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**17. Securitized liabilities**

**17.1. Details of securitized liabilities as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	Annual interest rate (%)	2023	2022
Securitized liabilities in Korean won			
Fixed-rate Mortgage Backed Securities (MBS)	1.36 ~ 5.41	₩ 154,594,530	₩ 138,484,844
Floating-rate Mortgage Backed Securities (MBS)	Underlying asset interest rate-40 ~ 45bp	998,468	1,109,641
		<u>155,592,998</u>	<u>139,594,485</u>
Less: discount on securitized liabilities in Korean won		<u>(67,204)</u>	<u>(65,398)</u>
		<u>155,525,794</u>	<u>139,529,087</u>
Securitized liabilities in foreign currencies			
Fixed-rate Mortgage Backed Bond (MBB)	0.01 ~ 5.327	10,826,907	7,624,001
Floating-rate Mortgage Backed Bond (MBB)	Compoundco Daily SOFR + 1.00	128,716	-
Floating-rate Mortgage Backed Bond (MBB)	BBSW 3M+1.05	105,365	-
Less: discount on securitized liabilities in foreign currencies		<u>(13,322)</u>	<u>(9,532)</u>
		<u>11,047,667</u>	<u>7,614,469</u>
		<u>₩ 166,573,460</u>	<u>₩ 147,143,556</u>

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**17.2. Changes in the face value of securitized liabilities for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023				
	Beginning	Issuance	Repayment	Foreign currency translation	Ending
Securitized liabilities in Korean won					
Fixed-rate Mortgage Backed Securities (MBS)	₩ 138,484,844	₩ 33,260,700	₩ (17,151,014)	₩ -	₩ 154,594,530
Floating-rate Mortgage Backed Securities (MBS)	1,109,641	-	(111,173)	-	998,468
	<u>139,594,485</u>	<u>33,260,700</u>	<u>(17,262,187)</u>	<u>-</u>	<u>155,592,998</u>
Securitized liabilities in foreign currencies					
Fixed-rate Mortgage Backed Bond (MBB)	7,624,001	3,403,808	(648,805)	447,903	10,826,907
Floating-rate Mortgage Backed Bond (MBB)	-	234,082	-	-	234,082
	<u>₩ 147,218,486</u>	<u>₩ 36,898,590</u>	<u>₩ (17,910,992)</u>	<u>₩ 447,903</u>	<u>₩ 166,653,987</u>
	2022				
	Beginning	Issuance	Repayment	Foreign currency translation	Ending
Securitized liabilities in Korean won					
Fixed-rate Mortgage Backed Securities (MBS)	₩ 145,861,756	₩ 14,945,000	₩ (22,321,912)	₩ -	₩ 138,484,844
Floating-rate Mortgage Backed Securities (MBS)	1,239,690	-	(130,049)	-	1,109,641
	<u>147,101,446</u>	<u>14,945,000</u>	<u>(22,451,961)</u>	<u>-</u>	<u>139,594,485</u>
Securitized liabilities in foreign currencies					
Fixed-rate Mortgage Backed Bond (MBB)	₩ 6,029,227	₩ 2,172,900	₩ (592,750)	₩ 14,624	₩ 7,624,001
	<u>₩ 153,130,673</u>	<u>17,117,900</u>	<u>(23,044,711)</u>	<u>14,624</u>	<u>147,218,486</u>

18. Net defined benefit liabilities

18.1. Details of net defined benefit liabilities as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		2022	
Present value of funded defined benefit obligations	₩	97,172	₩	76,932
Fair value of plan assets		(88)		(160)
	₩	97,084	₩	76,772

18.2. Changes in the present value of defined benefit obligations for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023		2022	
Beginning balance	₩	76,932	₩	80,569
Current service cost		9,392		10,646
Net interest expense		3,210		1,984
Past service costs		-		-
Remeasurements:				
Actuarial losses arising from changes in demographic assumptions		-		-
Actuarial losses (gains) arising from changes in financial assumptions		6,737		(14,241)
Actuarial losses (gains) arising from experience adjustment		4,717		596
Benefit payments		(3,816)		(2,622)
Ending balance	₩	97,172	₩	76,932

18.3. Changes in the plan assets for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023		2022	
Beginning balance	₩	160	₩	157
Interest income		7		4
Benefits paid		(75)		-
Remeasurements:				
Return on plan assets (excluding amounts included in interest income)		(4)		(1)
Ending balance	₩	88	₩	160

18.4. Details of plan assets as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		2022	
Principal and interest guaranteed	₩	88	₩	160

18.5. The significant actuarial assumptions as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		2022	
Discount rate		3.50%		4.25%
Salary growth rate		6.00%		6.00%

18.6. The sensitive analysis of net defined benefit liabilities to changes in principal assumptions as of December 31, 2023, is as follows (Korean won in millions):

	Changes in principal assumption	Impact on defined benefit obligations	
		Increase in assumption	Decrease in assumption
Discount rate	0.25%	₩ (2,332)	₩ 2,424
Salary growth rate	0.25%	2,480	(2,398)

**19. Other financial liabilities**

Details of other financial liabilities as of December 31, 2023 and 2022 are as follows (Korean won in millions):

	2023		2022
Accrued expenses	₩ 228,502	₩	119,436
Withholdings	1,585		1,616
Accrued trust interest expense	482,743		359,100
Unearned revenue	1,214		829
Lease liabilities	16,434		15,219
	<u>₩ 730,478</u>	₩	<u>496,200</u>

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**20. Lease liabilities**

**20.1. The carrying amounts of lease liabilities and the movements for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023					
	Beginning	Additions	Payment	Cancellation	Accretion of interest	Ending
Lease liabilities - Buildings	₩ 13,718	₩ 5,581	₩ (4,571)	₩ (8)	₩ 684	₩ 15,404
Lease liabilities - Vehicles	1,501	429	(947)	-	47	1,030
	<u>₩ 15,219</u>	<u>₩ 6,010</u>	<u>₩ (5,518)</u>	<u>₩ (8)</u>	<u>₩ 731</u>	<u>₩ 16,434</u>

	2022				
	Beginning	Additions	Payment	Accretion of interest	Ending
Lease liabilities -Buildings	₩ 5,230	₩ 12,000	₩ (3,841)	₩ 329	₩ 13,718
Lease liabilities - Vehicles	1,906	436	(887)	46	1,501
	<u>₩ 7,136</u>	<u>₩ 12,436</u>	<u>₩ (4,728)</u>	<u>₩ 375</u>	<u>₩ 15,219</u>

**20.2. The maturity analysis of lease liabilities as of December 31, 2023 and 2022 is as follows (Korean won in millions):**

Maturity – Undiscounted contractual cash flow	2023	2022
Within one year	₩ 5,133	₩ 4,424
After one year but not more than five years	11,698	9,790
More than five years	1,598	3,249
	<u>₩ 18,429</u>	<u>₩ 17,463</u>

**20.3. Total cash outflow for leases for each of the two years in the period ended December 31, 2023 is as follows (Korean won in millions):**

	2023	2022
Total cash outflow for leases	₩ 5,517	₩ 4,723

**20.4. Short-term lease payments and payments for leases of low-value assets that were not included in the measurement of lease liabilities for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023	2022
Short-term lease payments	₩ (17)	₩ (30)
Payments for leases of low-value assets	(96)	(84)
	<u>₩ (113)</u>	<u>₩ (114)</u>

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**21. Provisions**

**21.1. Details of provisions as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023		2022	
Provision for employee benefits	₩	1,362	₩	1,324
Provision for conversion incentives		27,665		23,053
Provision for restoration costs		3,002		3,216
	₩	32,029	₩	27,593

**21.2. Changes in provisions for each of the two years in the period ended December 31, 2023, are as follows (Korean won in millions):**

	2023					
	Beginning	Additions	Reversals	Utilization	Other	Ending
Provision for employee benefits	₩ 1,324	₩ 1,362	₩ (1,324)	₩ -	₩ -	₩ 1,362
Provision for conversion incentives	23,053	4,631	-	(16)	(3)	27,665
Provision for restoration costs	3,216	104	(104)	(375)	161	3,002
	₩ 27,593	₩ 6,097	₩ (1,428)	₩ (391)	₩ 158	₩ 32,029

	2022					
	Beginning	Additions	Reversals	Utilization	Other	Ending
Provision for employee benefits	₩ 1,274	₩ 1,324	₩ (1,274)	₩ -	₩ -	₩ 1,324
Provision for conversion incentives	18,539	4,535	-	(12)	(9)	23,053
Provision for restoration costs	2,538	57	(267)	(57)	945	3,216
	₩ 22,351	₩ 5,916	₩ (1,541)	₩ (69)	₩ 936	₩ 27,593

**22. Paid-in capital**

**Details of paid-in capital as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023(*1)			2022		
	Government	Non-government	Total	Government	Non-government	Total
Capital contributions	₩ 1,742,400	₩ 995,000	₩ 2,737,400	₩ 1,575,600	₩ 765,000	₩ 2,340,600
Capital adjustments	(4,771)	(2,457)	(7,228)	(3,970)	(1,353)	(5,323)
	₩ 1,737,629	₩ 992,543	₩ 2,730,172	₩ 1,571,630	₩ 763,647	₩ 2,335,277

(\*1) The Group received capital contributions of ₩396,800 million (2022: ₩279,000 million) from the government for the year ended December 31, 2023.

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**23. Other components of equity**

**23.1. Details of other components as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Accumulated other comprehensive income (loss)	₩ (97,396)	₩ (144,618)

**23.2. Details of accumulated other comprehensive income (loss) as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Losses on cash flow hedges	₩ (107,179)	₩ (133,605)
Gains on debt securities measured at FVOCI	5,710	(14,971)
Gains on equity securities measured at FVOCI	4,072	3,958
	<u>₩ (97,397)</u>	<u>₩ (144,618)</u>

**23.3. Changes in accumulated other comprehensive income (loss) for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023				
	Beginning	Changes (except for reclassification)	Reclassification to profit or loss	Tax effect	Ending
Gains (Losses) on cash flow hedges	₩ (133,605)	₩ 42,402	₩ 3,619	₩ (19,595)	₩ (107,179)
Gains (Losses) on debt securities measured at FVOCI	(14,971)	19,740	8,054	(7,113)	5,710
Gains (Losses) on equity securities measured at FVOCI	3,958	(90)	-	204	4,072
	<u>₩ (144,618)</u>	<u>₩ 62,052</u>	<u>₩ 11,673</u>	<u>₩ (26,504)</u>	<u>₩ (97,397)</u>
	2022				
	Beginning	Changes (except for reclassification)	Reclassification to profit or loss	Tax effect	Ending
Gains (Losses) on cash flow hedges	₩ 46,551	₩ (237,865)	₩ (8,119)	₩ 65,828	₩ (133,605)
Gains (Losses) on debt securities measured at FVOCI	(6,536)	(11,752)	398	2,919	(14,971)
Gains (Losses) on equity securities measured at FVOCI	4,111	(285)	-	132	3,958
	<u>₩ 44,126</u>	<u>₩ (249,902)</u>	<u>₩ (7,721)</u>	<u>₩ 68,879</u>	<u>₩ (144,618)</u>

**24. Retained earnings and dividends**

**24.1. Retained earnings as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Legal reserve (*1)	₩ 497,811	₩ 473,016
Regulatory reserve for credit losses	337,689	390,472
Unappropriated retained earnings	1,042,580	1,021,316
	<u>₩ 1,878,080</u>	<u>₩ 1,884,804</u>

(\*1) In accordance with Article 50 of the KHFC Act, an amount equal to at least 20% of profit for the year is required to be appropriated as a legal reserve until the reserve equals paid-in capital. The legal reserve may only be used to offset a deficit, if any, or be transferred to capital (earned surplus reserve).

**24.2. Legal reserves as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Legal reserve	₩ 497,811	₩ 473,016

**24.3. Changes in retained earnings for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023	2022
Beginning balance	₩ 1,884,804	₩ 1,855,692
Profit for the year	45,504	84,656
Dividends paid	(43,391)	(65,632)
Remeasurement of net defined benefit liabilities	(8,837)	10,088
Ending balance	<u>₩ 1,878,080</u>	<u>₩ 1,884,804</u>

**24.4. Regulatory reserve for credit losses**

Measurement and disclosure of the regulatory reserve for credit loss are required in accordance with Article 7 of the Regulation on Supervision of Korea Housing Finance Corporation.

**24.4.1. Details of regulatory reserve for credit losses as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Beginning reserve for credit loss	₩ 337,689	₩ 390,472
Expected additional regulatory reserve for credit losses	84,102	(52,783)
Ending reserve for credit loss	<u>₩ 421,791</u>	<u>₩ 337,689</u>

**24.4.2. Provision for regulatory reserve for credit losses and adjusted profit reflecting the provision for regulatory reserve for credit losses for the years during the reporting periods, 2023 and 2022 are as follows (Korean won in millions):**

	2023	2022
Profit for the year before reflecting regulatory reserve for credit losses	₩ 45,504	₩ 84,656
Expected additional regulatory reserve for credit losses	(84,102)	52,783
Adjusted profit after reflecting regulatory reserve for credit losses (*1)	<u>₩ (38,598)</u>	<u>₩ 137,439</u>

(\*1) Adjusted profit after provision of regulatory reserve for credit losses is not in accordance with KIFRS and calculated on the assumption that provision (reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit for the year.

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**25. Interest income**

Details of interest income for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023	2022
Cash and due from banks	₩ 155,863	₩ 76,085
Financial assets at FVPL	2,840	23,229
Financial assets at FVOCI	32,018	12,082
Loan receivables	4,669,340	3,944,505
Other financial assets	2,235	1,396
	<u>₩ 4,862,296</u>	<u>₩ 4,057,297</u>

**26. Interest expenses**

Details of interest expenses included in finance costs for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023	2022
Borrowings	₩ 4,358	₩ 3,898
Public bonds issued	473,580	153,127
Securitized liabilities	3,803,883	3,156,344
Lease liabilities	731	375
Other financial liabilities	104	57
	<u>₩ 4,282,656</u>	<u>₩ 3,313,801</u>

**27. Net fee and commission income and expenses**

Details of fee and commission income and expenses for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023	2022
Fee and commission income		
Early redemption fees	₩ 7,957	₩ 8,480
Others	5,919	6,881
	<u>13,876</u>	<u>15,361</u>
Fee and commission expenses		
Service fees	(115,364)	(119,428)
Other service fees	(4,266)	(3,147)
	<u>(119,630)</u>	<u>(122,575)</u>
	<u>₩ (105,754)</u>	<u>₩ (107,214)</u>

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**28. Selling and administrative expenses**

Selling and administrative expenses for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023	2022
Short-term employee salaries	₩ 93,944	₩ 89,575
Retirement benefits	12,595	12,626
Employee welfare	6,875	7,437
Food service expenses	376	411
Depreciation	19,261	16,642
Amortization	10,982	10,981
Depreciation of right-of-use assets	7,920	6,464
Rental expenses	8,826	8,949
Entertainment expenses	149	156
Taxes and dues	12,415	11,843
Advertising expenses	8,290	8,997
Travel expenses	1,313	961
Communication expenses	3,739	3,439
Utility expenses	1,547	1,229
Insurance expenses	149	162
Service contract expenses	11,532	14,637
Publication expenses	465	400
Training expenses	1,875	1,642
Conference expenses	1,087	1,035
Vehicles expenses	50	64
Electronic data processing expenses	16,008	13,776
Others	1,936	2,087
	<u>₩ 221,334</u>	<u>₩ 213,513</u>

**29. Other gains (losses)**

Other gains and losses for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):

	2023	2022
Other gains		
Interest income on other loans	₩ 76	₩ 65
Miscellaneous gains	663	487
	<u>739</u>	<u>552</u>
Other losses		
Donations	(3,006)	(3,476)
Miscellaneous losses	(678)	(257)
	<u>(3,684)</u>	<u>(3,733)</u>
	<u>₩ (2,945)</u>	<u>₩ (3,181)</u>

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**30. Income tax expense**

**30.1. Income taxes for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023		2022
Current income tax expenses			
Current income taxes	₩ 67,558	₩	164,925
Adjustment in current year for prior year's income tax	(2,451)		101
	<u>65,107</u>		<u>165,026</u>
Deferred tax expenses			
Origination and reversal of temporary differences	(28,646)		(198,044)
Income tax effects on equity	(20,264)		65,322
Others	-		-
	<u>₩ 16,197</u>	₩	<u>32,304</u>

**30.2. The reconciliation between income tax expense at the effective tax rate and accounting profit before income tax at the Korea statutory rate for each of the two years in the period ended December 31, 2023 is as follows (Korean won in millions):**

	2023		2022
Profit before income taxes	₩ 61,701	₩	116,960
Tax calculated at applicable tax rates	13,791		27,842
Adjustments:			
Expenses not deductible for tax	68		281
Income not subject to tax	-		(5)
Tax exemptions to be deducted	(8)		(27)
Refund of prior year's income tax	(2,453)		101
Additional tax due to surtax on undistributed corporate earnings	-		9,685
Others	4,799		(5,573)
Income tax expense	<u>₩ 16,197</u>	₩	<u>32,304</u>
Effective tax rate	26.3%		27.6%

**30.3. Income tax effects related to accumulated other comprehensive income and remeasurement of net defined benefit liabilities as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023			2022		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain on valuation of debt securities at FVOCI	₩ 11,762	₩ 2,717	₩ 9,045	₩ -	₩ -	₩ -
Loss on valuation of debt securities at FVOCI	(4,336)	(1,002)	(3,334)	(20,369)	(5,398)	(14,971)
Gain on valuation of equity securities at FVOCI	5,295	1,223	4,072	5,385	1,427	3,958
Gain on valuation of cash flow hedge	20,093	4,641	15,452	-	-	-
Loss on valuation of cash flow hedge	(159,467)	(36,837)	(122,630)	(181,776)	(48,171)	(133,605)
Remeasurement of net defined benefit liabilities	(24,563)	(5,784)	(18,779)	(13,105)	(3,163)	(9,942)
	<u>₩ (151,216)</u>	<u>₩ (35,042)</u>	<u>₩ (116,174)</u>	<u>₩ (209,865)</u>	<u>₩ (55,305)</u>	<u>₩ (154,560)</u>

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**30.4. The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023			
	Beginning balance	Statements of profit or loss	Other Comprehen d- sive income	Ending balance
Deferred tax liabilities for temporary differences				
Retirement insurance deposits	₩ (42)	₩ 22	₩ -	₩ (20)
Accrued income	(520)	(5,072)	-	(5,592)
Mortgage loans (premium)	(28,589)	3,852	-	(24,737)
Others	(179,629)	43,768	-	(135,861)
Gains on transactions of derivatives (government bond futures)	(12,125)	12,125	-	-
Gains on valuation of securities at FVOCI	(1,427)	-	(2,513)	(3,940)
Effects of subsidiaries	(53,302)	15,416	-	(37,886)
Gains (losses) on valuation of hedge	-	-	(4,642)	(4,642)
Right-of-use assets	(4,242)	430	-	(3,812)
<b>(1)</b>	<u>(279,876)</u>	<u>70,541</u>	<u>(7,155)</u>	<u>(216,490)</u>
Deferred tax assets for temporary differences				
Losses on transactions of derivatives	48,171	-	(11,334)	36,837
Provision for post-employment benefits	20,198	2,059	-	22,257
Acquisition commitments (discount/premium on mortgage loan for purchase)	17,957	8,011	-	25,968
Derivative for acquisition commitments	70,071	587	-	70,658
Derivative financial liabilities (interest rate swap)	6,948	(4,830)	-	2,118
Present value discounts on debt securities at FVOCI	1,544	(676)	-	868
Losses on subordinated securitized bonds	3,378	(2,177)	-	1,201
Unsettled expenses	8,614	54	-	8,668
Leave allowance	1,340	(72)	-	1,268
Mortgage loans (discount)	135,001	(16,544)	-	118,457
Remeasurement of defined benefit plans	3,163	-	2,621	5,784
Losses on valuation of securities at FVOCI	5,398	-	(4,396)	1,002
Effect from cancellation of sales	16,627	(7,815)	-	8,812
Finance lease liabilities	3,994	(228)	-	3,766
<b>(2)</b>	<u>342,404</u>	<u>(21,631)</u>	<u>(13,109)</u>	<u>307,664</u>
<b>(1) + (2)</b>	<u>₩ 62,528</u>	<u>₩ 48,910</u>	<u>₩ (20,264)</u>	<u>₩ 91,174</u>

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**30.4. The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions): (cont'd)**

	2022			
	Beginning balance	Statements of profit or loss	Other 73omprehen d- sive income	Ending balance
Deferred tax liabilities for temporary differences				
Retirement insurance deposits	₩ (43)	₩ 1	₩ -	₩ (42)
Accrued income	(859)	339	-	(520)
Mortgage loans (premium)	(38,510)	9,921	-	(28,589)
Gains on valuation of securities at FVOCI	(183,274)	3,645	-	(179,629)
Right-of-use assets	(7,091)	(5,034)	-	(12,125)
Others	(1,628)	-	201	(1,427)
Effects of subsidiaries	(70,750)	17,448	-	(53,302)
Gains (losses) on valuation of hedge	(18,715)	-	18,715	-
<b>(1)</b>	<u>(2,151)</u>	<u>(2,091)</u>	<u>-</u>	<u>(4,242)</u>
Deferred tax assets for temporary differences				
(*1)	(323,021)	24,229	18,916	(279,876)
Provision for post-employment benefits				
Derivative financial liabilities (interest rate swap)	1,058	-	47,113	48,171
Present value discounts on debt securities at FVOCI	21,972	(1,774)	-	20,198
Losses on subordinated securitized bonds	4,873	13,084	-	17,957
Unsettled expenses	21,219	48,852	-	70,071
Leave allowance	2,255	4,693	-	6,948
Mortgage loans (discount)	1,499	45	-	1,544
Gains (losses) on valuation of hedge	2,647	731	-	3,378
Remeasurement of defined benefit plans	7,625	989	-	8,614
Losses on valuation of securities at FVOCI	1,562	(222)	-	1,340
Effect from cancellation of sales	91,517	43,484	-	135,001
Finance lease liabilities	6,720	-	(3,557)	3,163
Acquisition commitments (discount/premium on mortgage loan for purchase)	2,548	-	2,850	5,398
Derivative for acquisition commitments	20,068	(3,441)	-	16,627
<b>(2)</b>	<u>1,943</u>	<u>2,051</u>	<u>-</u>	<u>3,994</u>
<b>(1) + (2)</b>	<u>₩ 187,506</u>	<u>₩ 108,492</u>	<u>₩ 46,406</u>	<u>₩ 342,404</u>
	<u>(135,515)</u>	<u>₩ 132,721</u>	<u>₩ 65,322</u>	<u>₩ 62,528</u>

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**31. Contingencies and commitments**

**31.1. Details of the Group's insurance as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

	2023		2022	
	Insurance company	Insurance coverage	Insurance company	Insurance coverage
Insurance for the exposure of personal information	DB Insurance Co., Ltd.	₩ 5,000	DB Insurance Co., Ltd.	₩ 15,000
Insurance for electronic financial transactions	ACE Insurance Co., Ltd.	1,000	Ace Insurance Co., Ltd.	1,000
Group accident insurance	Meritz Fire & Marine Insurance Co., Ltd.	110,313	Meritz Fire & Marine Insurance Co., Ltd.	125,087
Insurance for public service workers	DB Insurance Co., Ltd.	18,354	DB Insurance Co., Ltd.	351
Hyundai group accident insurance	-	-	Hyundai Marine	86,287
Samsung group accident insurance	Samsung Fire & Marine Insurance Co., Ltd.	154,226	-	-
DB group accident insurance	DB Insurance Co., Ltd.	248,098	-	-
Comprehensive property insurance	Meritz Fire & Marine Insurance Co. Ltd.	47,925	Meritz Fire & Marine Insurance Co. Ltd.	41,301
Liability insurance for reparation of elevator accident	Samsung Fire & Marine Insurance Co. Ltd.	271	Samsung Fire & Marine Insurance Co. Ltd.	80
Hanwha Global insurance	Hanwha General Insurance Co., Ltd.	5,234	Hanwha General Insurance Co., Ltd.	5,234
Hanwha group accident insurance	Hanwha General Insurance Co., Ltd.	117,725	-	124,874
Liability insurance for reparation of gas accident	Hanwha General Insurance Co., Ltd.	380	-	380
Comprehensive property insurance	KB General Insurance Co., Ltd.	54,863	-	54,462

**31.2. Details of the Group's lines of credit with financial institution as of December 31, 2023 and 2022 are as follows (Korean won in millions):**

Type	Financial institution	Limit	Executed amount
Win-win loan	Hana Bank	₩ 1,000	-

31.3. Other commitments of the Group as of December 31, 2023 and 2022 are as follows:

31.3.1. As of December 31, 2023, in order to secure part of the Group's leasehold deposits, the Group has established leasehold rights of ₩33,570 million (2022: ₩48,747 million) and collateralized mortgage of ₩11,976 million (2022: ₩14,027 million) and holds leasehold guarantee insurance of ₩20,657 million (2022: ₩3,714 million) with Seoul Guarantee Insurance Company.

31.3.2. As of December 31, 2023, the Group has short-term borrowing agreements of ₩1,000,000 million (2022: ₩600,000 million) with several financial institutions, including Shinhan Bank, Hana Bank and others.

31.3.3. As of December 31, 2023, the Group has acquisition commitments to purchase mortgage backed-loans of ₩17,152,325million (2022: ₩11,445,931 million) outstanding with 34 financial institutions, including Industrial Bank of Korea and others.

31.3.4. As of December 31, 2023, the Group is currently being sued in relation to two legal cases (lawsuit amount: KRW 26 million) as of the end of the reporting period, and has filed 63 cases (lawsuit amount: KRW 1,818 million) for claims of payment of receivables, among others. While the outcome of these lawsuits could affect the consolidated financial statements, it is currently not predictable.

32. Transfer and derecognition of financial assets

The Group pays cash flows of underlying assets to security holders by issuing securitized securities. Accordingly, it implies that the Group transfers the cash flows of the underlying assets to the security holders.

Details of underlying assets that have been transferred to the security holders and the related securitized securities as of December 31, 2023 and 2022 are as follows (Korean won in millions):

		2023			
		Underlying assets		Securitized loans	
		Underlying assets		Underlying assets	
		Book amount	Fair value	Book amount	Fair value
Mortgage Backed Bond (MBB)	Mortgage loans	₩ 13,094,278	₩ 11,146,512	₩ 11,047,667	₩ 10,808,883
Mortgage Backed Securities (MBS)	Mortgage loans	165,491,249	144,634,036	155,525,794	151,506,584
		₩ 178,585,527	₩ 155,780,548	₩ 166,573,461	₩ 162,315,467
		2022			
		Underlying assets		Securitized loans	
		Underlying assets		Underlying assets	
		Book amount	Fair value	Book amount	Fair value
Mortgage Backed Bond (MBB)	Mortgage loans	₩ 9,136,143	₩ 7,504,324	₩ 7,614,469	₩ 7,064,344
Mortgage Backed Securities (MBS)	Mortgage loans	146,313,647	139,098,290	139,529,087	128,362,799
		₩ 155,449,790	₩ 146,602,614	₩ 147,143,556	₩ 135,427,143

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**33. Related party disclosures**

**33.1. The following tables list the Group's related parties as of December 31, 2023.**

	Related party
Shareholders	The Korean government The Bank of Korea

**33.2. Significant financial transactions with related parties for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023			
	Beginning balance	Loans	Repayments	Ending balance
Loans to employees	₩ 1,948	₩ 172	₩ (458)	₩ 1,662

	2022			
	Beginning balance	Loans	Repayments	Ending balance
Loans to employees	₩ 2,327	₩ 202	₩ (581)	₩ 1,948

	2023			2022		
	The Korean government	The Bank of Korea	Total	The Korean government	The Bank of Korea	Total
Increase in capital	₩ 166,800	₩ 230,000	₩ 396,800	₩ 159,000	₩ 120,000	₩ 279,000
Dividends paid	(29,210)	(14,182)	(43,392)	(45,098)	(20,534)	(65,632)

**33.3. Details of compensation to key management for each of the two years in the period ended December 31, 2023 are as follows (Korean won in millions):**

	2023		2022	
Short-term employee benefits	₩	1,714	₩	1,807
Retirement benefits		124		123
	₩	1,838	₩	1,930

**34. Cash flow statement**

**34.1. Major non-cash transactions related to cash flows from investment and financial activities for each of the two years in the period ended December 31, 2023 are as follows:**

	2023	2022
Transfer of property and equipment	₩ 2,404	₩ 16,372
Acquisition of right-of-use assets	6,010	12,436

**34.2. Changes in liabilities arising from cash flows from financial activities for each of the two years in the period ended December 31, 2023 are as follows:**

	2023				
	Beginning balance	Cash flows from financing activities	Lease contract	Others	Ending balance
Borrowings	₩ 150,000	₩ 50,000	₩ -	₩ -	₩ 200,000
Debentures and public bonds issued	8,949,389	7,305,756	-	(2,393)	16,252,752
Securitized securities	139,529,086	15,985,190	-	11,518	155,525,794
Foreign securitized securities	7,614,470	2,980,421	-	452,776	11,047,667
Lease liabilities	15,219	(5,517)	6,009	723	16,434
	<u>₩ 156,258,164</u>	<u>₩ 26,315,850</u>	<u>₩ 6,009</u>	<u>₩ 462,624</u>	<u>₩ 183,042,647</u>

	2022				
	Beginning balance	Cash flows from financing activities	Lease contract	Others	Ending balance
Borrowings	₩ -	₩ 150,000	₩ -	₩ -	₩ 150,000
Debentures and public bonds issued	3,669,791	5,279,364	-	234	8,949,389
Securitized securities	147,031,908	(7,514,845)	-	12,023	139,529,086
Foreign securitized securities	6,023,091	1,600,834	-	(9,455)	7,614,470
Lease liabilities	7,136	(4,728)	12,436	375	15,219
	<u>₩ 156,731,926</u>	<u>(489,375)</u>	<u>12,436</u>	<u>3,177</u>	<u>156,258,164</u>

**34.3. The Group recognized cash inflow and outflow from financial instruments with frequent transactions and short-term maturities at a large gross amount on a net basis.**

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